

Answer to PTP_Final_Syllabus 2008_June 2014

Paper-14: Indirect and Direct - Tax Management

Answer Question No. 1 (carrying 25 marks), which is compulsory and any five from the rest.

1. Fill up the blanks:

[1×25]

- (i) A company whose gross total income consists mainly of income which is chargeable under the heads, 'Income from house property', 'Capital Gains' and 'Income from other sources' is called a/an _____ (Investment Company; Section 25 Company; Foreign Company).
- (ii) _____ of the Constitution of India provides that no tax shall be levied or collected except by the authority of law (Article 265; Article 268; Article 269).
- (iii) The Bill of Entry for ex-bond clearance from warehouse on payment of customs duty, is of _____ (Green; Yellow; White) colour.
- (iv) Under Section 4A of the Central Excise Act, 1944, the assessable value will be calculated on the basis of _____ (Transaction Value; Maximum Retail Price Less Abatement; Maximum Retail Price).
- (v) Section 271A of the Income Tax Act, 1961 provides for a penalty of _____, in case the assessee fails to keep, maintain or retain books of accounts, documents, etc., as required under Section 44AA of the Income Tax Act, 1961. (₹25,000; ₹50,000; ₹1,00,000).
- (vi) No disallowance under Section 40(a)(ia) of the Income Tax Act, 191, shall be made to a deductor, in respect of expenditure incurred in the month of March, if the TDS of such expenditure has been paid before _____ (31st March; the due date for filing of the return; 30 days from the date of tax deduction).
- (vii) Under Section 13 of the Customs Act, 1962, duty is not payable on pilfered goods, only in case where the goods are pilfered after unloading but before the issue of _____ (Order of clearance; Speaking Order).
- (viii) Under Section 3 of the Central Excise Act, 1944, duty is not levied on goods produced/ manufactured in _____ (Special Economic Zone; Free Trade Zone; 100% Export Oriented Undertaking).
- (ix) Section 61 of the Customs Act, 1962 provides for warehousing in the case of capital goods intended for use in any 100% export oriented undertaking (EOU) till the expiry of _____ (1 year; 3 years; 5 years).
- (x) Section 11BB of the Central Excise Act, 1944 provides for the payment of interest @ 6% per annum on refund of duty, which is not paid to the applicant within _____ from the date of receipt of application (30 Days; 1 Year; Three months).

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- (xi) Rule 6(2) of the Service Tax Rules, 1994, as amended by Notification No. 16/2013-ST, dated 22.11.2013, makes e-payment of service tax mandatory for the assessee, who has paid a total service tax of _____ or above, including the amount paid by utilization of CENVAT Credit, in the preceding financial year (₹10 Lakhs; ₹1 Lakh; ₹50 Lakhs).
- (xii) In the case of a non-resident engaged in the business of operation of aircraft, the income is determined under Section 44BBA of the Income Tax Act, 1961 at _____ (7.5% of turnover; 10% of turnover; 5% of turnover).
- (xiii) The deduction allowable under Section 80LA of the Income Tax Act, 1961 in respect of eligible income of Offshore Banking Units and International Financial Services Centre is _____ of such income for 5 consecutive assessment years and 50% of such income for 5 consecutive assessment years thereafter (100%; 80%; 75%).
- (xiv) Under Section 194LA of the Income Tax Act, 1961, any person responsible for paying to a resident any sum exceeding ₹2 Lakhs towards compensation for compulsory acquisition of the seller's urban industrial land under any law, has to deduct income-tax at the rate of _____ (10%; 15%; 20%).
- (xv) Section 13B of the Income Tax Act, 1961 provides that, voluntary contributions received by electoral trusts during the Previous Year 2013-14 is _____ (fully taxable; fully exempt from tax; exempt only if the trust distributes to a registered political party during the year 95 % of the aggregate donations received by it).
- (xvi) Section 10(32) of the Income Tax Act, 1961 provides for an exemption up to _____, in respect of each minor child, where a minor's income is clubbed with the income of the parent (₹1200, ₹1500, ₹2000).
- (xvii) Special Audit under Section 14A of the Central Excise Act, 1944 can be ordered by any Central Excise officer, not below the rank of a/an _____ (Assistant Commissioner of Central Excise; Deputy Commissioner of Central Excise; Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise), with the prior approval of the Chief Commissioner of Central Excise.
- (xviii) Under the provisions of Section 48 of the Customs Act, 1962, if the imported goods are not cleared within _____ days of unloading at the customs station, the custodian may sell them under permission of the proper officer (30; 45; 60).
- (xix) Under the provisions of Section 11A of the Central Excise Act, 1944, Show Cause Notice for recovery of excise duties not levied, or not paid or short levied or short paid or erroneously refunded can be served on the person chargeable with duty, within _____ (6 months; 1 year; 2 years) from the relevant date.

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- (xx) Section 15 of the Customs Act, 1962 provides that, the rate of duty and tariff valuation of imported goods, entered for home consumption under Section 46, shall be applicable, as on the date on which _____ (Bill of Entry is presented; Customs Duty is paid).
- (xxi) Section _____ of the Central Excise Act, 1944 empowers the Central Government to exempt, either absolutely, or subject to specified conditions, excisable goods of any specified description, from the whole or part of the duty of excise leviable thereon (3A; 4A; 5A).
- (xxii) Safeguard Duty levied under Rule 12 of the Customs Tariff (Identification and Assessment of Safeguard Duty) Rules, 1997, shall remain in force for a period not exceeding _____ years from the date of its imposition (5; 4; 3).
- (xxiii) Rule 7 of the Place of Provision of Service Rules, 2012 provide that, where any service referred to in Rules 4, 5 or 6 of the said Rules, is provided at more than one location, including a location in the taxable territory, its place of provision shall be the location _____ (in the taxable territory where the greatest proportion of the service is provided; of the service receiver; of the service recipient).
- (xxiv) _____ connotes the exercise carried out by the taxpayer to meet his tax obligations in proper, systematic and orderly manner, availing all permissible exemptions, deductions and reliefs available under the relevant statutes as may be applicable to his case (tax planning; tax evasion; tax avoidance).
- (xxv) Under the provisions of Section 271F of the Income Tax Act, 1961, minimum penalty for failure to furnish return of income , as required by the proviso to Section 139(1), on or before the end of assessment year, is _____ (₹1,000 per day till the default continues; ₹5,000; ₹10,000).

Solution:

- (i) Investment Company.
- (ii) Article 265.
- (iii) Green.
- (iv) Maximum Retail Price Less Abatement.
- (v) ₹25,000.
- (vi) The due date for filing of the return.
- (vii) Order of clearance.
- (viii) Special Economic Zone.
- (ix) 5 years.
- (x) Three months.
- (xi) ₹1 Lakh.
- (xii) 5% of turnover.
- (xiii) 100%.
- (xiv) 10%.

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- (xv) Exempt only if the trust distributes to a registered political party during the year 95 % of the aggregate donations received by it.
- (xvi) ₹1500.
- (xvii) Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise.
- (xviii) 30 days.
- (xix) 1 year.
- (xx) Bill of Entry is presented.
- (xxi) Section 5A.
- (xxii) 4 years.
- (xxiii) in the taxable territory where the greatest proportion of the service is provided.
- (xxiv) Tax planning.
- (xxv) ₹5,000.

2.

- (a) Mr. Atul Sinha, an Indian resident, won a Hyundai Santro worth ₹ 3 Lakhs, as the first prize in a lottery. According to Section 194B of the Income Tax Act, 1961, tax has to be deducted at source from the winnings of lottery at the time of payment of the prize money.

Explain the procedure to be adopted before handing over the Hyundai Santro (the lottery prize) to Mr. Atul Sinha.

- (b) Compute the Assessable Value and the amount of excise duty payable under the Central Excise Act, 1944 and rules made thereunder from the following information:

Sl. No	Particulars	No. of units	Price per unit (₹/unit)		Rate of Duty ad valorem
			At Factory	At Depot	
(a)	Goods transferred from factory to depot on 14 th July, 2013.	1500	300	330	10%
(b)	Goods actually sold at depot on 24 th July, 2013	1125	338	375	8%

- (c) Pentagon Enterprises Ltd., a small scale industrial unit, manufactures “Lion-King” (a type of toy for infants). The small scale industrial unit has reported gross sales turnover of ₹2,92,65,000, inclusive of excise duty and VAT (the turnover is eligible for exemption under Notification No. 08/2003). The taxable clearances of Pentagon Enterprises Ltd. for the financial year 2012-13 was ₹2,40,00,000. The product “Lion-King” attracts excise duty @ 12% and VAT @ 1%. Calculate the excise duty liability under Notification No. 08/2003 dated 01-03-2003.

- (d) Mr. Mahesh Kumar is engaged in providing a service which becomes taxable with effect from 01.07.2013. Determine whether service tax is payable by Mr. Mahesh Kumar, in each of the following independent cases, in accordance with the Point of Taxation Rules 2011?

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Case	Date of issuance of invoice	Date of receipt of payment
(a)	25.06.2013 for ₹1,50,000	26.06.2013 for ₹1,50,000
(b)	25.06.2013 for ₹1,50,000	26.06.2013 for ₹ 90,000 10.07.2013 for ₹ 60,000
(c)	24.06.2013 for ₹90,000	20.06.2013 for ₹ 90,000
	07.07.2013 for ₹60,000	29.06.2013 for ₹60,000
(d)	23.07.2013 for ₹ 1,50,000	30.06.2013 for ₹1,50,000

(e) State the provisions regarding transit and transshipment of goods without payment of duty under the Customs Act, 1962.

[2+3+3+4+3]

Solution:

(a) Section 194B of the Income Tax Act, 1961 provides that where the winnings are wholly in kind or partly in kind and partly in cash, but the cash part of it is not sufficient to meet the liability for tax deduction at source, in respect of the whole of the winnings, the person responsible shall, before releasing the winnings, ensure that, the tax has been paid in respect of the winnings.

Therefore, in the case under consideration, the entire winnings being in kind, a sum equal to the tax to be deducted at source (i.e. ₹ 90,000 being 30% of ₹ 3,00,000) must be collected from the assessee, by the agent and remitted to the Government account before releasing the lottery prize to him.

Thus, ₹ 90,000 - being 30% of ₹ 3,00,000 must be collected from the assessee, by the agent and remitted to the Government account before releasing the Hyundai Santro to him.

(b) Rule 7 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, provides that where the goods are not sold at the factory gate, but are transferred by the assessee to his depot, the assessable value for the goods cleared from the factory and sold from depot, shall be the normal transaction value of such goods at the depot, at or about the same time at which the goods being valued are removed from the factory.

In the given case, Assessable Value shall be the price per unit prevailing at the depot on 14th July, 2013 (i.e. date of transfer from the factory to the depot), multiplied by the number of units removed from the factory.

Thus, Assessable Value = 1500 units × ₹330/unit = ₹4,95,000.

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Computation of Excise Duty payable by the assessee

Particulars	Amount(₹)
Basic Excise Duty @ 10% (₹4,95,000 × 10%)	49,500
Add: Education Cess @ 2%	990
Add: Senior and Higher Education Cess@ 1%	495
Total Excise Duty Payable	50,985

(c) Computation of duty liability of Pentagon Enterprises Ltd. under Notification No. 08/2003-CE dated 01-03-2003

SL. NO	Particulars	Amount (₹)	Amount (₹)
(i)	Gross sales turnover, inclusive of excise duty and Sales Tax		2,92,65,000
(ii)	Less: VAT @ 1%	(i) × 1/101	2,89,752.47
(iii)	Turnover (inclusive of excise duty and exclusive of sales tax)	(i) – (ii)	2,89,75,247.53
(iv)	SSI Exemption (no duty was levied on this exemption)		1,50,00,000
(v)	Cum-duty price (on which no exemption was available)	(iii) – (iv)	1,39,75,247.53
(vi)	Less: Excise Duty @12.36%	(v) × 12.36/112.36	15,37,326.97
(vii)	Assessable Value of turnover not exempted	(v) – (vi)	1,24,37,920.55

Total excise duty payable (rounded off) = ₹15,37,327.

- (d)** Rule 5 of the Point of Taxation Rules, 2011 stipulates the provisions relating to payment of service tax where a service is taxed for the first time. The taxability of services determined as per Rule 5 is as under:-

Case	Taxability
1.	No tax shall be payable on entire ₹1,50,000 as the invoice for ₹ 1,50,000 has been issued (on 25.06.2013) and the payment against such invoice has also been received (on 26.06.2013) before such service became taxable (on 01.07.2013).

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2.	No tax shall be payable on ₹ 90,000 as the invoice for ₹ 90,000 has been issued (on 25.06.2013) and the payment against such invoice has also been received (on 26.06.2013) before such service became taxable (on 01.07.2013).
	Service tax is payable on ₹60,000 as the invoice for ₹60,000 has been issued (on 25.06.2013) before such service became taxable (on 01.07.2013), but the payment against such invoice has been received on 10.07.2013 (after the service became the taxable).
3.	No tax shall be payable on ₹90,000 as the advance of ₹90,000 has been received (on 20.06.2013) and the invoice for the same has also been issued (on 24.06.2013) before such service became taxable (on 01.07.2013).
	No tax shall be payable on ₹60,000 as the payment of ₹60,000 has been received (on 29.06.2013) before the service becomes taxable (on 01.07.2013) and invoice has been issued (on 07.07.2013) i.e. within 14 days of the date when the service is taxed for the first time.
4.	Service tax is payable on entire ₹1,50,000 as, although payment has been received (on 30.06.2013) before the service becomes taxable (on 01.07.2013), invoice has been issued (on 23.07.2013) i.e. after 14 days of the date when the service is taxed for the first time.

(e) Transit of goods: Section 53 of the Customs Act, 1962 provides that any goods imported in a conveyance and mentioned in the import manifest or the import report, as the case may be, as for transit in the same conveyance to any place outside India or any customs station, may be allowed to be so transited without payment of duty. However, the goods should have not have been prohibited under Section 11 of the Customs Act 1962.

Transshipment of goods: Transshipment of goods refers to transfer of goods from one conveyance to another. It may be from one port to any other major port or airport in India.

Section 54 of the Customs Act, 1962 provides that:

1. Where any goods imported into a customs station are intended for transshipment, the person-in-charge of conveyance will have to present a bill of transshipment to the proper officer in the prescribed form.

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2. Where any goods imported into a customs station are mentioned in the import manifest or import report, as for the transshipment to any place outside India, such goods will be allowed to be so transhipped without payment of duty. However, the goods should not have been prohibited under Section 11 of the Customs Act, 1962.
3. Where any goods imported into a customs station are mentioned in the import manifest or import report for transshipment to any major port or, to customs airport or customs port, or to any other customs station and the proper officer is satisfied about the bonafide intention for the transshipment of the goods to such customs station, the proper officer may allow the goods to be transhipped, without payment of duty.

3.

(a) **The Profit & Loss Account of Fortuna Industries Ltd. for the previous year 2013-14, shows a net profit of ₹ 90 Lakhs after accounting for the following items:**

(i) **Depreciation of ₹ 36 Lakhs, was charged in the Profit and Loss Account. This amount included additional depreciation of ₹ 6 Lakhs on revalued assets. The amount of depreciation chargeable under Section 32 of the Income Tax Act, 1961, amounted to ₹ 28 Lakhs.**

(ii) **Interest of ₹ 9 lakhs due to a financial institution, was not paid before the due date of filling return of income.**

(iii) **Provision for doubtful debts was made at ₹ 1.50 lakhs.**

(iv) **Provision for unascertained liabilities amounted to ₹ 3 lakhs.**

(v) **₹ 7.5 lakhs was transferred to the General Reserve.**

(vi) **Net Agricultural Income amounted to ₹ 24 lakhs.**

(vii) **₹ 4.5 lakhs was withdrawn from reserve created during the financial year 2010–11.**

(Book profit was increased by the amount transferred to such reserve in Assessment year 2011 – 12.)

Other Information:

Brought forward loss and unabsorbed depreciation as per books are ₹ 18 Lakhs and ₹ 15 Lakhs, respectively.

Compute Minimum Alternate Tax under Section 115JB of the Income Tax Act, 1961 for the A.Y. 2014 – 15.

(b) **The following information is provided in respect of manufacture of a chemical product- "Brightex", for the purpose of captive consumption in the same factory. Determine the assessable value for the purpose of duty of excise in terms of Rule 8 of the Central Excise**

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Valuation (Determination of Price of Excisable Goods) Rules, 2000 and provide suitable notes, wherever necessary.

Particulars	Amount (₹)
Cost of direct materials (includes central excise duty ₹3,090)	33,090
Salaries paid to direct employees	24,600
Consumable stores and repairs	16,800
Quality Control Cost	8,600
Research and Development Cost	5,400
Administrative Cost:	
Production related	6,000
Others	3,000
Selling and Distribution Cost	7,200
Scrap Value realized	3,000

NOTE: CENVAT Credit of the excise duty so paid is available.

(c) Lakshmi Vilas Bank Ltd. provides the following information for the month of August 2013:

- (i) CENVAT Credit available on Inputs : ₹3,00,000
- (ii) CENVAT Credit available on Input Services: ₹6,00,000
- (iii) Service Tax Liability before availing eligible CENVAT: ₹15,00,000

Determine the amount of CENVAT Credit available to Lakshmi Vilas Bank Ltd., for the month of August 2013, in view of Rule 6(3B) of CENVAT Credit Rules, 2004. Determine the net service tax liability of Lakshmi Vilas Bank Ltd. after availing CENVAT Credit.

[6+ 5+4]

Solution:

(a)

Computation of Book Profit under Section 115JB of the Income tax Act, 1961

Assessee: Fortuna Industries Limited

Assessment Year: 2014-15	Previous Year: 2013-14	
Particulars	₹	₹
Net Profit as per Profit and Loss account		90,00,000
Add: Net Profit to be increased by the following amounts as per Explanation 1 to section 115JB		
Transfer to general reserve	7,50,000	
Provision for unascertained liabilities	3,00,000	
Provision for doubtful debts	1,50,000	
Depreciation charged in the Profit and Loss Account (including the depreciation charged on revalued assets)	36,00,000	48,00,000

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Less: Net Profit to be reduced by the following amounts as per Explanation 1 to Section 115JB		1,38,00,000
Amount transferred from reserve and credited to profit and loss account [since the book profit was increased by the amount transferred to such reserve in the Assessment Year 2010–11]	4,50,000	
Depreciation, as per Section 32 of the Income Tax Act, 1961	28,00,000	
Net Agricultural Income [Exempt under section 10 (1)]	24,00,000	
Loss brought forward (₹18 lakhs) or unabsorbed depreciation (₹15 lakhs) as per books, whichever is less	15,00,000	71,50,000
Book Profit for computation of MAT under section 115JB		66,50,000

Computation of Minimum Alternate Tax (MAT) under Section 115JB of the Income Tax Act, 1961

Particulars	₹	₹
18.50% of book profit (18.5% of ₹66,50,000)		12,30,250.00
Add: Education cess @ 2%	24,605.00	
Secondary and higher education cess @ 1%	12,302.50	36,907.50
Minimum Alternate Tax payable under Section 115JB		12,67,157.50
Note – Explanation 1 to section 115JB does not require adjustment of interest not paid before due date of filing return of income, while computing book profit.		

- (b) Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, provides that, the value of the excisable goods used for captive consumption, is 110% of the cost of production of such goods. The cost of production is to be determined as per '**Cost Accounting Standard (CAS-4): Cost of Production for Captive Consumption**' issued by the Institute of Cost Accountants of India [CBEC Circular No. 692/8/2003 dated 13.02.2003].

Computation of cost of production as per Cost Accounting Standard-4 and assessable value of the excisable goods

Particulars	Amount (₹)	Amount (₹)
Cost of direct materials	33090	
Less: Central Excise duty paid (Note-1)	3090	30,000
Salaries paid to direct employees		24,600
Consumable stores and repairs		16,800

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Quality Control Cost		8,600
Research and Development Cost		5,400
Administrative Cost (Production related) (Note-2)		6,000
TOTAL		91,400
Less: Scrap Value realized		3,000
COST OF PRODUCTION AS PER CAS-4		88,400
ASSESSABLE VALUE OF EXCISABLE GOODS	88400 × 110%	97,240

NOTES:

- 1) Since CENVAT Credit is available on central excise duty paid on direct materials, it has been deducted from the cost of direct materials in accordance with the Cost Accounting Standard -4.
- 2) Administrative Overheads in relation to activities other than manufacturing activities have not been included in the cost of production.[CAS-4]
- 3) Selling and distribution Cost have not been considered while computing the cost of production, as they are not in relation to production activity. [CAS-4]

(c) According to Rule 6(3B) of the CENVAT Credit Rules, 2004, a banking company and a financial institution including a non-banking financial company engaged in providing services by way of extending deposits, loans or advances, shall pay for every month, an amount equal to 50% of the CENVAT Credit available on inputs and input services in that month. Therefore, a banking company is entitled to avail only 50% of the CENVAT Credit in respect of inputs and input services.

Computation of CENVAT Credit available to Lakshmi Vilas Bank Ltd., for the month of August 2013

Particulars	Amount (₹)
CENVAT Credit available on Inputs	3,00,000
Less: Payment of 50% of CENVAT Credit available on inputs, by virtue of Rule 6(3B), i.e., 50% of CENVAT Credit available on inputs is disallowed	1,50,000
Net CENVAT Credit available on inputs	1,50,000
CENVAT Credit available on Input Services	6,00,000
Less: Payment of 50% of CENVAT Credit available on input services, by virtue of Rule 6(3B), i.e., 50% of CENVAT Credit available on input services is disallowed	3,00,000
Net CENVAT Credit available on input services	3,00,000

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Computation of net service tax liability of Lakshmi Vilas Bank Ltd., for the month of August 2013

Particulars	Amount (₹)
Service Tax Liability of Lakshmi Vilas Bank Ltd., for the month of August 2013, before availing CENVAT Credit on inputs and input services	15,00,000
Less: Net CENVAT Credit available on inputs	1,50,000
Less: Net CENVAT Credit available on input services	3,00,000
Net Service Tax Liability of Lakshmi Vilas Bank Ltd., after availing eligible CENVAT Credit	10,50,000

4.

(a) Mr. Raghuvir Prasad, a resident individual, furnishes the following information, in respect of the assets held by him on 31.03.2014. Compute the net wealth of Mr. Raghuvir Prasad, by explaining the reasons, for inclusion/exclusion of the following items in the computation of net wealth.

(i) Mr. Raghuvir Prasad gifted jewellery worth ₹15 Lakhs, to his wife. The fair market value of such jewellery, as on the valuation date was ₹40 Lakhs.

(ii) A flat in Mumbai was purchased in 1998, under installment scheme, for ₹10 Lakhs. The flat is used by the assessee for his own residence. The fair market value of this self-occupied property was ₹25 Lakhs on the valuation date, an amount of ₹ 5 Lakh was also outstanding.

(iii) The assessee is a medical practitioner and possesses medical instruments worth ₹5 Lakhs, which are used by him in his profession.

(iv) The assessee purchased a land in Jodhpur, in July 2010, in the name of his minor son (who was suffering from a disability specified under Section 80U of the Income Tax Act, 1961), for ₹ 8 Lakhs.

(v) The house, situated in Ahmedabad, was shown to be of value of ₹ 50 Lakhs, in the wealth-tax return for the A.Y 2013-14. However, this property was sold on 26.03.2014 for ₹55 Lakhs. The sale deed in respect of the transfer of property in Ahmedabad, was executed in 10.05.2014.

(b) Compute the assessable value and the total customs duty payable, from the following particulars. Provide suitable notes, wherever necessary.

(i) Date of presentation of bill of Entry: 15-09-2013.

Rate of Basic Customs Duty: 25%;

Exchange Rate (₹/\$) = ₹60.50

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Exchange Rate (₹/\$), notified by CBE&C: ₹60.70

(ii) Date of arrival of goods in India: 25-09-2013

Rate of Basic Customs Duty: 20%;

Exchange Rate (₹/\$) = ₹60.75

Exchange Rate (₹/\$), notified by CBE&C: ₹61

(iii) Rate of additional Customs Duty: 12%

(iv) CIF Value: \$5,000

(v) Air Freight : \$ 1,250

(vi) Insurance Cost: \$ 250. [Landing Charges not ascertainable]

(vii) Education Cess applicable 3%.

(viii) Assume that there is no special CVD.

(c) Virbhadra Ltd. commenced its business on 30th July, 2013 in New Delhi. It has provided /availed the following services up to 31st March, 2014. Determine its service tax liability for the Financial Year 2013-14:

(i) Taxable services provided under its own brand name : ₹10,00,000.

(ii) Declared services (Sum charged ₹5 lakh, but value determined as per valuation rules is 60% i.e. ₹ 3,00,000).

(iii) Services wholly exempt under Notification No. 25/2012, dated 20-06-2012 : ₹7,00,000.

(iv) Services provided under brand-name of other person (fully taxable): ₹4,00,000.

(v) Availed services of goods transport agency and paid freight of ₹3,00,000.

The assessee is ready to opt any exemption available to it under Service Tax Law. (Make suitable assumptions wherever required and show workings.)

[5+5+5]

Solution:

(a) Computation of net wealth of Mr. Raghuvir Prasad as on valuation date 31.03.2014

SL. NO	Assets held by the assessee on the valuation date	Reason for inclusion/ exclusion of assets from the net wealth of the assessee	Amount (₹)
1.	Jewellery held by assessee's wife.	Under Section 4(1)(a)(i) of the Wealth Tax Act, 1957, read with Rule 18 of Schedule III, the fair market value of the jewellery gifted to spouse, as on the valuation date will be included in the net wealth of the assessee.	40,00,000

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2.	Flat located in Mumbai.	The flat, located in Mumbai, is used by the assessee for his own residence, and is an exempt asset, under the provisions of the Wealth Tax Act, 1957. Under Section 5(vi) of the Wealth Tax Act, 1957, the liability of outstanding installment is not deductible.	Nil
3.	Medical instruments held by the assessee and used in his profession.	Medical instruments, held by the assessee, which are used by him in his profession, do not fall within the definition of "asset" under Section 2(ea) of the Wealth Tax Act, 1957.	Nil
4.	Land situated in Jodhpur, in the name of the assessee's son.	Urban Land is an "asset" under Section 2(ea)(v) of the Wealth Tax Act, 1957. However, the land situated in Jodhpur, is held in the name of the assessee's son, who is suffering from disability under Section 80U of the Income Tax Act, 1961. Therefore, the clubbing provisions of Section 4(1)(a)(ii) of the Wealth Tax Act, 1957, shall not apply in the given case.	Nil
5.	House situated in Ahmedabad.	The house situated in Ahmedabad, was not held by the assessee, on the valuation date. Though the sale deed was executed on 10.05.2014, the property is not an asset, in the hands of the assessee. It will be treated as an asset in the hands of the beneficial owner, since the ownership in property passes on to the buyer, in the event of sale of the property. The sale deed only confirms the acts of the parties.	Nil
NET WEALTH OF THE ASSESSEE			40,00,000

(b) Computation of Assessable Value and the total Customs Duty Payable

SL No.	Particulars	Currency	Amount
A.	CIF Value	US\$	5,000
	Less: Freight	US\$	1,250
	Less: Insurance	US\$	250
B.	FOB Value	US\$	3,500

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C.	Add: Air Freight restricted to 20% of FOB Value Add: Insurance (actual amount)	US\$ US\$	700 250
D.	CIF Value CIF Value (in ₹) [Conversion rate- ₹/\$=60.70]	US\$ ₹	4,450 2,70,115
E.	Add: 1% landing charges	₹	2,701.15
F.	Assessable Value	₹	2,72,816.15
G.	Add: Basic Customs Duty @ 20% of Assessable Value	₹	54,563.23
H.	Total for levy of additional duty of customs under Section 3(1) of the Customs Tariff Act,1975 [F + G]	₹	3,27,379.38
I.	Add: Additional Customs Duty [H× 12%]	₹	39,285.52
J.	Add: Education Cess on total customs duty [3% of (G+I)]	₹	2,815.46
K.	Total for levy of additional duty of customs under Section 3(5) of the Customs Tariff Act,1975 [H + I+ J]	₹	3,69,480.36
L.	Add: Additional duty of customs equal to sales tax	₹	Nil
M.	Total Cost of imported Goods	₹	3,69,480.36
N.	Total Customs Duty Payable (rounded off) [G+I+J+L]	₹	96,664

- (c) Virbhadra Ltd. has commenced its business in the financial year 2013-14 i.e., its 'aggregate value of taxable services' during the financial year 2012-13 was NIL. Accordingly, it is eligible for threshold exemption of ₹10 lakhs in respect of its 'aggregate value' during the financial year 2013-14 under Notification No. 33/2012-ST.

The relevant computations are as follows —

Particulars	₹
(i) Own brand name services: Includible in determining aggregate value. [Note-1]	10,00,000
(ii) Declared services: Value of services = 60% of ₹5 lakh = ₹3,00,000. Includible in determining aggregate value. [Note-2]	3,00,000
(iii) Services fully exempt: Specifically excluded in determination of aggregate value	NIL
Aggregate Value for purposes of Notification No. 33/2012-ST for 2013-14	13,00,000
Less: Threshold exemption under Notification No. 33/2012-ST	10,00,000
Value of taxable services after claiming exemption under Notification No. 33/2012-ST	3,00,000
Add:	
(iv) Services provided under others' brand-name [Note-3]	4,00,000

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Add: (v) Services of Gross Transport Agency received by Virbhadra Ltd. Therefore, taxable value = ₹3,00,000 – (75% of ₹3,00,000) = ₹75,000 <p style="text-align: right;">[Note-4 & 5]</p>	75,000
Aggregate Value of services liable to service tax	7,75,000
Service tax @ 12.36%	95,790

NOTES:

- 1) It is assumed that, taxable services provided by Virbhadra Ltd. under its own brand name, is of the value ₹9 lakhs.
- 2) The value of declared services to be included in computing the aggregate value, has been determined as per the provisions of Section 67 of the Finance Act, 1994 and the valuation rules.
- 3) Services provided under brand name of other person, shall be excluded for the applicability of the Notification No. 33/2012-ST. Therefore, the said services are liable to service tax and shall not be included in the computation of 'aggregate value' under Notification No. 33/2012-ST.
- 4) Under reverse charge mechanism, Virbhadra Ltd., is liable to pay service tax, in respect of the services received from the Goods Transport Agency (GTA) (for which freight has been paid by Virbhadra Ltd.)
- 5) The services received by Virbhadra Ltd., from the Goods Transport Agency, shall not form part of the computation of 'aggregate value of taxable services provided' under Notification No. 33/2012-ST. The same will be liable to service tax after abatement @ 75%.

5.

(a) **Mr. Vinay Kumar Malhotra, an Indian resident, is a practising advocate. He was paid ₹ 80,000 on 1st September, 2013 towards fees for his professional services, without deducting tax at source. Later on, a further sum of ₹ 90,000, was due to him on 1st March, 2014, from which tax of ₹15,000 was deducted at source. The tax so deducted, was deposited on 26th June, 2014. Compute interest payable by the deductor under Section 201(1A) of the Income Tax Act, 1961.**

(b) **Sky High Airways Ltd. sold tickets to the travel agents in India at a minimum fixed commercial price. The agents were permitted to sell the tickets at a higher price. The price to be charged by the travel agents was restricted to a maximum of published price. Sky High Airways Ltd. was obliged to pay to its travel agents, a commission @ 9% of published price, on which tax was deducted under Section 194H of the Income Tax Act, 1961 by the company. The Assessing Officer contended that company was also liable to deduct tax at source, on the amount of difference between the published price and the minimum fixed commercial price, by treating it as "additional special commission" in the hands of the agents.**

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Examine whether the contention of the Assessing Officer is tenable in law, in the light of decided case law/s under Income Tax Act, 1961

- (c) Karuna Ashram, a charitable organization in India, imported 1200 metric tonnes of edible oil, for free distribution to a certain class of below poverty line citizens. The consignments were imported at a nominal price of US\$ 15 per metric tonne, which was sufficient to cover the freight and insurance charges. The Customs House found out that at or about the time of importation of this gift consignment, there were following imports of the same quality of edible oil:

Sl. No.	Quantity imported in metric tonnes	Unit Price in US\$ (CIF)
1.	30	390
2.	150	330
3.	750	300
4.	1350	262.50
5.	600	270
6.	1170	240

The rate of exchange on the relevant date was 1US\$ = ₹60 and the rate of basic customs duty was 10% ad valorem. There is no countervailing duty or special additional duty. Calculate the amount of duty leviable on the consignment under the Customs Act, 1962 with appropriate assumptions and explanations, where required.

[3+5+7]

Solution:

- (a) Section 194J of the Income Tax Act, 1961 provides for deduction of tax at source @ 10%, in respect of fees for professional services. Since, there is delay in deduction and deposit of tax, interest under Section 201(1A) is attracted.

As per the provisions of Section 201(1A), if a person, who is liable to deduct tax at source, fails to deduct tax at source or after deducting such tax, fails to pay the tax required by the Act, then he is liable to pay interest as follows:

- 1% for every month or part of month, on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually deducted.
- 1.5% for every month or part of the month on the amount of such tax from the date on which such tax was deducted to the date on which tax is actually paid.

Therefore, in the given case, interest under **Section 201(1A)** would be computed as follows:

Particulars	Computation	Amount (₹)
1% on tax deductible, but not deducted	1% on ₹8,000 for 7 months	560

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1.5% on tax deducted, but not deposited	1.5% on ₹15,000 for 4 months	900
TOTAL		1,460

Thus, interest payable by the person liable to deduct tax at source, amounts to ₹1,460.

- (b) Section 194H of the Income Tax Act, 1961 provides that, any person (other than an individual or Hindu Undivided Family), who is responsible for paying commission or brokerage (not being insurance commission), to a resident shall deduct tax at source, at the time of payment or credit, whichever is earlier. No tax is deductible if the amount paid/ credited during the financial year does not exceed ₹5,000.

In the present case, Sky High Airways Ltd. correctly deducted tax at source under Section 194H of the Income Tax Act, 1961, from the commission paid to the travel agents (@9% of the published price). The travel agents were permitted to sell the tickets, at a price higher than the minimum fixed commercial price, subject to a maximum of the published price. However, the Assessing Officer contended that, the airline company was also obliged to deduct tax at source on the difference between the published price and the minimum commercial price, by treating it as "additional special commission", in the hands of the agents.

The facts of the case are similar to the case of **CIT v. Qatar Airways (2011) 332 ITR 253**. In this case, the Bombay High Court held that the difference between the published price and the minimum fixed commercial price of the tickets cannot be taken as "additional special commission" in the hands of the agents.

Firstly, the travel agents were given the discretion to sell the tickets at any rate between the minimum fixed commercial price and the published price (which was the maximum price). Secondly, in the absence of any communication/ feedback from the air travel agents, the airline company would not have any information about, the exact rate at which the tickets were finally sold by the travel agents. For deducting tax at source on the difference between the actual sale price and the minimum fixed commercial price (as contended by the Assessing Officer), the exact income in the hands of the agents must necessarily be ascertainable by the airline company.

Applying the rationale of the above case to the case of Sky High Airways Ltd, the airline company shall not be liable to deduct tax at source under Section 194H of the Income Tax Act, 1961, on the difference between the published price and the minimum fixed commercial price. However, the amount earned by the agent over and above the minimum fixed commercial price would be taxable as income in the hands of the agent.

Therefore, the contention raised by the Assessing Officer is not tenable in law.

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(c) The following factors are required to be considered, while determining the transaction value of the goods:

- 1) In the given case, since US\$ 15 per metric tonne has been paid only towards the freight and insurance charges and not towards the cost of the goods, transaction value cannot be ascertained. Thus, transaction value of identical goods under Rule 4 of Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, has to be taken into account.
- 2) Rule 4(1)(a) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, provides that subject to the provisions of Rule 3, the value of imported goods shall be the transaction value of identical goods, sold for export to India and imported at or about the same time as the goods being valued. Thus, the particulars of the six imports are to be taken into account for determining the transaction value of identical goods.
- 3) Rule 4(1)(b) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, provides that the comparable import should be at the same commercial level and in substantially same quantity as the goods being valued. It is assumed that, the level of the transactions of the comparable consignments, are at the same commercial level.
- 4) Rule 4(3) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, provides that if more than one transaction value of the goods is found, the lowest of such value shall be used to determine the value of imported goods. Accordingly, the unit price of the consignment under valuation would be US\$ 240 per metric tonne.
- 5) In view of the above provision, all the consignments other than the consignments of 30 and 150 metric tonnes, can be considered to be substantially of the same quantity.

Computation of the amount of duty payable

Particulars	Amount (₹)
CIF Value of 1200 metric tonnes = $1200 \times \text{US\$ } 240$ Exchange rate to be taken: 1 US\$ = ₹60	US\$ 2,88,000
CIF Value (in Rupees)	1,72,80,000
Add: Landing Charges @1%	1,72,800
ASSESSABLE VALUE	1,74,52,800
10% of Ad Valorem Duty on Assessable Value	17,45,280
Add: Education Cess @ 2%	34,905.60
Add: Senior and Higher Education Cess @ 1%	17,452.80
TOTAL CUSTOMS DUTY PAYABLE (ROUNDED OFF)	17,97,638

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6.

- (a) The Total Income of Sterling Enterprises Ltd., for the previous year ended 31st March, 2014 is ₹ 15,75,000. Tax deducted at source by different payers amounted to ₹ 36,675 and tax paid in foreign country on a doubly taxed income amounted to ₹15,000, for which the company is entitled to relief under Section 90 of the Income Tax Act, 1961, as per the double taxation avoidance agreement.

During the year the company paid advance tax as under:

Date of payment	Advance tax paid (₹)
15-06-2013	60,000
12-09-2013	97,500
15-12-2013	1,50,000
15-03-2014	93,000

The company filed its return of income for the A. Y. 2014-15 on 15th October, 2014.

Compute interest, if any, payable by the company under Sections 234A, 234B and 234C of the Income Tax Act, 1961. Assume that transfer pricing provision is not applicable.

- (b) Quality Industries Ltd. manufactures both excisable and non-excisable goods in their factory building. This factory building has been taken on rent by Quality Industries Ltd., from 1st October 2013. With respect to the particulars furnished below, determine whether Quality Industries Ltd. is eligible for availing benefit of exemption in terms of Notification No. 8/2003-CE dated 01-03-2003 for the financial year 2014-15.

Particulars	Amount (₹ in Lakhs)
Clearances of branded goods	90
Export Sales to Nepal	120
Export Sales to USA and Canada	180
Clearances of goods (duty paid based on Annual capacity of production under Section 3A of the Central Excise Act, 1944)	105
Clearances of goods subject to valuation based on retail price under Section 4A of the Central Excise Act, 1944 (said goods are eligible for 30% abatement)	300
Job work under Notification No. 214/86-CE	90

During the period from 1st April 2013 to 30th September 2013, the previous tenant of the building (presently occupied by Quality Industries Ltd.) had cleared excisable goods of the aggregate value of ₹180 Lakhs.

[10+5]

Solution:

- (a) Interest under section 234 A

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Since the return of income has been furnished by Sterling Enterprises Ltd. on 15th October, 2014 i.e. 15 days after the due date for filing return of income (30.9.2014), interest under Section 234A will be payable for 1 month @ 1% on the amount of tax payable on the total income, as reduced by tax reliefs and prepaid taxes.

Particulars	₹
Tax on total income (₹15,75,000 x 30.9%)	4,86,675
Less: Advance tax paid	4,00,500
Less: Tax deducted at source	36,675
Less: Relief of tax allowed under section 90	15,000
Tax payable on self assessment	34,500
Interest = ₹ 34,500 x 1% = ₹ 345	

Interest under section 234B

Where the advance tax paid by the assessee is less than 90% of the assessed tax, the assessee would be liable to pay interest under section 234B.

Computation of Assessed tax:	₹
Tax on total income (₹15,75,000 x 30.9%)	4,86,675
Less: Tax deducted at source	36,675
Less: Relief of tax allowed under section 90	15,000
Assessed tax	4,35,000
90% of assessed tax = ₹4,35,000 x 90% = ₹3,91,500	

Since the advance tax paid by Sterling Enterprises Ltd. (₹4,00,500) is more than 90% of the assessed tax (₹ 3,91,500), it is not liable to pay interest under section 234B.

Interest under section 234C

Particulars	₹
Tax on total income (₹15,75,000 x 30.9%)	4,86,675
Less: Tax deducted at source	36,675
Less: Relief of tax allowed under section 90	15,000
Tax due on returned income /Total advance tax payable	4,35,000

Calculation of interest payable under section 234C:

(a)	(b)	(c)	(d)	(e)	(f)
Date	Advance tax paid till date (₹)	Minimum % of tax due on returned income to be paid till date to avoid interest under section 234C	Advance tax payable till date in case condition mentioned in (c) is not met	Short-fall	Interest
		%	Amount (₹)	(₹)	(₹)

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15.06.2013	60,000	12%	52,200	15%	-	Nil (See Note below)
15.09.2013	1,57,500	36%	1,56,600	45%	-	Nil (See Note below)
15.12.2013	3,07,500	75%	3,26,250	75%	18,750	18,750 x 1% x 3 months = ₹562.50
15.03.2014	4,00,500	100%	4,35,000	100%	34,500	34,500 x 1% = ₹345.00
Interest payable under section 234C (Nil + Nil + ₹ 562.50 + ₹ 345)						₹ 907.50

Note: Since the advance tax paid by Sterling Enterprises Ltd. on 15th June, 2013 is more than 12% of the tax due on returned income (i.e. ₹4,35,000) and the advance tax paid on 12th September, 2013 is more than 36% of the tax due on returned income, it is not liable to pay any interest under Section 234C in respect of these two quarters.

(b) Computation of value of clearances for home consumption in the financial year 2013-14

Sl. No	Particulars	Amount (₹ in Lakhs)
(i)	Clearances of branded goods [Working Note-1]	Nil
(ii)	Export Sales to Nepal [Working Note-1]	120
(iii)	Export Sales to USA and Canada [Working Note-1]	Nil
(iv)	Clearances of goods (duty paid based on Annual capacity of production under Section 3A of the Central Excise Act, 1944)	105
(v)	Clearances of goods subject to valuation based on retail price under Section 4A of the Central Excise Act, 1944 (said goods are eligible for 30% abatement) [Working Note-2]	210
(vi)	Job work under Notification No. 214/86-CE [Working Note-1]	Nil
(vii)	Clearances of previous tenant of the building (currently occupied by Quality Industries Ltd.) [Working Note-3]	180
	TOTAL	615

Since, the value of clearances for home consumption exceeds ₹400 Lakhs in the financial year 2013-14, hence Quality Industries Ltd. is not eligible to claim the benefit of exemption under Notification No. 08/2003-C.E dated 01-03-2003 in the financial year 2014-15.

Working Notes:

- 1) In order to claim the benefit of exemption under Notification No. 8/2003-CE, dated 01-03-2003 in a financial year, the total turnover of a unit should not exceed ₹400 Lakhs in the preceding financial year. Notification No. 08/2003-CE dated 01-03-2003, provides that for the purpose of computing the turnover of ₹400 Lakhs:

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- a. Clearances bearing the brand name or trade name of another person are excluded. It has been assumed that the branded goods are excisable goods and they bear the brand name of another person and not the brand name of Quality Industries Ltd.
- b. Export Turnover is excluded. However, exports to Nepal and Bhutan are not excluded, as these are treated as "clearance for home consumption". It has been assumed that goods exported by Quality Industries Ltd. to Nepal are excisable goods.
- c. Clearances under specified job work notifications are excluded and Notification No. 214/86-CE dated 25-03-1986, is one of the specified notifications.
- 2) In case of the goods subject to valuation under Section 4A of the Central Excise Act, 1944, value for the purpose of SSI exemption would mean value fixed under Section 4A, i.e., retail sale price less abatement. Hence, value of such clearances would be ₹300 Lakhs – (₹300 Lakhs × 30%) = ₹210 Lakhs.
- 3) For the purpose of computing the turnover of ₹400 Lakhs, all the clearances made by different manufacturers from the same factory are to be clubbed together. Hence, clearances worth ₹180 Lakhs of previous tenant of the building (currently occupied by Quality Industries Ltd.) have been added.

7.

- (a) State the provisions regarding drawback allowable on re-export of duty paid goods as such.
- (b) When shall a transaction be considered as an international transaction?
- (c) Regal Industries Ltd. entered into a contract, with foreign suppliers for import of crude sunflower seed oil on 5th July, 2013. The contract was entered into for supply of crude sunflower seed oil at the rate of US\$ 525 CIF/metric ton. The consignment was to be shipped in the month of August 2013, which was extended till mid-September, after mutual agreement between the parties. The crude oil consignment was actually shipped on 5th September, 2013, at the price prevailing at the contract date.

The Assessing Officer refused to accept the contract price as the 'transaction value', on the ground that, the international market price has increased drastically, after the expiry of the original shipment period.

In the light of decided case, discuss whether the contention of the Assessing Officer is tenable in law.

- (d) Compute the service tax liability from the following particulars for the financial year 2013-14:

Particulars	Amount(₹)
Gross Amount (excluding all taxes) charged by the service provider for providing works contract service	1,50,000
Actual Value of material transferred in the above works contract (VAT under the relevant State VAT Law has been paid on this value)	1,05,000
Excise Duty paid on Inputs	13,125

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Service Tax paid on input services	1,500
Excise Duty paid on the capital goods, purchased during the year, used in the provision of works contract service	1,500
Rate of Service Tax	12.36%

[4+3+4+4]

Solution:

(a) Sub-section (1) of Section 74 of the Customs Act, 1962 provides that, duty drawback on re-export of duty paid goods as such, shall be allowed, if the following conditions are fulfilled:

- (i)** The goods should have been imported into India.
- (ii)** The import duty should have been paid thereon.
- (iii)** The goods should be capable of being easily identified as the goods, which were originally imported.

- (iv)** The goods should have been entered for export either on shipping bill through sea or air, or on a bill of export through land, or as baggage, or through post and the proper officer, after proper examination of the goods and after ensuring that there is no prohibition or restriction on their export, should have permitted clearance of such goods for export.

- (v)** The goods should have been identified to the satisfaction of the Assistant or Deputy Commissioner of Customs as the goods, which were imported.

- (vi)** The goods should have been entered for export within two years from the date of payment of duty on the importation thereof.

However, in any particular case, the aforesaid period of two years may, on sufficient cause being shown, be extended by the Board by such further period, as it may deem fit. Once these conditions are satisfied, then 98% of the import duty paid on such goods at the time of importation shall be repaid as drawback.

(b) As per Section 92B of the Income Tax Act, 1961, an international transaction is one which satisfies the following criteria-

- (i)** The transaction is between two or more associated enterprises, either or both of whom are non-residents.

- (ii)** It is in the nature of purchase, sale or lease of tangible or intangible property, or provision of services, lending/borrowing of money or, any other transaction having a bearing on the profits, income, losses or assets of such enterprises.

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(iii) It includes a transaction in the nature of a mutual agreement/ arrangement between two or more associated enterprises, for the allocation or apportionment of any contribution, cost or expense incurred (or to be incurred) in connection with a benefit, service or facility provided (or to be provided) to any one or more of such enterprises.

(c) The facts of the given case are similar to the decided case of **Commissioner of Customs., Vishakhapatnam v. Aggarwal Industries Ltd. 2011(272) E.L.T 641 (S.C).**

In the said case, the assessee had entered into a contract on 26th June, 2001, with foreign suppliers for import of crude sunflower seed oil at the rate of US\$ 435 CIF/Metric Ton. Though, the consignment was supposed to be shipped in the month of July 2001, the consignment was actually shipped on 5th August, 2001. After expiry of the initial shipment period, the shipment period was agreed to be extended to 'mid August 2001'.

The Revenue refused to accept the contract price as the 'transaction value', in terms of Rule 3 of Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, on the ground that, the international market price has increased drastically, after the expiry of the original shipment period. The Revenue intended to levy duty on the increased prices.

The Supreme Court held that, the extension of time limit for shipping of consignment was mutually agreed upon between the parties. Though, the commodity involved volatile fluctuations in its price in the international market, the supplier did not increase the price of the commodity even after increase in the international market price. There was no allegation of the supplier and the assessee, being in collusion. Thus, the increased price cannot be considered for valuation of the crude sunflower seed oil. The Apex Court allowed the appeal in favour of the assessee.

Thus, it can be inferred that the contention of the Assessing Officer, in the case of Regal Industries Ltd., is not tenable in law.

(d) **Computation of Service Tax Liability as per Rule 2A(i) of the Service Tax (Determination of Value) Rules, 2006:**

Particulars	Amount(₹)
Gross Amount charged by the service provider for providing works contract service	1,50,000
Less: Actual Value of material transferred in the above works contract [NOTE-1]	1,05,000
Value of service portion in the execution of works contract	45,000
Service Tax on ₹45,000 @ 12.36%	5,562

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Less: CENVAT Credit on Inputs	[NOTE-2]	---
Less: CENVAT Credit on input services		1,500
Less: CENVAT Credit on the capital goods (50%)	[NOTE-3]	750
Service Tax payable		3,312

NOTES:

1. Since VAT has been paid on the actual value of property in goods transferred in the execution of the works contract, such value adopted for the purposes of payment of VAT has been taken as the value of the property in goods transferred in the execution of the said works contract [Clause (c) of Explanation to Rule 2A(i) of the Valuation Rules].
2. CENVAT Credit of duties or cess paid on any inputs, used in or in relation to the said works contract, is not available. [Explanation to Rule 2A) of the Valuation Rules].
3. Only 50% of the duty paid on the capital goods is available as CENVAT Credit, in the current year [Rule 4(2)(a) of the CENVAT Credit Rules, 2004].