

PAPER – 16: Tax Management & Practice

PTP_Final_Syllabus 2012_June2016_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
	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 asses the value of	
		Recommend	Propose a course of action

Paper 16 – Tax Management & 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 2016-17, unless stated otherwise.

Section A

Answer any five Questions

Question 1.

(a) Compute the tax Liability and the Marginal relief in the following situations, for resident assessee with taxable Income as under for Previous year 2015 – 2016:

Name of Individual	A	B	C
Age of Assessee	45 years	65 years	84 years
Total Income	₹ 1.04 Crores	₹ 1.04 Crores	₹ 1.04 Crores

[5]

(b) Ms. Vivitha paid a sum of \$ 5,000 to Mr. Kulasekhara, a Management Consultant practicing in Colombo, specializing in Project Financing. The payment was made in Colombo. Mr. Kulasekhara is Non-Resident. The Consultancy related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India? [3]

(c) Mr. Ravi, an IAS Officer, was posted to USA by the Government of India on 11.07.2015 for a period of 3 years, He was paid salary of ₹ 3 Lakhs for the period 01.04.2015 to 01.07.2015 and of ₹ 12 Lakhs for period upto 31.03.2016. He left India for USA in the night of 10.07.2015 and did not come even for a day until 31.03.2016. Examine the taxability of the above Income. [2]

(d) Sea Port Shipping Line, a Non-Resident Foreign Company operating its ships on the Indian Ports during the Previous Year ended on 31.03.2016 had collected freight of ₹100 Lakhs, Demurrages of ₹20 Lakhs and Handling Charges of ₹10 Lakhs inclusive of an amount of ₹ 40 Lakhs collected in US Dollars for the cargo booked for JNPT (Mumbai) from Antwerp. The expenses of operating its fleet during the year for the Indian Ports were ₹110 Lakhs. The Company denies its liability to tax in India. Examine. [4]

Question 2.

(a) Gold Constructions undertakes works contracts and maintains sufficient records to quantify the labour and other service charges. From the details given below, calculate the taxable turnover, input tax credit and net vat payable under the State VAT Law –

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- (i) Total contract price (excluding VAT) ₹ 1,80,00,000
- (ii) Materials purchased and used for the contract taxable at 12.5% VAT (inclusive of VAT) ₹33,75,000.
- (iii) Labour charges paid for execution of the contract ₹ 40,00,000.
- (iv) Other service charges paid for the execution of the contract ₹ 20,00,000.
- (v) Cost of consumables used not involving transfer of property in goods ₹10,00,000.

Gold Constructions also purchased a plant for use in the contract for ₹20,80,000 (inclusive of VAT). In the VAT invoice relating to the same, VAT was charged at 4% separately. Assume 100% input tax credit is available on capital goods immediately. Make suitable assumptions where required and show the workings. **[6]**

(b) State the important features of the Foreign Trade Policy. **[4]**

(c) A Small Scale Industrial unit (SSI) is required to pay the following Central Excise duties by October 5, 2015 for clearances effected from its factory in respect of final products manufactured during the month of September, 2015:

Basic Excise Duty (B.E.D.) ₹ 56,000

National Calamity Contingent Duty (N.C.C.D) ₹ 1,000

- Balance available as credit at the beginning September, 2015 were: B.E.D.: ₹25,000, N.C.C.D. ₹ 2,000
- No inputs were received during the month. However, certain inputs were received on October 1, 2015 on which total duty paid by the suppliers of inputs was : B.E.D.: ₹16,000
- Excise duty paid on Capital goods received during the month was as follows: B.E.D.: ₹20,000.

For the month of September, 2015 you are required to determine:

1. The credit available for utilization;
2. The permissible extent to which such credit available may be utilized against payment of B.E.D., N.C.C.D.; and
3. The B.E.D. payable through account current (P.L.A.) **[4]**

Question 3.

(a) Speedy Motors Ltd, an Indian Company, declared Income of ₹20 Crores computed in accordance with Chapter IV-D but before making any adjustments in respect of the following transactions for the year ended on 31.03.2016:

- A. Royalty of \$50,00,000 was paid to Fista Ltd. for use of technical know-how in the manufacturing of van. However, Fista Ltd had provided the same know-how to another Indian Company for \$ 45,00,000. The manufacture of Van by Speedy Motors Ltd is wholly dependent on the use of technical know-how, in respect of which Fista Ltd has exclusive rights.
- B. Loan of Euro 5 Crores with interest @ 10% p.a. advanced by Hughes Ltd, a French Company, was outstanding on 31.03.2016. The Total Book Value of assets of Speedy Motors Ltd on the date was ₹500 Crores. Hughes Ltd had also advanced similar loan to another Indian Company @ 8% p.a. Total Interest paid for the year was EURO 0.5 Crore.
- C. 7,000 Vans sold to Hitech Ltd which holds 41% Shares in Speedy Motors Ltd at a price which is less by \$ 100 each van than the price charged from Bento Ltd.

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Briefly explain the provisions of the Act affecting all these transactions and compute Taxable Income of Speedy Motors Ltd for A.Y.2016-2017 assuming that the value of 1\$ and of 1 EURO was ₹65 and ₹ 75, respectively, throughout the year. [5]

(b) What are the basis of selection of Most Appropriate Method? [2]

(c) A builder has entered into agreement to sale a flat (carpet area 1800 sq ft to customer. The breakup of his charges are as follows:

- (1) Price of flat (including apportioned value of cost of land) : ₹ 50,00,000
- (2) Prime Location Charges (PLC) (extra charges for getting sea view) : ₹ 2,50,000
- (3) Charges for providing space for covered parking : ₹ 1,20,000
- (4) Club membership fee (for club to be formed after construction is complete): ₹ 1,60,000
- (5) Charges for carrying out modifications as required by customer : ₹ 2,00,000
- (6) Stamp duty for executing sale deed on actual basis : ₹ 4,00,000
- (7) Documentation Charges : ₹ 80,000
- (8) Maintenance charges to maintain building till the residential complex is handed over to Housing Society of members: ₹ 2,00,000.

The builder received payment of ₹ 15,00,000 before construction was complete and balance amount was received after obtaining completion certificate from the Corporation. The builder has availed services for construction of flat on which service tax of ₹ 40,000 had been paid. He had used cement, steel and building material during construction, on which excise duty paid was ₹ 50,000. Compute the service tax payable. [7]

Question 4.

(a)(i) A bill of entry was presented on 1st November, 2015. The vessel carrying goods arrived on 11th November, 2015. Entry inwards was granted on 12th November, 2015 and the bill of entry was assessed on that date and was also returned to the importer for payment of duty on that date. The duty amounting to ₹ 2,40,000 was paid by the importer on 20th November, 2015. Calculate the amount of interest payable under section 47(2) of the Customs Act, 1962, given that there were two holidays on 14th and 15th November, 2015. [3]

(a)(ii) After visiting USA, Mrs. & Mr. Z brought to India a laptop computer valued at ₹ 75,000, personal effects valued at ₹ 85,000 and a personal computer for ₹ 50,000. Calculate the customs duty payable? [3]

(b)(i) An excisable product is covered under the Provisions of the Legal Metrology Act, 2009 and falls in the category of 'specified goods' subject to excise duty on the basis of retail sale price. Following particulars are made available: MRP printed on the package is ₹ 10,500 per unit. The price is inclusive of excise duty of 12.5%. Compute the assessable value, and excise duty payable if it is eligible for an abatement of 38%. [3]

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

Particulars	No. of Units	Price at Factory Per Unit	Price at Depot per Unit	Rate of Duty Ad valorem
(i) Goods transferred from factory to depot on 15 th March, 2016	1000	₹ 200	₹ 220	12.5%

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(ii) Goods actually sold at depot on 25 th March, 2016	750	₹ 225	₹ 250	8%
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[3]

(b)(iii) A particular Central Excise Notification grants full exemption to all products of Printing Industry including Newspapers and printed Periodicals. A manufacturer, who is Manufacturing Cardboard Cartons and subsequently doing varied printing on them, claims the benefit of the said Exemption Notification on the ground that every material on which, printing work is done becomes a product of the Printing Industry. Is the claim of the Manufacturer Justified? Give reasons. [2]

Question 5.

(a) The Assessment was made u/s 143(1) for AY 2011-2012. The Assessee has received a notice u/s 148 on 06.04.2014 for re-opening of assessment. Can the Assessee challenge the legality of notice on the ground of change of opinion? [3]

(b) X Ltd transferred its fertilizers business to a new Company Y Ltd by way of demerger, w.e.f appointed date as 01.04.2015 after satisfying the conditions of Demerger. Further information given -

- 1) WDV of entire block of Plant & Machinery held by "X" Ltd as on 01.04.2015 is ₹ 100 Crores.
- 2) Out of the above, WDV of Block of Plant and Machinery of Fertilizer Division is ₹70 Crores.
- 3) X Ltd has Unabsorbed Depreciation of ₹50 Lakhs as at 31.03.2015.

On the above facts, you are required to explain the provisions of the Income Tax Act as to –

- (i) Allowability of Depreciation, post-merger for X Ltd and Y Ltd as at 31.03.2016 duly calculating the depreciation.
- (ii) State how the Unabsorbed Depreciation has to be dealt with for the Assessment Year 2016-2017. [5]

(c) Tani purchased a Land at a Cost of ₹10 Lakhs in the Financial Year 1983-1984 and held the same as her Capital Asset till 31.03.2012. Tani started her Real Estate Business on 01.04.2012 and converted the said Land into Stock-in-Trade of her business on the said date, when the Fair Market Value of the Land was ₹ 150 Lakhs.

She Constructed 20 flats of equal size, quality and dimension. Cost of construction of each flat is ₹8 Lakhs. Construction was completed in December, 2015. She sold 15 flats at ₹20 Lakhs per flat between January 2016 and March 2016. Remaining 5 flats were held in stock as on 31.03.2016. She invested ₹50 Lakhs in Bonds issued by RECL on 31.03.2016.

Compute the amount of chargeable Capital Gain and Business Income in the hands of Tani arising from above transactions for Assessment Year 2016-2017 indicating clearly the reasons for treatment for each item. CII: FY 1983-1984 - 116, FY 2012-2013 - 852, FY 2015-2016 - 1081. [6]

Question 6.

(a)(i) A Charitable Institution registered u/s 12A of the Income Tax Act, 1961 filed in Form No. 10 for seeking permission to accumulate unapplied Income u/s 11(2) of the Act for the objects of the Institution and submitted it to the Assessing Officer along with the resolution for accumulation. The A.O found that the objects for which accumulation was sought were not particularized in as much as they covered the entire range of objects of the Institution. Can the Assessing Officer deny the benefit of accumulation in such case? **[2]**

(a)(ii) Mahesh, a Resident and Ordinarily resident in India and having a House Property and a Bank Account outside India is not required to file Return of Income for AY 2016-17, if his Total Income is below the maximum amount not liable to tax. Is this statement correct? **[2]**

(a)(iii) Smarajit, whose Income consists of Salary Income only, files his return of income for assessment year 2013-14 on 02.04.2015. Is the return a valid return? **[2]**

(a)(iv) What are the circumstances under which an assessee is said to be "assessee in default"? **[2]**

(b)(i) A Ltd. have received services from a foreign company. Under the agreement, they are liable to pay know-how charges tax free. TDS @ 40% is liable to be made under Income-tax law. The sum paid tax-free: ₹ 588; rate of TDS: 41.2% and service tax: 14.5%. Compute the amount of service tax payable. **[3]**

(b)(ii) Barin Sugar Mills is engaged in the manufacture of sugar. Government of India had issued directions under the Sugar Control Order for sugar companies to maintain buffer stock of sugar of certain quantity for a specified period. In order to compensate the sugar mill the government had extended buffer stock subsidy towards storage, interest and insurance charges in respect of the buffer stock of sugar actually held by the sugar mill. The department has issued a show cause notice to the assessee raising a demand of service tax on the ground that the amount received by the sugar mill as buffer subsidy is covered under the taxable service of 'storage and warehousing'. Discuss whether the action of the department is sustainable in law. **[3]**

Section B

(Question No. 9 is compulsory and answer any one question from the remaining two questions)

Question 7.

(a) Can the transmission, wheeling and SLDC charges paid by a company engaged in distribution and supply of electricity, under a service contract, to the transmission company be treated as fees for technical services so as to attract TDS provisions under section 194J or in the alternative, under 194C? **[7]**

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(b) Can an assessee who has surrendered his income in response to the specific information sought by the Assessing Officer in the course of survey, be absolved from the penal provisions under section 271(1)(c) for concealment of income? **[8]**

Question 8.

(a) Whether the respondent, being a loan licensee, can be regarded as manufacturer in respect of medicaments manufactured by Job worker within the meaning of the Central Excise Act, 1944? **[8]**

(b) Whether the assessee would not be entitled to credit of duty paid on tower and its parts as it did not qualify as "capital goods" or "inputs"? Whether tower would not qualify as "part" or "component" or "accessory" of the capital goods i.e. antenna? **[7]**

Question 9.

(a) Whether the royalty charges paid by the assessee to the buyer will be includible in the assessable value? **[8]**

(b) Where a charitable trust applied for issuance of registration under section 12AA within a short time span (nine months, in this case) after its formation, can registration be denied by the concerned authority on the ground that no charitable activity has been commenced by the trust? **[7]**