

Paper 16 – Tax Management and Practice

PTP_Final_Syllabus 2012_Dec2015_Set 1

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
		Decide	To solve or conclude
	EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
		Evaluate	Appraise or asses the value of
		Recommend	Propose a course of action

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Time Allowed: 3 hours

Full Marks: 100

This paper contains 9 questions, divided in two sections Section A and Section B. In total 7 questions are to be answered. Answer any five questions from Section A (out of six questions - Questions Nos. 1 to 6).

In Section B, Question No. 9 is compulsory and answer any one question from the remaining two questions of the section (i.e. out of Question nos. 7 & 8).

Students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

All the questions relate to the assessment year 2015-16, unless stated otherwise.

Section A

Answer any five Questions

1. (a) X earns the following income during the financial year 2014-15:

		₹
(a)	Interest from an Indian company received in London.	1,20,000
(b)	Pension from former employer in India received in USA.	1,80,000
(c)	Profits earned from a business in Paris which is controlled from India, half of the profits being received in India.	2,00,000
(d)	Income from agriculture in Bhutan and remitted to India.	1,25,000
(e)	Income from property in England received there.	4,00,000
(f)	Past foreign income brought to India.	10,000

Compute his income for the assessment year 2015-16 if he is:

- (i) Resident and ordinarily resident in India.
- (ii) Not ordinarily resident in India.
- (iii) Non-resident in India.

[5]

(b) Balram furnishes you the following information for the previous year 2014-15.

Basic salary	₹ 15,000 p.m.
Dearness allowance	₹ 6,000 p.m. (60% of which is part of salary for retirement benefits)
Entertainment allowance	₹ 500 p.m.
House rent allowance	₹ 6,000 p.m.
Actual rent paid for a house in Delhi	₹ 7,000 p.m.
Education allowance for 3 children	₹ 200 p.m. per child
Transport allowance for commuting from residence to office and	₹ 1,200 p.m.

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back (He spent ₹ 14,000 during the year for such purpose)	
Medical allowance (He spent ₹ 5,000 during the year for his medical treatment)	₹ 1,000 p.m.
Lunch allowance (He spent ₹ 3,000 during the year for his lunch in the office)	₹ 200 p.m.

Compute taxable salary of Balram for the assessment year 2015-16.

[5]

(c) RP owns a house property in Delhi. From the particulars given below compute the income from house property for the assessment year 2015-16.

	₹
Municipal value	2,00,000
Fair rent	2,52,000
Standard rent	2,40,000
Actual rent (per month)	23,000
Municipal taxes	20% of municipal value
Municipal taxes paid during the year	50% of tax levied
Expenses on repairs	20,000
Insurance premium	5,000

RP had borrowed a sum of ₹ 12,00,000 @ 10% p.a. on 1.7.2012 and the construction of the property was completed on 28.02.2014.

[4]

2. (a) Mr. A, a first stage dealer in pharmaceutical plant and boiler in the State of Tamil Nadu, furnishes the under mentioned information:

Sl. No.	Particulars	₹
(i)	Total inter-State sales during financial year 2014-15 (CST not shown separately)	2,31,25,000
(ii)	Trade commission for which credit notes have to be issued separately	5,78,125
(iii)	Freight and transportation charges (of this ₹ 1,50,000 is on inclusive basis)	4,50,000
(iv)	Insurance premium paid prior to delivery of goods	70,000
(vi)	Installation and commissioning charges levied separately in invoices	75,000

Compute the tax liability under the CST Act, assuming the rate of tax @ 2%.

[3]

(b) Compute the VAT amount payable by Mr. A who purchases goods from a manufacture on payment of ₹ 2,27,000 (including VAT) and earn 10% profit on cost to retailers. Vat rate on purchase and sale is 13.50%.

[3]

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- (c) MNO Ltd. is in the manufacture of both excisable and non-excisable goods in their factory building rented by them from October 1, 2014 and have been occupying the same as a tenant. From the following particulars for the period October 1, 2014 to March 31, 2015, state with suitable explanations, whether MNO Ltd. could claim the benefit of exemption in terms of Notification No. 8/2003-CE dated 1-3-2003 for the financial year 2015-16.

		₹ in lakh
(i)	Clearances of branded goods	60
(ii)	Export Sales to Nepal	80
(iii)	Export Sales to USA and Canada	120
(iv)	Clearances of goods (duty paid passed on Annual capacity of production under Section 3A of the Central Excise Act, 1944)	70
(v)	Clearances of goods subject to valuation based on retail sale price under Section 4A of the Central Excise Act, 1944 (said goods are eligible for 30% abatement)	200
(vi)	Job work under Notification No. 214/86-CE.	60

During the period April 1, 2014 to September 30, 2014 the previous tenant of the building presently occupied by MNO Ltd. had cleared excisable goods of the aggregate value of ₹120 lakhs. **[6]**

- (d) Calculate the assessable value in respect of each of the clearances given below -

Removed to	Price at Depot as on		Actual Sale Price at Depot on 01/02/2015
	01/02/2015	31/01/2015	
Mysore Depot	₹ 210/unit	₹ 205/unit	₹ 215/unit
Hosur Depot	₹ 220/unit	₹ 215/unit	₹ 225/unit
Tirupati Depot	₹ 230/unit	₹ 225/unit	₹ 235/unit

The goods were cleared to respective Depots on 01/01/2015 and actually sold at the depots on 01/02/2015. **[2]**

3. (a) XYZ Ltd., a company incorporated in US, sells laser printer cartridge to its 100 per cent Indian subsidiary AB Ltd. @ \$50 per cartridge. XYZ Ltd. also sells its laser printer cartridge to another company PQR Ltd. in India @ \$80 per piece. Total income of AB Ltd. for the assessment year 2014-15 is ₹12,00,000 after making payment for 100 cartridges @ \$50 (1\$ = ₹49). AB Ltd. has deducted tax at source while making payments to XYZ Ltd. In this case, sale to unrelated party PQR Ltd. is @ \$80. Compute the arm's length price and taxable income of XYZ Ltd. and AB Ltd. The rate of one dollar may be assumed to be equivalent to ₹ 49 in all transactions. **[4]**

- (b) X Ltd, operating in India, is the dealer for the goods manufactured by ZOR Ltd of Japan. ZOR Ltd owns 55% of Shares of X Ltd, and out of 7 Directors of the Company, 4 were appointed by them. The Assessing Officer after verification of transactions of ₹ 350 Lakhs of X Ltd for the relevant year and by noticing that the Company had failed to maintain the requisite records and had also not obtained the Accountants' Report, adjusted its Income by making an addition of ₹ 35,00,000 to the declared income and also issued a Show Case Notice to levy various penalties. X Ltd seek your expert opinion. **[4]**

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- (c) (i)** Reddy & Co. a business owned by an individual, operates a Security Agency. It supplied 10 security personnel to R Ltd on a monthly charge of ₹ 10,000 per person. Determine the taxability in the hands of Reddy & Co. and R Ltd for this service assuming the service, is provided only for June 2014.
If the services are provided to M/s Raju & Co. which is an individual business entity, determine the tax liability. **[3]**
- (ii)** Briefly answer the following questions:-
- I. Is filing of return compulsory even if no taxable service is provided or received or no payments are received during a period (a particular half year)?
 - II. Whether a single return is sufficient when an assessee provides more than one service?
 - III. What are the returns a service tax assessee has to file? **[3]**
- 4. (a)** A commodity is imported into India from a country covered by a notification issued by the Central Government under section 9A of the Customs Tariff Act, 1975. Following particulars are made available:
CIF value of the consignment: US \$ 25,000
Quantity imported: 500 kgs.
Exchange rate applicable: ₹ 50 = US \$ 1
Basic customs duty : 20%.
Education and secondary and higher education cess as applicable.
As per the notification, the anti-dumping duty will be equal to the difference between the cost of commodity calculated @ US \$70 per kg. and the landed value of the commodity as imported.
Calculate the liability on account of normal duties, cess and the anti-dumping duty.
Assume that only 'Basic Customs Duty' (BCD) and education and secondary and higher education cess are payable. **[4]**
- (b)** HRC Co. imported a consignment of Computer Software and Manuals valued at US \$42 Lakhs and contended that the actual value was only US \$10 Lakhs while the balance amount represented License Fee for using the software at multiple locations, and as such Customs Duty is payable only on the actual value of US \$10 Lakhs. Is the contention raised by HRC Co. correct? Discuss. **[2]**
- (c)** Explain the administrative authorities of Foreign Trade Policy. **[4]**
- (d)** On 10-04-2014, M/s. Sheetal Packagings cleared plastic bottles whose assessable value was ₹ 20,00,000 and duty payable was ₹ 2,47,200. On 15-04-2014, the purchaser returned the plastic bottles to Sheetal Packagings. M/s. Sheetal Packaging took credit of duty of ₹ 2,47,200 on basis of invoice issued at the time of clearance of plastic bottles. The Department denies the credit on the ground that the duty on such goods has not been paid, as plastic bottles. The Department denies the credit on the ground that the duty on such goods has not been paid, as the due date for payment of duty falls on 06-05-2014. Discuss whether contention of department is correct. **[4]**

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5. (a) Compute the Advance Tax payable by R from the following estimated income submitted for the financial year 2014-15:

		₹
(1)	Income from Salary	5,80,000
(2)	Rent from house property (per annum)	3,60,000
(3)	Interest on Government securities	25,000
(4)	Interest on saving bank deposits	13,000
(5)	Agricultural Income	90,000
(6)	Contribution towards PPF	60,000

Tax deducted at source by the employer on salary is ₹ 29,870.

[5]

- (b) Raman purchased 200 shares on 1.4.1978 for ₹ 80 each. He was allotted 200 right shares on 1.5.1979 for ₹ 100 each. He was also allotted 400 bonus shares on 1.5.1980. On 4.5.1990, he was further allotted 800 right shares for ₹ 160 each. Again on 7.8.1996, he was allotted 800 bonus shares. The fair market value of these shares as on 1.4.1981 was ₹ 120 each. All the above shares are sold by Raman on 16.10.2014 for ₹ 1300 per share. Compute the capital gain for assessment year 2015-16 assuming:

(a) the above shares are sold without paying any securities transaction tax.

(b) the above share are sold after paying securities transaction tax was paid by Raman. **[5]**

- (c) Written down value of 4 machines at the beginning of the previous year 2014-15, forming part of a block of assets carrying 15% rate of depreciation was ₹ 5,00,000. The following 4 machines of the same block were bought:

Machines	Date of Purchase	Date when put to use	Cost(₹)
P	5.1.2014	14.1.2015	50,000
Q	5.4.2014	15.5.2014	1,00,000
R	15.5.2014	31.1.2015	2,00,000
S	15.11.2014	27.3.2015	1,50,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for ₹ 4,00,000.

(a) Calculate the depreciation for the assessment year 2015-16.

(b) What will be the answer if four machines were sold for ₹ 7,00,000 instead of ₹ 4,00,000? **[4]**

6. (a) The AO issued a notice u/s 142(1) on the Assessee on 24th December 2014, calling upon him to file Return of Income for AY 2014-2015. In response to the said notice, the Assessee furnished a Return of Loss and claimed carry forward of Business Loss and Unabsorbed Depreciation. State whether the Assessee would be entitled to carry forward as claimed in the return. **[3]**

- (b) An Assessing Officer entered a Hotel run by a person, in respect of whom he exercises jurisdiction, at 8 p.m. for the purpose of collecting information, which may be useful for the purposes of the Act. The Hotel is kept open for business every day between 9 a.m and 9 p.m. The Hotelier claims that the Assessing Officer could not enter the hotel after sunset. The Assessing Officer wants to take away with him the books of account kept at the Hotel.

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Examine the validity of the claim made by the Hotelier and the proposed action of the Assessing Officer. **[3]**

(c) Compute value and service tax from following sums received by M/s. A Ltd. (exclusive of service tax) (Ignore small service provider's exemption) -

- (1) Holding a dance programme, entry tickets whereof were sold for : ₹ 50 lakh;
- (2) Collections from a standalone ride set up in a mall: ₹ 11 lakh;
- (3) Running a video-parlour showing cinematographic films : ₹ 12 lakh;
- (4) Acting as an event manager for organisation of an entertainment event: ₹ 4 lakh;
- (5) Receipts from running a circus : ₹ 12 lakh;
- (6) Direct-to-Home Services on which it has paid entertainment tax under State laws: ₹ 20 lakhs **[4]**

(d) M/s. Auriga Pvt. Ltd. provides the following services relating to information technology software. Compute the value of taxable service and service tax payable thereon if all charges are exclusive of service tax. Ignore Small Service Providers exemption :

- (1) Development and Design of information technology software : ₹ 18 lakhs;
- (2) On-site development of software : ₹ 5 lakhs;
- (3) Sale of pre packaged software which is put on media : ₹ 22 lakhs;
- (4) Advice and consultancy on matters relating to information technology software : ₹ 8 lakhs;
- (5) License to use software was given to different clients : ₹ 28 lakhs;
- (6) On the basis of specification of P Ltd., a software was developed and delivered to it on media i.e. CD : ₹ 7 lakhs;
- (7) Up-gradation of information technology software : ₹ 9 lakhs;
- (8) Programming of software : ₹ 1 lakhs;
- (9) Enhancement and implementation of information technology software: ₹ 5 lakhs. **[4]**

Section B

Question no. 9 is compulsory and Answer any one Question from 7 & 8.

7. Answer the following Questions [3x5=15]

(a) In case of an assessee whose income includes exempted income arising out of Mutual Fund Investment. Since no bifurcation was made by assessee between total and exempt income, Assessing Officer disallowed total expenditure under section 14A. However, Tribunal held that in absence of rule 8D, no disallowances can be made under section 14A. Whether it could not be said that in absence of rule 8D, no disallowance can be made under section 14A by proportionate bifurcation of expenditure. **[5]**

(b) Whether the Tribunal was right in law in not deciding the issue on the merits and allowing the expenditure claimed by the assessee u/s.35D of the I. T. Act on the ground that such claim was

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not disallowed in earlier years and thereby allowing to perpetuate an error on the face of very clear and undisputed provision of law? [5]

(c) Whether the Tribunal has erred in law in holding that the assessee carried on activity for charitable purpose in terms of section 2(15) and directing the Commissioner of Income-tax to grant registration under section 12AA of the Act to the assessee society? [5]

8. Answer the following Questions [8+7=15]

(a) Whether sale of specified goods that do not physically bear a brand name from a branded sale outlet would amount to sale of banded goods and would disentitle the taxpayer from the benefit of SSI exemption notification. [8]

(b) Section 4A of the Central Excise Act, 1944 is applicable only in respect of those goods for which there is a requirement of declaration of MRP under the provisions of the Standards of Weights and Measures Act, 1976 and the rules made thereunder. [7]

9. Answer the following Questions [7+8 =15]

(a) Can winnings of prize money on unsold lottery tickets held by the distributor of lottery tickets be assessed as business income and be subject to normal rates of tax instead of the rates prescribed under section 115BB? [7]

(b) The assessee claimed the CENVAT credit on the duty paid on capital goods which were later destroyed by fire. The Insurance Company reimbursed the amount inclusive of excise duty. Is the CENVAT credit availed by the assessee required to be reversed? [8]