

PAPER – 16: Tax Management and Practice

PTP_Final_Syllabus 2012_Dec2015_Set 3

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
	APPLICATION How you are expected to apply your knowledge	Illustrate	Use an example to describe or explain something
		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
	ANALYSIS How you are expected to analyse the detail of what you have learned	Tabulate	Arrange in a table
		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
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Produce	Create or bring into existence
		Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Decide	To solve or conclude	
	Advise	Counsel, inform or notify	
	Evaluate	Appraise or assess the value of	
		Recommend	Propose a course of action

Paper 16 – Tax Management and Practice

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) Rohini Ltd is engaged in the business of growing and manufacturing tea in India. For the previous year 31.3.2014 its composite business profits before allowing deduction U/s 33AB are ₹60,00,000. On 1.09.2014 it deposited a sum of ₹11,00,000 in the Tea Development Account. During the previous year 2012-13 Rohini Ltd. had incurred a business loss of ₹14,00,000 which has been carried forward. On 25.01.2015, it withdraws ₹10 lakh which is utilised as under:
₹6,00,000 for purchase of non-depreciable asset as per the scheme specified
₹ 3,00,000 for purpose other than specified in the scheme.
₹1,00,000 was spent for the purpose of scheme on 05.04.2015.
- Compute the business income of Rohini Ltd. for assessment year 2014-15.
 - What are the tax consequences of money misutilised/not utilised?
 - What will be the consequence if the asset which was purchased for ₹6,00,000 is sold for ₹8,00,000 in April, 2015. **[6]**
- (b) Compute the capital gain in the following cases:
- P commenced a business on 15.04.1991. The said business is sold by P on 18.04.2014 and he received ₹12,00,000 towards goodwill.
 - What will be your answer in the above case, if P had acquired the goodwill for this business for a consideration of ₹2,00,000.
 - R has been living in a rented accommodation since May 1994 and he is paying a rent of ₹500 per month. The landlord got the house vacated from R on 16.07.2014 and paid a sum of ₹5,00,000 for vacating the house.
 - S is a Chartered Accountant practicing in Delhi since January 1983. He transfers the practice to another Chartered Accountant Y on 15.07.2014 and charges ₹5,00,000 towards goodwill.
 - R purchased tenancy right on 01.04.1979 for ₹1,60,000. The same was sold by him on 14.08.2014 for ₹20,00,000. Fair market value of tenancy right as on 01.04.1981 was ₹2,50,000. **[4]**

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- (c) From the following details, compute the Gross Total Income of A for the assessment year 2015 – 16:

	₹
1. Taxable income from salary	80,000
2. Income from house property house 'A' (let out)	(-) 95,000
House 'B' (Self – occupied , interest on borrowed money)	(-) 9,000
3. Short –term capital gain	12,000
4. Loss from long- term assets	25,000
5. Interest on securities (gross)	10,000

[4]

- (2)(a) Determine the Taxable Turnover, Input Tax Credit and net VAT payable by a Works Contractor from the details given below on the assumption that the Contractor maintains sufficient records to quantify the labour charges. Output VAT at 12.5%:

Particulars	(₹ in Lakhs)
Total Contract Price (excluding VAT)	105
Labour Charges paid for execution of the contract	40
Cost of Consumables used not involving transfer of property in goods	5
Material purchased and used for the Contract, taxable at 12.5% VAT (VAT included)	45

Contractor also purchased a Plant for use in the contract for ₹ 10.4 lakhs. In the VAT Invoice, VAT was charged at 4% separately, and the said amount of ₹ 10.4 Lakhs is inclusive of VAT.

[3]

- (b) Define 'Dealer' as per CST Act. Name the persons who are included in the definition of 'Dealer'.

[3]

- (c) Determine the value on which Excise duty is payable in the following instances –

- A. P Ltd. sold goods to Q Ltd. at ₹ 100 per unit. In turn, Q Ltd. sold the same to R Ltd. at a value of ₹ 110 per unit. P Ltd. and Q Ltd. are related, whereas Q Ltd. and R Ltd. are unrelated,
- B. P Ltd. & Q Ltd. are interconnected undertakings u/s 2(g) of MRTP Act. P Ltd. sells goods to Q Ltd. at value of ₹ 100 per unit and to R Ltd. at ₹ 110 per unit, who is an independent buyer.
- C. P Ltd. sells goods to Q Ltd. at a value of ₹ 100 per unit. The said goods are captively consumed by Q Ltd. in its factory. P Ltd and Q Ltd. are unrelated. The cost of production of the goods to P Ltd. is ₹ 120 per unit.
- D. P Ltd. sells Motor Spirit to Q Ltd. at ₹ 31 per litre. But Motor Spirit has administrated price of ₹ 30 per litre, fixed by the Central Government.

All the price mentioned above are exclusive of Excise Duty.

[3]

- (d) M/s. Ram Ltd., a manufacturer of various excisable goods, furnishes you with the following information for the year ended 31st March, 2015. From the under mentioned information, determine whether the company will be entitled SSI exemption under Notification No. 8/2003, dated 01-03-2003 during the financial year 2015-16:

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- (1) Clearances of finished excisable goods covered under Section 4A of Central Excise Act [Notified abatement 20%] RSP of goods ₹ 120 lakhs;
- (2) Value of clearances of inputs as such under Rule 3(5) of Cenvat Credit Rules, 2004 on which Cenvat Credit has been taken ₹ 20 lakhs;
- (3) Value of clearances of excisable goods bearing brand name of foreign company which is assigned in favour of Ram Ltd. ₹ 110 lakhs;
- (4) Value of clearance as licensee of goods carrying the brand name of another person upon full payment of duty = ₹ 200 lakhs;
- (5) Value of clearance of waste and scrap which were exempt from duty = ₹ 30 lakhs;
- (6) Value of clearances of plastic containers for packing of pickles produced by them under brand name of Quick Pickles. Quick pickles use these plastic containers ₹30,00,000;
- (7) Clearances of other excisable goods ₹ 134 lakhs. **[5]**

(3)(a) "Mingle Engineering Ltd", a Korean Non Resident Company, had entered into an agreement for designing, fabricating, hook-up and commissioning of a platform in Bombay High with "Crude Oil India Ltd" an Indian Company. The agreement entered into was in two parts, one for the value to be charged for fabrication of structure in Korea for ₹20 Crores (having element of Profit in it of ₹ 2 Crores) and other for the Installation and Commissioning of the structure in Bombay High for ₹15 Crores (having element of Profit in it of ₹1.5 Crores). The Korean Company will also be setting up an Office in India for the activity of installation and commissioning of the platform which is likely to be completed in 9 months.

On these facts, you are required to answer -

- (i) Whether the office of Mingle Engineering Ltd. to be opened in India be considered as its "Permanent Establishment"/ "Business Connection"?
- (ii) The amount of profits, if any, of the Non-Resident Company subject to tax in India.
- (iii) The Income subject to Tax in India, when the ALP of the fabrications of structure is determined at ₹ 19 Crores. **[5]**

(b) What are the modes of transfer of Intangible Assets under Internal transactions? **[2]**

(c) Mr. Pal of US sends US\$ 1,000 to his father in India as follows —

- ◆ Mr. Pal pays US\$ 1,050 to Bank of America (US\$ 1,000 + US\$ 50 as charges)
- ◆ Bank of America pays US\$ 1,030 to Canara Bank (India) (US\$ 30 as charges)
- ◆ Canara Bank pays US\$ 1,005 to M/s. Shan (US\$ 5 as charges).
- ◆ M/s. Shan pays ₹ 59,900 (US\$ 1,000 × ₹ 60 per USD less ₹ 100 towards charges) to Mr. Pal's father. RBI rate has all through been ₹ 61 per US\$.

Calculate the taxability of this chain. **[4]**

(d) Mr. Ravi has provided the following services during the year 2014-15. Determine whether he is eligible for threshold exemption during the year 2015-16:

- (1) Services provided outside India : ₹ 1 lakh ;
- (2) Services (falling under negative list): ₹ 2 lakh ;
- (3) Services fully exempt under other notifications : ₹ 3 lakh ;

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- (4) Declared Services (Sum charged ₹ 4 lakh, but, value determined as per the valuation rules is 60% i.e., ₹ 2,40,000) ;
- (5) Services (where amount charged is ₹ 60,000, but, after abatement, value is ₹ 20,000); and
- (6) Other services provided: ₹ 7 lakh (including ₹ 1 lakh towards services where whole of the service tax was payable by the service recipient) **[3]**

(4)(a) M/s. Rani & Co. imported goods declaring transaction value of ₹ 500 per unit, which was rejected. Rules 4 and 5 of Import Valuation Rules are found inapplicable. M/s. Rani & Co. furnishes you the following data and requests you to compute the value of imported goods as per Rule 7:

1. Sale Price in India (after processing, etc.): ₹ 1,125 p.u. (inclusive of VAT @ 12.5%);
2. Commission to Indian agent on above sales: 5% of sale price (before VAT);
3. Cost of processing after import: ₹ 55 p.u.
4. Freight and Insurance from Port of import onwards: ₹ 40 and ₹ 10 p.u.
5. General Expenses and Overheads in India are absorbed at: ₹ 110 p.u.
6. Net profit margin (normally earned by others also): 10% of sale price (before VAT)
7. Rate of Basis Customs Duty: 10% + 3% EC/SHEC (no other duty leviable).
8. Handling charges at customs port at time of import: ₹ 45 p.u.

Ignore Cenvat Credit/Input Credit related aspects. **[6]**

(b) State the procedures for duty drawback on Re-Export as per Sec. 74 of the Customs Act, 1962. **[4]**

(c) Mention few incentives which are being offered to SEZ units to attract investments in those areas. **[4]**

(5)(a) Chakarvarti is a Cost Accountant drawing following salary and allowances:

- | | (₹) |
|---|-------------|
| • Basic pay | 20,000 p.m. |
| • Dearness allowance | 1,000 p.m. |
| • City Compensatory allowance | 100 p.m. |
| • House Rent allowance | 750 p.m. |
| • Reimbursement of cost of travel and course fee to attend a seminar at Ooty | 5,500 |
| • Bonus at 20% of salary including Dearness allowance is also received. He is given a motor car (below 1.6 ltr,) and is entitled to use it for both office and private purposes. His employer also pays ₹400 p.a. on a Personal Accident Insurance Policy consistent with its policy of insuring all its employees. Deductions have been made from his salary as follows: | |
| – Contribution to a recognized provident fund ₹ 1,000 p.m. and contribution to an approved superannuation fund ₹ 400 p.m. | |
| There are matching contributions for both by the employer. | |
| • Chakarvarti was in receipt of the following from a partnership firm where he was sharing one-third of the profits: | |
| • ₹ 45,000 as share of profits. | |

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- ₹ 30,000 as salary from the firm.
- ₹ 20,000 as commission there from.
- He was a member of an association of persons from where he was paid ₹ 50,000 as share of profits. The association is chargeable to tax at the maximum marginal rate of tax.
- He donated ₹ 25,000 to National Foundation for Communal Harmony.

Chakarvarti's minor son earned ₹35,000 by way of interest on public deposit in a company.

- Chakarvarti received ₹ 700 as interest in savings bank account in a (non-nationalised) scheduled bank. He pays ₹ 3,200 p.a. as life insurance premium.
- Chakarvarti is living in his own house. Annual value as fixed by Municipal Corporation is ₹ 7,200, while half year's tax is ₹ 900. He pays ₹ 100 as insurance on this property besides ₹ 3,600 as interest on ₹30,000 on mortgage, of this property. The borrowing was partly (₹ 20,000) for acquiring the house and the balance (₹10,000) for purchasing a home air-conditioner for the house.
- Chakarvarti received a gift valuing ₹ 4,900 on the occasion of the silver jubilee of the company. It is stated that a uniform amount was paid to each employee on this occasion.

Compute the assessee's total income for the assessment year 2015 – 16. **[6]**

- (b)** The estimated Gross Total Income of R is ₹8,45,000 which includes ₹1,00,000 on account of LTCG earned on 16.09.2014. Compute the Advance Tax Payable R, assuming ₹11,000 has been deducted at source during the financial year 2014-15. **[4]**

- (c)** M, has computed his Gross Total Income for the assessment year 2015-16 which amounted to ₹4,70,000. It includes ₹3,70,000 on account of long-term capital gain. He has deposited ₹ 1,20,000 in a PPF during the previous year. Compute the tax payable by M, a resident in India assuming that (i) he is less than 60 years of age; (ii) more than 60 years of age. **[4]**

- (6)(a)** Mr. Rajesh carries on his own business. For the year ending 31.03.2015 his Trading/Profit and Loss Account was as follows: -

	₹		₹
Opening stock	2,20,000	Sales	1,62,89,000
Purchases	1,36,09,000	Closing stock	2,52,000
Salaries	2,56,000	Interest on Jay Co. Ltd. Debentures	2,000
Rent	5,61,000	Dividend from UTI	2,000
Bonus	3,000	Discount received	12,000
Printing, postage and stationery	4,000	Race winning (Gross)	12,000
Miscellaneous expenses	4,000		
Advertisement expenses	22,000		
Drawings	12,000		
LIC premium	5,000		
Car expenses:			
Drivers Salary	6,000		
Petrol & repairs	12,000		
Property tax	4,000		
Cost of NSC (VIII series)	6,000		
Net profit	18,45,000		
	1,65,69,000		1,65,69,000

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Additional information

- (a) Advertisement expenses included cost of 20 gift packs of ₹1,100 each presented to leading esteemed customers on occasion of Diwali.
- (b) The car was used both for business and personal purposes. 2/3rd is for business purposes.
- (c) The property tax of ₹4,000 was in respect of his self-occupied house whose value is ₹18,000.
- (d) Rent paid includes ₹4,00,000 from which tax was deducted at source on 31-03-2015 but the same was deposited on 16-10-2015.

Compute the Gross Total Income of Mr. Rajesh for assessment year 2015 – 16 showing the incomes under various heads. **[6]**

- (b) The following is the income of Shri Sudhir Kumar for the previous year 2014 – 15:

	₹
(a) Profits from business in Iran received in India.	5,00,000
(b) Income from house property in Iran received in India.	1,20,000
(c) Income from house property in Sri Lanka deposited in a bank there.	1,80,000
(d) Profits of business established in Sri Lanka deposited in a bank there, this business is controlled in India (out of ₹2,00,000 a sum of ₹1,00,000 is remitted in India).	2,00,000
(e) Income from profession in India but received in England	2,40,000
(f) Profits earned from business in Kanpur.	1,60,000
(g) Income from agriculture in England, it is all spent on the education of children in London.	2,70,000

From the above particulars ascertain the taxable income of Shri Sudhir Kumar for the previous year 2014-15, if Shri (i) a resident and ordinarily resident, (ii) not ordinarily resident, and (iii) a non-resident. **[4]**

- (c) S Ltd. is a building contractor and has agreed to provide works contract services by way of construction (notified under Point of Taxation [POT] Rules as continuous supply of services). The terms of payment of total ₹ 100 lakhs are finalized as follows:

Installment	Amount	Event on which consideration payable	Date of completion of such event	Date of Invoice (DoI)	Date of Payment (DoP)
1	15%	Signing of agreement	1 Aug 14	5 Aug 14	4 Aug 14
2	45%	Construction of floor	1 Nov 14	10 Nov 14	15 Nov 14
3	30%	Completion of finishing	1 Jan 15	5 Feb 15	10 Feb 15
4	10%	Handing over of possession	5 Mar 15	10 Mar 15	10 Mar 15

Determine the Point of Taxation. **[4]**

Section B

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

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

- (a) What is the nature of incentive received under the scheme formulated by the Central Government for recoument of capital employed and repayment of loan taken for setting up/expansion of a sugar factory – Capital or Revenue? **[5]**
- (b) What is the nature of liquidated damages received by a company from the supplier of plant for failure to supply machinery to the company within the stipulated time – a capital receipt or a revenue receipt? **[5]**
- (c) 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 not disallowed in earlier years and thereby allowing to perpetuate an error on the face of very clear and undisputed provision of law? **[5]**

8. Answer the following Questions [5x3=15]

- (a) Whether inputs can be confiscated under rule 15 of the CENVAT Credit Rules, 2004 on the ground of non-accountal of inputs in the records maintained in computer? **[5]**
- (b) Whether time-limit under section 11A of the Central Excise Act, 1944 is applicable to recovery of dues under compounded levy scheme? **[5]**
- (c) What are the conditions and the circumstances that would attract the imposition of penalty under section 11AC of the Central Excise Act, 1944? **[5]**

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

- (a) Can the Assessing Officer issue notice under section 154 to rectify a mistake apparent from record in the intimation under section 143(1), after issue of a valid notice under section 143(2)? **[7]**
- (b) Whether the smuggled goods can be re-exported from the customs area without formally getting them release from confiscation? **[8]**