

Paper 16 – Tax Management and Practice

Full Marks: 100

Time allowed: 3 hours

Answer Question No. 1 which is compulsory and any five from the rest

1.(a) Fill in the blanks:

[5×1=5]

- (i) Where three types of taxable services are rendered by an individual, _____ service tax return(s) has / have to be filed.
- (ii) Cenvat credit to be claimed on diesel purchased for generators used in factory is at _____ rate.
- (iii) The rate of service tax applicable in respect of a charitable institution conducting yoga classes would be _____ .
- (iv) While making intra head adjustment, loss from the business of owning and maintaining race horse can be set off against _____ only.
- (v) Section _____ provides for imprisonment in case of failure to file the return of Income.

(b) Choose the most appropriate alternative:

[5×1=5]

- (i) Mr. X an Indian resident, aged 45 years, returned to India after visiting USA on 10/04/2016. He had gone to USA on 13/03/2016. On his way back to India he brought a watch worth 23,000 with him. The customs duty will be payable by him:
 - (a) nil
 - (b) ₹ 8,292
 - (c) ₹ 2,369
 - (d) none of the above.
- (ii) Which of the following is a Duty Exemption Scheme under Foreign Trade Policy 2015-2020?
 - (a) Merchandise Exports from India Scheme (MEIS);
 - (b) Duty Drawback Scheme;
 - (c) Advance Authorisation Scheme;
 - (d) Service Exports from India Scheme (SEIS).
- (iii) M/s. DLF Ltd., sponsored ₹ 20 lakhs in respect of a Tournament organized by Board of Council for Cricket in India (BCCI). The person liable to pay tax:
 - (a) DLF Ltd.
 - (b) BCCI
 - (c) both DLF Ltd. & BCCI
 - (d) exempted service.
- (iv) An application for advance ruling by any person for determination whether an arrangement, is an impermissible avoidance agreement as referred to in Chapter X is to be made in Form No. _____.
 - (a) 34A
 - (b) 34C
 - (c) 34D
 - (d) 34EA
- (v) Maximum qualifying limit for deduction u/s 80C is
 - (a) 50,000
 - (b) 1,00,000
 - (c) 1,50,000
 - (d) None of the above.

(c) State true or false with reasons:

[5×2=10]

- (i) Consumption Type Variant is not a variant of VAT.
- (ii) Services provided in relation to health services used primarily for personal use is not included in the definition of input services as per Cenvat Credit Rules.

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- (iii) In the context of anti-dumping duty, the difference between the normal value and the export price of the goods is the injury margin.
- (iv) The authority will not allow the application when the question involves determination of fair market value of any property.
- (v) Can revised return can be further revised.

2. MNO Corporation LLP, is carrying on two businesses viz. Textile manufacture and Operation of cold chain facility. It gives you the following information for the year 31.3.2017:

Net profit as per Profit & Loss Account:

From Textile Manufacture	₹10,25,000
From Operation of cold chain facility	₹ 20,50,000

The following items are debited to Profit & Loss Account:

- (i) Interest on capital payable to partners @ 15% on total capital of ₹ 100 lakhs.
- (ii) Working partner salary ₹ 36 lakhs (i.e., ₹ 1 lakh each per month for 3 partners).
- (iii) Depreciation on textile factory building ₹ 5 lakhs,
- (iv) Depreciation on plant & machineries of textile business ₹ 35 lakhs.
- (v) Keyman insurance policy premium paid ₹ 1,55,000.

Other Information:

Eligible depreciation under section 32 for the previous year 2016-17 are—

- (i) On plant & machineries of textile business ₹ 27 lakhs.
- (ii) On factory building relating to textile business ₹ 4 lakhs.

The assessee set up and operating a cold chain facility since 1.4.2015. It incurred capital expenditure towards construction of cold chain facility during the period from 1.6.2013 to 31.3.2015 as under.

Cost of land (acquired on 1.6.2013) ₹ 30 lakhs.

Cost of construction of building and machineries installed till 31.3.2015 ₹ 50 lakhs.

The income of the firm for the previous year 2015-16 (Assessment Year 2016-17) is given below:

Income from textile manufacture ₹ 12 lakhs.

Income from cold chain facility ₹ 60 lakhs (before deduction under section 35AD)

The firm originally had 4 equal partners and one partner retired on 31.3.2016. The partnership agreement authorizes payment of salary and interest on capital which are debited to Profit & Loss Account.

You are requested to compute the total income of the firm for the A.Y. 2017-18.

Note.—Ignore Alternate Minimum Tax (AMT) under section 115JC.

[16]

- 3.(a) Compute the deduction allowed under section 80C and the net-tax p by A from the following information submitted by him for the assessment year 2017-18:

Particulars	Amount (₹)
Gross Salary	4,80,000
Royalty (Gross)	27,000
Expenses allowable from royalty	5,000
Interest on fixed deposits with bank (gross)	13,000
LIP on his own life (sum assured ₹ 20,000) policy issued on 1-4-2013	6,000
LIP on the life of his wife	2,000
LIP on the life of his major son (not dependent on A)	2,500
LIP on the life of dependent brother	2,000
Contribution to a Recognised Provident Fund	20,000
Amount deposited in PPF Account	15,000
Contribution to ULIP	3,000

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Repayment of housing loan taken from LIC (principal amount ₹ 23,000 and interest ₹ 30,000)	53,000
Subscription to National Saving Certificate IXth issue	25,000
Amount incurred on the education of: (a) Child X ₹14,000 (b) Child Y ₹ 7,000 (c) Child Z ₹ 5,000	
Term deposit for 5 years with a scheduled bank	20,000
Five year time deposit in Post Office	15,000
Contribution to Sukanya Samriddhi Account	50,000
He had taken the loan from LIC for construction of a residential house property which was completed in 2014 and which is being utilized by A for his own residence.	

[8]

- (b)** From the following information submitted to you, compute the total income of A for the assessment year 2017-18 and calculate his tax liability assuming he is not allowed deduction under sections 80C to 80U.

Particulars	Amount (₹)
Income from salary	3,00,000
Income from house property	40,000
Business loss	(-) 1,90,000
Loss from a specified business referred to in section 35AD	(-) 60,000
Short-term capital loss	(-) 60,000
Long-term capital gain	2,40,000

[8]

- 4.(a)** State the benefits available to status holders in the context of foreign trade policy 2015-20.

[8]

- (b)** X & Co Ltd. had made an application to the Settlement Commission. The issue in the said application related to cash credits in the books of account. The Commission passed an order making addition to the income on the basis of difference in gross profit rate adopted, which was neither an issue in the application nor in the report of the Commissioner of Income-tax. Discuss the validity of the order of the Settlement Commission.

[8]

- 5.(a)** Uber (USA) operating radio taxi services in India. In the month of January 2017, the following services are rendered by it.

Free services provided to new customers who travelled for the first time. However, payment made to taxi drivers ₹ 10,00,000.

Hire charges collected from customers ₹ 12,25,500. Payment made to taxi drivers ₹ 11,00,000.

Uber appointed X Pvt. Ltd., as their representative in India. Person liable to pay service tax is willing to avail abatement if any.

You are required to find:

- (i) Who is liable to pay service tax.
- (ii) Service tax liability
- (iii) Due date of payment of service tax

Assume for all services point of taxation is in the month of January 2017.

[2+6+1]

- (b)** A SSI unit has effected clearances of goods of the value of ₹ 475 lacs during the Financial Year 2015-16. The said clearances include the following: (i) Clearance of excisable goods without payment of excise duty to a 100% EOU unit ₹ 120 lacs, (ii) Job work in terms of notification no. 214/86 CE, which is exempt from duty - ₹ 75 lacs, (iii) Export to Nepal and Bhutan - ₹ 50 lacs, (iv) Goods manufactured in rural area with the brand name of the others ₹ 90 lacs. Examine with reference to the notification

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governing SSI, under the Central Excise Act whether the benefit of exemption would be available to the unit for the Financial Year, 2016-17. [7]

- 6.(a)** An importer imported some goods for subsequent sale in India. The Customs Officer assessed value of goods for ₹ 10,19,090.
The above value includes the following:
Air Freight 25% on Free on Board (FOB)
Insurance @1.125%
Unloading charges @1% on Cost, Insurance and Freight (CIF)
Importer approached you to find correct assessable value for his import. [10]

- (b)** X Ltd (manufacturer) provides the following information for the month of April:

Purchases within the state on 1st April:	
Purchase of Raw materials and Components	₹ 1,00,000
4% VAT paid on above purchases	₹ 4,000
Machinery (Capital Goods) purchased for (life 10 years)	₹ 5,00,000
4% VAT paid on above capital Goods	₹ 20,000
Sales within the state:	
Total value of sale	₹ 4,00,000
@4% VAT payable on sales	

Compute the VAT under Income Variant. [6]

- 7.(a)** Parsvnath Music System Ltd. imported recorded audio and video discs in boxes each containing 50 discs. Each individual disc was then packed in transparent plastic cases known as jewel boxes. An inlay card containing the details of the content of the compact disc was also placed in the jewel box. The whole thing was then shrink wrapped and sold in wholesale. The Department contended that the said process amounted to manufacture.

Explain, with the help of decided case law, if any whether Department's contention is justified in law. [5]

- (b)** ABC Ltd., imported artemia cyst (i.e. brine shrimp eggs). The same has been classified as 'prawn feed' under the heading 2309 (i.e. Heading 2309 of the Customs Act, 1975, includes products of a kind used in animal feeding, not elsewhere specified or included, obtained by processing vegetable or animal materials to such an extent that they have lost the essential characteristics of the original material, other than vegetable waste, vegetable residues and by-products of such processing.) which includes products used as animal feed. However, the Department contended that this product was classifiable under the heading 0511.99 (i.e. which refers to other products in the category of non edible animal products). The contention of importer was that these imported cysts contained little organisms/ embryos which later became larva that prawns feed on. Therefore, according to them, the nature and character of the product was not changed by nurturing or incubation. You are required to examine whether the contention of the Department is justified in law. [5]

- (c)** Mr. Thomas provides taxable services which are exported. He claimed rebate of service tax paid on input services used in providing the services which were exported by him in July, 2016. The Assistant Commissioner of Central Excise has denied the claim of Mr. Thomas and the disallowance was confirmed by Commissioner (Appeals). Does Mr. Thomas have the right to file an appeal with CESTAT, against the order of Commissioner (Appeals)? Justify. [6]

- 8.(a)** Kio Japan and AB Ltd, an Indian Company are Associated Enterprises. AB Ltd manufactures Cellular Phones and sells them to Kio Japan and Geel, a Company based at Beijing. During the year AB Ltd supplied 2,50,000 Cellular Phones to Kio Japan at a price of ₹ 3,000 per unit and 35,000 units to Geel at a price of ₹ 4,800 per unit. The

transactions of AB Ltd with Kio and Geel are comparable subject to the following considerations –

- (a) Sales to Kio is on FOB basis, sales to Geel are CIF basis. Freight and Insurance paid by Kio for each unit is ₹ 700.
- (b) Sales to Geel are under a free warranty for Two Years whereas sales to Kio are without any such warranty. The estimated cost of executing such warranty is ₹ 500.
- (c) Since Kio's order was huge in volume, quantity discount of ₹ 200 per unit was offered to it.

Compute Arm's Length Price and amount of increase in Total Income of AB Ltd, if any, due to such Arm's Length Price. **[8]**

- (b)** Quipro Ltd is an Indian Company engaged in the business of developing and manufacturing industrial components. Its Canadian Subsidiary Techpro Inc. supplies technical information and offers technical support to Quipro for manufacturing goods, for a consideration of Euro 80,000 per year.

Income of Quipro Ltd is ₹ 70 Lakhs. Determine Taxable Income of Quipro Ltd if Techpro charges Euro 1,00,000 per year to others in India. What will be the answer if Techpro charges Euro 50,000 per year to others. (Rate per Euro = ₹ 60) **[8]**