

Paper 16 – Tax Management and Practice

PTP_Final_Syllabus 2012_Jun2015_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 B | KNOWLEDGE | List | Make a list of |
| | What you are expected to know | State | Express, fully or clearly, the details/facts |
| | | Define | Give the exact meaning of |
| | | COMPREHENSION | Describe |
| | What you are expected to understand | 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 | Apply |
| | How you are expected to apply your knowledge | 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 | Analyse | Examine in detail the structure of |
| | How you are expected to analyse the detail of what you have learned | 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 | |

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) Calculation of Income Tax in the case of an employee below the age of sixty years having a handicapped dependent (With valid PAN furnished to employer), for A.Y. 2015-2016:

| S. No. | Particulars | ₹ |
|--------|--|----------|
| 1 | Gross Salary | 4,20,000 |
| 2 | Amount spent on treatment of a dependant, being person with disability (but not severe disability) | 7000 |
| 3 | Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability(but not severe disability) | 50,000 |
| 4 | GPF Contribution | 25,000 |
| 5 | LIP Paid | 10,000 |

[5]

(b) Mr. Ashim submits the following particulars of his income for the assessment year 2015-2016

| | (₹) |
|---|----------|
| Income (other than income from business & profession) | 4,00,000 |
| Dividend from Indian Company | 1,000 |
| Interest on Bank Deposit | 2,000 |
| Life Insurance Premium paid | 6,000 |
| Donation to Jawahar Lal Nehru Memorial Fund | 15,000 |
| Donation to Prime Minister's National Relief Fund | 16,000 |
| Donation to a Public Charitable Institution | 24,000 |
| Donation to a University for statistical research approved U/s 35(1)(iii) | 5,000 |

Determine the net income and tax liability for the assessment year 2015-2016.

[9]

PTP_Final_Syllabus 2012_Jun2015_Set 3

2. (a) Determine the assessable value for purpose of excise duty under the Central Excise Act, 1944 in the following cases:

- (i) An assessee sells his excisable goods for ₹ 120 per piece and does not charge any duty of excise in his invoice. Subsequently it was found that the goods were not exempted from excise duty but were liable at 20% advalorem.
- (ii) Certain excisable goods were sold for ₹ 120 per piece and 20% advalorem is the rate of excise duty. Subsequently it was found that the price cum duty was in fact ₹ 140 per piece as the assessee had collected ₹ 20 per piece separately.
- (iii) The cum duty price per piece was ₹120 and the assessee had paid duty at 20% advalorem. Subsequently it was found that the rate of duty was 30% advalorem and the assessee had not collected anything over and above ₹ 120 per piece. **[8]**

(b) Give the consequences regarding excise duty liability if goods manufactured by EOU (Export Oriented unit) & brought to DTA (Domestic Tariff Area). **[6]**

3. (a) State briefly with reasons whether credit under the CENVAT Credit Rules, 2004 would be available in the following cases:

- (i) Inputs are pilfered from the store-room.
- (ii) Final product is cleared in durable and returnable packing material.
- (iii) An input becomes a waste and is sold as scrap.
- (iv) Inputs used in trial runs. **[7]**

(b) The Net Profit of XYZ Ltd. for the year ended March 31, 2015 amounted to ₹ 7,50,000 after debiting/crediting the following items:

| Particulars | ₹ |
|--|----------|
| Provision for bonus (paid on November 15,2015) | 30,000 |
| Provision for commission to employees (paid on December 1,2014) | 76,000 |
| Payment of annual installment under an approved agreement to a foreign collaborator for technical knowhow | 1,00,000 |
| Legal expenses incurred for issue of capital | 30,000 |
| Interest paid on unpaid purchase price of business assets | 15,000 |
| Cost of goods purchased from ABC Co. Ltd. which was paid by bearer cheque | 50,000 |
| Sales include sale of gold not being stock in trade (indexed cost of acquisition ₹ 1,70,000) | 2,00,000 |
| Rent received from Staff for the quarters allotted | 75,000 |
| Rent received for commercial property rented to a foreign bank | 1,50,000 |
| Expenditure on scientific research include cost of land ₹ 30,000 and ₹ 20,000 paid to approved national laboratory. Land revenue in connection with worker's | 12,000 |

PTP_Final_Syllabus 2012_Jun2015_Set 3

| | |
|---|--|
| quarters and let-out commercial property (paid on June 15,2014) | |
|---|--|

Calculate Taxable Income of the company for the Assessment Year 2015-16. The answer should clearly indicate the basis for treatment of each item. [7]

4. (a) Compute taxable value and service tax from following sums received by M/s. Sen Medical Centre (exclusive of service tax) (Ignore small service provider's exemption) -

- (1) Testing (with Transmission of medical samples between laboratories): ₹ 6 lakh ;
- (2) Medicines consumed as a part of health care services : ₹ 5 lakh ;
- (3) Preventive health care services : ₹4 lakh ;
- (4) Treatment along with Facilities provided such as TV, AC, room rent, meal to patient (as a part of package): ₹33 lakh ;
- (5) Genetic affinity examination for determining biological father : ₹4 lakh ;
- (6) Hair transplant services due to injury in a fire accident: ₹7 lakh ;
- (7) Cosmetic surgery of a film star : ₹16 lakh ;
- (8) Conducting medical examinations of individuals : ₹1 lakh [5]

(b) CD Ltd. Carried out following works, all of which are leviable to sales-tax/VAT as transfer of property involved in the execution of works contract (the sum charged given below are exclusive of all taxes) -

- (1) New constructions: ₹ 50 lakh;
- (2) Additions and alterations to damaged structures on land to make them workable: ₹ 25 lakhs;
- (3) Supply along with erection, commissioning and installation of plants: ₹ 72 lakhs;
- (4) Maintenance and repair of goods: ₹ 40 lakhs;
- (5) Maintenance and repair of immovable property: ₹ 30 lakhs;

Compute taxable value and service tax thereon. [5]

(c) "Duty drawback rates are of following types – (A) All Industry Rate (B) Brand Rate and (C) Special Brand Rate." — Describe. [4]

5. (a) The book profits of Sky Heights Ltd., for the previous year 2014-15 computed in accordance with Section 115JB is ₹ 37.50 Lakhs. If the total income computed for the same period as per the provisions of the Income Tax Act, 1961 is ₹ 7.50 Lakhs, compute the tax payable by the company in the Assessment Year 2015-16. Is Sky Heights Ltd. eligible for any tax credit? If so, for how many years, shall Sky Heights Ltd. avail such tax credit? [5]

(b) Jain House Constructions Ltd. furnishes the following particulars of its wealth for the valuation date as on 31.03.2015:

| | Particulars | ₹ in lacs |
|-------|--|-----------|
| (i) | Land in urban area (held as stock in trade since 1999) | 70 |
| (ii) | Motor cars (including one imported car worth ₹35 lacs used for hiring) | 45 |
| (iii) | 125 acres of land acquired at Ghaziabad township on 15.5.2013 for construction of commercial complex | 150 |

PTP_Final_Syllabus 2012_Jun2015_Set 3

| | | |
|--------------|--|-----|
| (iv) | Two Residential flats of 950 sq feet each provided to 2 employees (salary of one employee exceeds ₹5 lacs per annum) | 30 |
| (v) | Farm house of 8 acres at a remote village | 7 |
| (vi) | Cash in hand as per cash book | 5 |
| Liabilities: | | |
| (i) | Loan for purchase of land at urban area | 50 |
| (ii) | Loan for purchase of land at Ghaziabad | 100 |
| (iii) | Wealth-tax liability for A.Y. 2015-16 | 10 |
| (iv) | Loan for construction of residential flats | 10 |

Compute the net wealth of the company for the A. Y. 2015 – 2016.

[5]

(c) The transfer price adopted for an international transaction of sale of goods by an Indian Company during the financial year 2014-15 is ₹ 35 lakhs, whilst the Arm's Length Price determined using the most appropriate method are ₹ 32 Lakhs and ₹ 42 lakhs. With reference to transfer pricing provisions, discuss whether any adjustment is required. The rate of permissible variation prescribed by the Central Government may be assumed to be 2% of the transfer price for this class of international transaction.

[4]

6. (a) ZX Ltd. is engaged in the business of manufacture of computer hardware since 2006. During the previous year 2014-15, the following assets acquired put to use:

(₹ 000)

| Particulars | Block 1 ₹ | Block 2 ₹ | Block 3 ₹ |
|--|--------------|--------------|--------------|
| Rate Of Depreciation | 15% | 30% | 60% |
| No. of assets in the block | 10 | 10 | 15 |
| Depreciated value of the block on 1.4.14 | 2,800 | 3,500 | 1,500 |
| Addition of plant (during P.Y. 2014-15) | | | |
| Plant P | 5,700 | — | — |
| Plant Q | — | 400 | — |
| Plant R | — | — | 1,700 |
| Sale of old plants | 500 | 2,870 | 5,200 |

Plants P, Q and R are aquared during May 2014 and put to use during September 2014. However, plant B is put to use in the last week of March 2015.

Find out the amount of depreciation, addition depreciation and capital Gain.

[7]

(b) Determine the cost of production on manufacture of the under-mentioned product for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation Rules, 2000 (amount in ₹)

| | |
|-------------------------|--------|
| Direct material | 11,648 |
| Direct wages & salaries | 8,400 |

PTP_Final_Syllabus 2012_Jun2015_Set 3

| | |
|--------------------------------|-------|
| Works overheads | 6,200 |
| Quality control costs | 3,500 |
| Research and development costs | 2,400 |
| Administrative overheads | 4,100 |
| Selling and distribution costs | 1,600 |
| Realizable value of scrap | 1,200 |

The Administrative Overheads are in relation to production activities.
Material cost includes Excise duty ₹ 1,648.

[7]

Section B

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

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

- (a) Mr. Dutta, an Indian resident, won a Tata Indica worth ₹ 6 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 Tata Indica (the lottery prize) to Mr. Dutta.
- (b) Mr. Rupesh k, an Indian resident, is a practicing Cost and Management Accountant. He was paid ₹90,000 on 1st September, 2014 towards fees for his professional services, without deducting tax at source. Later on, a further sum of ₹1,00,000, was due to him on 1st March, 2015, from which tax of ₹20,000 was deducted at source. The tax so deducted, was deposited on 26th June, 2015. Compute interest payable by the deductor under Section 201(1A) of the Income Tax Act, 1961.
- (c) Can the second proviso to section 32(1) be applied to restrict the additional depreciation under section 32(1)(iia) to 50%, if the new plant and machinery was put to use for less than 180 days during the previous year?

8. Answer the following Questions [3 × 5 =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?
- (b) Whether welding electrodes used in repairs/ maintenance of plant and machinery can be considered as input' as defined under rule 2(g) of the erstwhile CENVAT Credit Rules, 2002 [now rule 2(k) of the CENVAT Credit Rules, 2004]?

(c) Whether time-limit under section 11A of the Central Excise Act, 1944 is applicable to recovery of dues under compounded levy scheme?

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

(a) Mr. Shah had sold a commercial property, which was a long term asset and invested the same in purchase and construction of a flat in a apartment in Mumbai, within the one year of sale of asset and claimed deduction u/s 54F of Income Tax Act, but later the builder has not completed the possession of the apartment within 3 years and the apartment remained under construction even after 3 years. The period of 3 years is lapsed without any mistake of Mr. Shah now? Will Mr. Shah be liable to tax on the capital gains derived from the sale of the commercial property (or) Will Mr. Shah be freed from the liability of capital gains tax? Discuss allowability of exemption u/s. 54F if builder does not complete construction of house within three Years?

(b) Whether the transfer of goods as a contribution for capital be considered as Sale?