

**INTERMEDIATE EXAMINATION
GROUP - II
(SYLLABUS 2016)**

SUGGESTED ANSWERS TO QUESTIONS

JUNE - 2017

Paper-11 : INDIRECT TAXATION

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
Question No. 1, including all its sub-questions is compulsory.
Answer any five questions from the rest.
Wherever necessary, you may make suitable assumptions and state them clearly in your answer.
Working notes should form part of the answer.

Part – I

(All questions are compulsory.)

1. (A) Answer the following:

1×10=10

- (i) Which of the following is not a consumption based tax?
 - (a) Value Added Tax (VAT)
 - (b) Central Excise
 - (c) Service Tax
 - (d) Central Sales Tax
- (ii) Who is not empowered to perform Special Audit u/s. 14A of the Central Excise Act?
 - (a) Cost Accountant
 - (b) Chartered Accountant
 - (c) Assistant Commissioner of Central Excise (Audits)
 - (d) None of the above
- (iii) The selling price of a motor cycle is ₹ 65,000. The product attracts Basic Excise Duty @ 12.5% and CST @ 2%. What would be the assessable value of the product under the Central Excise Act?
 - (a) 56644.88
 - (b) 74587.50
 - (c) 56277.06
 - (d) None of the above
- (iv) What is the frequency of filing returns under Central Excise by a Small Scale Industry?
 - (a) Bi-monthly
 - (b) Monthly
 - (c) Quarterly
 - (d) Half-yearly
- (v) Name the product which is not eligible for CENVAT Credit.
 - (a) Raw material
 - (b) Furnace oil
 - (c) Diesel for generation of electricity
 - (d) None of the above
- (vi) Which of the following is levied in lieu of Central Excise Duty on import of goods?
 - (a) Safeguard Duty

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- (b) Counter Veiling Duty (CVD)
(c) Special Additional Duty
(d) Anti-dumping Duty
- (vii) What would be the value of household article a person can bring without payment of customs duty, when he has stayed abroad for 18 months and shifting his residence to India?
(a) ₹60,000
(b) ₹ 1,00,000
(c) ₹ 2,00,000
(d) ₹ 5,00,000
- (viii) Which of the following services is covered under Reverse Charge Mechanism?
(a) Chartered Accountants Service
(b) Cost Accountant Service
(c) Legal Service
(d) Information Technology Software Service
- (ix) Which of the following persons can pay service tax on Receipts Basis, if the value of taxable services is ₹ 50 lakhs or less in the previous financial year?
(a) Company
(b) Hindu Undivided Family
(c) Limited Liability Partnership (LLP)
(d) None of the above
- (x) VAT Rate of Computer, if sold within Tamil Nadu, is 5%. If the product is sold to an unregistered buyer in Kerala, the CST rate will be
(a) Nil
(b) 2%
(c) 5%
(d) 10%

(B) Match the following:

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(a) Central Excise	(i) State Levy
(b) Export of Goods	(ii) Manufacture
(c) Insurance Service	(iii) Zero Rated
(d) Value Added Tax	(iv) Inter-state Sales
(e) Central Sales Tax	(v) Reverse Charge

(C) State whether each of the following statement is correct or incorrect:

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- (a) Goods are classified under Central Excise Tariff Act based on 'Historic System of Nomenclature (HSN)'.
(b) Free samples are exempt from Central Excise Duty.
(c) Cenvat Credit on input services can be used for payment of service tax by a person engaged in construction of complex service claiming abatement.
(d) Goods Transport Agencies (GTA) shall neither register under service tax rules nor pay service tax as the services provided by them are covered under Reverse Charge.
(e) Service Tax and VAT are mutually exclusive.

(D) Fill in the blanks:

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- (a) Turnover Threshold limit for composition scheme under State VAT as per White Paper was _____.
(b) Central Sales Tax applies to the whole of India _____ the State of Jammu & Kashmir.
(c) The place of provision of service in case of intermediary services is the location of _____.
(d) EOU can sell a portion of their production in Domestic Tariff Area (DTA) up to _____ of their FOB value of exports.
(e) An assessee claim refund of excise duty within _____ from relevant date u/s. 11B of Central Excise Act, 1994.

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Answer:

1. (A) (i) (b)
(ii) (c)
(iii) (a)
(iv) (c)
(v) (c)
(vi) (b)
(vii) (c)
(viii) (c)
(ix) (c)
(x) (c)
- (B) (a) (ii)
(b) (iii)
(c) (v)
(d) (i)
(e) (iv)
- (C) (a) Incorrect;
(b) Incorrect;
(c) Correct;
(d) Incorrect;
(e) Correct.
- (D) (a) ₹ 50 Lakhs;
(b) Including;
(c) Service Provider;
(d) 50%;
(e) One Year.

Part - II

(Answer any five questions.)

2. (a) (i) Why direct taxes are called progressive and indirect taxes are regressive?
(ii) Explain 'canon of certainty' and 'canon of economy'. 4+4=8

- (b) Supreme Industries Ltd., manufacturer of specialized wet grinding machines having its factories at Hosur and Coimbatore. Hosur Unit of the company manufactures the motors that are sent to the unit at Coimbatore to be fitted in the wet grinders manufactured there. Determine the excise duty liability of the captively consumed motor from the following information:

	₹
(i) Direct Material Cost (including Excise Duty ₹ 188)	1,688
(ii) Direct Labour	300
(iii) Direct Expenses	150
(iv) Indirect Labour and Expenses	250
(v) Quality Control Cost	100
(vi) Administrative Overheads	150

Additional Information:

- Hosur Unit realized ₹ 450 on sale of scrap.
- Profit margin as per company's annual report is 15% before Income-tax.
- Applicable Excise Duty Rate is 12.5%.

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Answer:

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2. (a) (i) Direct taxes are "progressive" as they depend on the paying capacity of the assessee. Person who earns more is taxed at maximum rates compared to person who earns less.

Whereas, Indirect taxes do not depend on the paying capacity of the assessee and taxes are levied without any discrimination. Since the indirect tax rate is uniform for a commodity, the tax payable on the commodity is same irrespective of the person who purchases it. Hence, indirect taxes are termed as "regressive".

- (ii) **Canon of Certainty:** The Canon of certainty implies that there should be certainty with regard to the amount which taxpayer is called upon to pay during the financial year. If the taxpayer is definite and certain about the amount of the tax and its time of payment, he can adjust his income to his expenditure. The state also benefits from this principle, because it will be able to know roughly in advance the total amount which it is going to obtain and the time when it will be at its disposal. If there is an element of arbitrariness in a tax, it will then encourage misuse of power and corruption.

Canon of Economy: The canon of economy implies that the expenses of collection of taxes should not be excessive. They should be kept as little as possible, consistent with administration efficiency. If the government appoints highly salaried staff and absorbs major portion of the yield, the tax will be considered uneconomical.

- (b) Computation of Excise Duty Liability of Supreme Industries Ltd.,

Sl. No.	Particulars	Total Cost (₹)
1	Direct Materials (excluding excise duty) ₹ 1,688-₹ 188	1,500
2	Direct Labour	300
3	Direct Expenses	150
4	Indirect Labour & Expenses	250
5	Quality Control Cost	100
6	Administrative Overheads	150
7	Total Cost (1 to 6)	2,450
8	Less: Sale of Scrap	450
9	Cost of Production (7-8)	2,000
10	Add: 10% as per Rule 8	200
11	Assessable Value	2,200
12	Excise Duty @ 12.5%	275

Note 1: As per rule 8 of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, in case of captive consumption, valuation shall be done on the basis of cost of production plus 10%. Cost of production is required to be calculated as per Cost Accounting Standard 4 (CAS-4).

Note 2: Actual Profit margin is irrelevant for excise valuation.

Note 3: Here it is assumed that administrative overheads are related to production activity.

3. (a) (i) **KRC Pipes Ltd., engaged in the manufacture of PVC pipes claimed ₹ 2,50,000 as input credit in respect of excise duty paid on purchase of steel, cement and other materials used for construction of the factory building. State with reasons whether the action of the company is tenable in law?**

In the above if the amount spent was towards service tax in respect of services used in relation to modernization/renovation or repair of the factory building, whether Cenvat Credit will be available? Give reasons.

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- (ii) MR & Co. incurred various expenses during the month of March 2017. The nature of expenses and the amount of excise duty/service tax element included in the expenses are given hereunder:

Sl. No	Description	Excise Duty/ Service Tax (₹)
1	Purchase of Raw Materials	10,000
2	Inward Freight Charges (service tax paid on reverse charge basis)	1,500
3	Advertisement Expenses	2,500
4	Motor Cab Rental	3,000
5	Outdoor Catering (food supplied by outdoor caterers to the employees)	1,500
6	Audit Fees	5,000
7	Computer Networking	1,500
8	Sales Commission	500

You are required to state whether the amount of duty/tax as listed above are CENVATABLE inputs or input services. Also state the amount of CENVAT credit.

3+4=7

- (b) (i) Chota & Sons manufacturer of matches has cleared goods of the value of ₹ 90 Lakhs during the Financial Year 2016-17 exclusive of duties and taxes. The goods attract 12.5% ad valorem excise duty (The value of clearance of the assessee during the year 2015-16 was ₹ 40 Lakhs). Determine the duty liability otherwise.

- (ii) SSI Ltd., located in rural area has made a clearance of goods of the value of ₹ 550 Lakhs during the Financial Year 2016-17. The said value of clearance consists of the following:

Sl. No	Description	₹ in Lakhs
1	Clearance of goods with own brand name within India	250.00
2	Clearance of goods bearing the brand name of others	75.00
3	Export to Nepal	20.00
4	Clearances to 100% EOU	130.00
5	Value of goods manufactured on job work basis in terms of Notification No. 214/86-CE	75.00
	Total	550.00

Examine with reference to the notification governing SSI whether the benefit of exemption would be available to SSI Ltd., for the Financial Year 2017-18. 4+4=8

Answer:

3. (a) (i) Rule 2(k) of Cenvat Credit Rules defines the term "Input". As per the definition any goods used for construction or execution of works contract of a building or a civil structure or a part thereof is excluded from the purview of "Input". In other words, such goods are considered as inputs ineligible for cenvat credit. Hence, in the given case, KRC Pipes Ltd., cannot take ₹ 2,50,000/- as input credit as the goods purchased do not fall under the eligible "input" as defined in rule 2(k).

Rule 2(1) of Cenvat Credit Rules defines the term "Input Service" which provides inter alia that input service includes services used in relation to modernization, renovation or repairs of a factory premises of provider of output service or an office relating to such factory or premises. Thus KRC Pipes Ltd can take credit of service tax paid on expenses incurred in relation to modernization/renovation or repair of the factory building.

- (ii) Computation of CENVAT credit:

Sl.	Description	Excise Duty/	Eligibility	CENVAT
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No.		Service Tax (₹)		Credit (₹)
1	Purchase of Raw materials	10,000	Yes	10,000
2	Inward Freight Charges (service tax paid on reverse charge basis)	1,500	Yes	1,500
3	Advertisement Expenses	2,500	Yes	2,500
4	Motor Cab Rental (Note 1)	3,000	No	—
5	Outdoor Catering (Food supplied by outdoor caterers to the employees) (Note 2)	1,500	No	—
6	Audit Fees	5,000	Yes	5,000
7	Computer Networking	1,500	Yes	1,500
8	Sales Commission (Note 3)	500	Yes	500
Eligible CENVAT Credit				21,000

Note 1: Rule 2(l) of CENVAT Credit Rules excludes from the purview of the term "input service" services provided by way of renting of a motor vehicle in so far as they relate to a motor vehicle which is not a capital goods. (Vide Clause B of Exclusion Part of rule 2(l))

Note 2: Clause C of Exclusion part of Rule 2(l) of CENVAT Credit Rules provides that input services such as those provided in relation to outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, membership of a club, health and fitness centre, life insurance, health insurance and travel benefits extended to employees on vacation such as Leave or Home Travel Concession, when such services are used primarily for personal use or consumption of any employee.

Note 3: There was a controversy on the issue whether credit would be allowed on sales commission and courts have given verdicts in favour of assessee (Refer CCE v. Ambica Overseas 2012 (25) STR 348 (P&H); CCE v. Cadila Healthcare Ltd 2013 (4) STR 3 (Guj)). The controversy has been put at rest by the Government of India and an explanation has been added in the definition of input services in rule 2(l) vide Notification No. 2/2016-CE (NT) dated 3-2-2016 to clarify that sales promotion includes services by way of sale of dutiable goods on commission basis.

- (b) (i) Items generally manufactured by SSI are eligible for SSI exemption. However, Notification No.8/2003-CE dated 1-3-2003 excludes certain goods from the list of goods eligible for SSI exemption viz., pan masala, matches, watches, tobacco products, power driven pumps for water not conforming to BIS, products covered under compounded levy scheme etc.

As per the Notification, Matches are not eligible for SSI exemption. Hence the assessee has to pay excise duty on entire turnover of ₹ 90 Lakhs @ 12.5%. Thus total duty liability is ₹ 11.25 Lakhs.

- (ii) Calculation of value of clearance during the FY 2016-17

Sl. No.	Description	₹ in Lakhs	Note No.
1	Clearance of goods with own brand name within India	250.00	
2	Clearance of goods bearing the brand name of others	75.00	1
3	Export to Nepal	--	2
4	Clearances to 100% EOU	--	3
5	Value of goods manufactured on job work basis in terms of Notification No. 214/86-CE	--	4
Total		325.00	

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Note 1: Clearance of goods bearing the brand name of others shall be included for computing the limit of ₹ 400 Lakhs since the unit is situated in rural area.

Note 2: w.e.f. 01.03.2016, Nepal has been excluded from definition of 'clearance for home consumption'.

Note 3: Clearance to 100% EOU shall be excluded for the purpose of computing the limit of ₹400 Lakhs.

Note 4: Clearance under Notification No.214/86-CE shall be excluded for the purpose of computing the limit of ₹400 Lakhs.

Finding & Conclusion: As the value of clearance for home consumption in financial year 2016-17 is ₹ 325 Lakhs, which is below ₹ 400 Lakhs, the limit prescribed under Notification 8/2003-CE, the benefit of exemption shall be available to SSI Ltd., for the financial year 2017-18.

4. (a) (i) Explain in brief the rationale of charging Additional Duty of Customs u/s. 3(1)(CVD) and u/s. 3(5) of the Customs Act (Special CVD).
(ii) What is meant by 'Margin of Dumping' and 'Injury Margin'? How Anti Dumping Duty is quantified? Narrate with suitable examples. 3+4=7

(b) Informatics Ltd., imported a photography printer by air from Best Inc., of USA, as per following details.

Particulars	USD\$
CIF Value	4,500
Air Freight Paid	1,000
Insurance Cost	250

- The rate of exchange notified by CBEC is ₹ 64.50 per USD and Inter Bank Selling Rate is ₹ 65 per USD.
 - Basic Customs Duty @ 10% ad valorem. There is no CVD and Special CVD.
- You are required to compute the Assessable Value and Import Duty payable by Informatics Ltd. 8

Answer:

4. (a) (i) Additional Duty of Custom u/s.3(1) of the Customs Tariff Act is also called Countervailing Duty (CVD), This duty is charged on imported goods to counter balance impact of excise duty on indigenous manufacturer, to ensure level playing field. CVD is payable equal to excise duty payable on like articles if produced in India.

Whereas Special CVD is charged under section 3(5) of Customs Tariff Act. Provision for this duty has been made w.e.f. 1-3-2005. Purpose of this additional duty is to counter balance Sales Tax/VAT/other local taxes leviable on like articles on its sale or purchase transactions in India.

- (ii) "Margin of Dumping" means the difference between normal value of goods prevailing in a country and its export price (i.e., the price at which the goods are exported). It is generally expressed as a % of export price. For example, a textile machinery is sold at USD 11000 in local market of USA and if the same machinery is priced at USD 10000 for export, there is a dumping in this case as export price is lower than normal value and dumping margin in this case is 10%.

"Injury Margin" means difference between fair selling price (Non Injurious Price) and the landed value of imported product. The fair selling price (Non injurious

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price) is that level of price which the industry is expected to have charged under normal circumstances in the Indian market. Landed value is the assessable value for customs purposes. In the above example, if the similar textile machinery manufactured in India is sold at ₹ 8,12,500 (equivalent USD 12,500) and landed cost of the imported machinery inclusive of landed cost and basic customs duty is ₹ 7,38,400 (equivalent USD 11360), there is an injury to local industry of ₹ 74,100 (₹ 8,12,500 - ₹ 7,38,400) and injury margin is 10.04%.

The anti-dumping duty will be lower of "dumping margin" and "injury margin". In the above two examples, dumping margin is slightly lower than the injury margin. Hence, the anti-dumping duty would be 10%.

(b) Computation of Assessable Value & Total Customs Duty

Particulars	USD \$
CIF Value	4,500
Less: Air Freight Paid	1,000
Less: Insurance	250
FOB Value	3,250
Add: Air Freight @ 20% of FOB	650
Add: Insurance	250
CIF Value	4,150
Add: Landing Charges @ 1% of CIF Value	41.50
Assessable Value in USD	4,191.50
Assessable Value in INR @ ₹ 64.50	2,70,352
Customs Duty @ 10%	27,035
Add: Education Cess & SHEC @ 3%	811
Total Customs Duty Payable	27,846

5. (a) (i) **Whether service tax will be attracted on services provided free of cost? Give your answer with reasoning.**
- (ii) **Name three activities that would be regarded as transaction only in money, thus are outside the scope of service tax.**
- (iii) **Explain in brief provisions relating to centralized registration in service tax.**
- (b) (i) **State whether the following services are taxable or not? 3+3+3=9**
- (A) **Warehousing Rent towards storage of**
- (a) **Tomato and**
- (b) **Tomato Ketchup;**
- (B) **Renting of building for residential usage;**
- (C) **Non air-conditioned restaurants.**
- (ii) **Rajula Builders P Ltd., a newly started company ventured in construction of buildings seeks your advice on the service tax implications relating to their residential apartment project to be undertaken at New Delhi. What would be your advice to them? 3+3=6**

Answer:

5. (a) (i) Service tax will not attract on services provided free of cost. Because, one of the important ingredients for charging service tax is the service should be provided for a consideration. Consideration means everything received or recoverable in return for a provision of service which includes monetary as well as non-monetary consideration. However, activities carried out without any consideration are outside the scope of service tax.
- (ii) Activities regarded as transaction only in money:
- 1) Principal amount of deposits in a bank or withdrawn from a bank;
 - 2) Advancing or repayment of principal sum of loan;

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- 3) Conversion of currency notes into coins;
 - 4) Actionable claims like transfer of unsecured debts.
- (iii) A person having business premises at multiple locations in different States can take single registration for service tax purposes. It is called centralized registration.

As per the service tax rules, a person liable to pay service tax, provide or receive services more than one premises or offices and has centralized billing system or centralized accounting system, he may at his option apply for centralized registration for the premises or offices where the centralized billing or accounting system located.

A person seeking Centralized registration under service tax, need to submit the duly filled ST-1 application form along with the complete list of documents to the Jurisdictional Deputy Commissioner/Assistant Commissioner in whose charge the premises/offices to be centrally registered falls.

A person registered under Centralized registration scheme, can make the service tax payment and file the service tax return centrally in the premises/office granted for centralized registration by the Department.

(b) (i)

Sl. No.	Particulars	Taxability	Remarks
1	Warehousing Rent towards storage of - a) Tomato	No	Tomato is an agricultural produce. Negative List Item
	b) Tomato Ketchup	Yes	Tomato Ketchup is not an Agricultural produce.
2	Renting of building for residential usage	No	Negative List item
3	Non air-conditioned restaurants	No	Mega Exemption Notification

- (ii) **Construction of residential complex:** Construction of residential complex is an activity subjected to service tax when the residential complex consists of more than one residential unit. It is a declared service u/s.66E, of the Finance Act. The activity shall not be taxable when the entire consideration is received after issuance of completion certificate by the competent authority.

As per Notification No. 26/2012-ST dated 20.06.2012 (as amended vide Notification No. 8/2016-ST dated 01.03.2016 w.e.f. 01.04.2016), an abatement of 70% is provided for these services subject to the following conditions:

- a) CENVAT credit on inputs used for providing the taxable service has not been taken;
- b) The value of land is included in the amount charged from the service receiver.

When service recipient supplies some materials to the service provider, the fair market value of such materials used in the construction activity should be included in the amount charged. If any amount is charged for such supply, the said amount including taxes and duties, if any, shall be deducted from the fair market value.

6. (a) M/s. Ashok Builders, engaged in construction works, has given the following information in respect of its receipts from various services provided in the month of April, 2017:

- (i) Construction of new commercial building – ₹ 55 lakhs**

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- (ii) Construction of additional floors in an existing building – ₹ 10 lakhs
 (iii) Renovation of a damaged building not in use – ₹ 15 Lakhs
 (iv) Replacement of floor tiles in a residential building – ₹ 2.50 Lakhs
 (v) Maintenance charges for upkeep of an office building – ₹ 1.50 Lakhs
 You are required to calculate the value of taxable service in each of the above case and state the total service tax liability of M/s. Ashok Builders. 7

- (b) (i) ABC Ltd., furnishes the following information such as Date of Completion of Service, Date of Invoice, Date of Receipt of Payment and Rate of Tax in force on the respective dates. You are required to find out the Point of Taxation, Rate of Tax and Due Date of payment of tax in each situation:

Sl. No.	Completion of Service		Invoice		Receipt	
	Date	Rate in force	Date	Rate in force	Date	Rate in force
1	10-05-16	14.5%	05-06-16	15%	25-05-16	14.5%
2	20-05-16	14.5%	26-05-16	14.5%	02-06-16	15%
3	05-06-16	15%	31-05-16	14.5%	30-05-16	14.5%
4	07-06-16	15%	31-05-16	14.5%	02-06-16	15%
5	06-06-16	15%	10-06-16	15%	25-05-16	14.5%

- (ii) What are the conditions stipulated in Rule 6(4A) of the Service Tax Rules, 1994 relating to self-adjustment of excess paid service tax? 5+3=8

Answer:

6. (a) CALCULATION OF VALUE OF TAXABLE SERVICES

Sl. No.	Particulars	Gross Receipts	Taxable Service in %	Taxable Value (₹)
1	Construction of new commercial building	55,00,000	40%	22,00,000
2	Construction of additional floors in an existing building	10,00,000	40%	4,00,000
3	Renovation of a damaged building not in use	15,00,000	40%	6,00,000
4	Replacement of floor tiles in a residential building	2,50,000	70%	1,75,000
5	Maintenance charges for upkeep of an office building	1,50,000	70%	1,05,000
Value of Taxable Services				34,80,000
Service Tax @ 14%				4,87,200
Swachh Bharat Cess @ 0.5%				17,400
Krishi Kalyan Cess @ 0.5%				17,400
Total Service Tax Liability				5,22,000

Note: Where the value has not been determined, the person liable to pay tax on the service portion involved in the execution of the works contract shall determine the service tax payable in the following manner, namely:—

- (A) in case of works contracts entered into for execution of original works, service tax shall be payable on forty per cent of the total amount charged for the works contract;
- (B) in case of works contract, not covered under sub-clause (A), including works contract entered into for,—
- (i) maintenance or repair or reconditioning or restoration or servicing of any goods; or

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(ii) maintenance or repair or completion and finishing services such as glazing or plastering or floor and wall tiling or installation of electrical fittings of immovable property,
service tax shall be payable on **seventy per cent** of the total amount charged for the works contract.

(b) (i)

Sl. No.	Point of Taxation	Rate of Tax	Due Date of Payment
1	25.05.2016	14.5%	06.06.2016
2	26.05.2016	14.5%	06.06.2016
3	30.05.2016	14.5%	06.06.2016
4	02.06.2016	15%	06.07.2016
5	25.05.2016	14.5%	06.06.2016

- (ii) Conditions stipulated in Rule 6(4A) of the Service Tax Rules, 1994 relating to self-adjustment of excess paid service tax:
- Excess payment since exact amount to be paid could not be calculated;
 - When tax is to be paid on 31st March and calculation of exact amount of service tax is different;
 - Any calculation mistakes.

7. (a) (i) **State the instances when movement of goods from one State to another would not be considered as Inter-state Sales under CST Act.**

(ii) **What is meant by 'Penultimate Sale'? Explain the provisions of Section 5(3) of CST Act?**

(iii) **Lokesh Traders, a firm situated in Tamilnadu sold goods worth ₹ 2,55,000 (inclusive of CST 2%) to Rajesh Enterprises, a firm situated in Karnataka. Local VAT rate of the said goods in Tamilnadu is 12.5%. What would be CST payable by Lokesh Traders**
(a) if Rajesh Enterprise is a Registered Dealer and C Form given;
(b) if Rajesh Enterprises is a Registered Dealer and C Form not given; and
(c) if Rajesh Enterprises is an unregistered dealer? 2+2+3=7

(b) (i) **VAT payable on product 'Limcy' is 10% if the product is sold within the State of Andhra Pradesh. If the product is sold to Maharashtra, what will be CST payable if**

- Buyer furnishes Form "H";
- Buyer furnishes Form "C";
- Buyer furnishes Form "F"; and
- Buyer furnishes Form "J"?

(ii) **Mr. Abdul Raheem, a dealer registered under VAT, purchased goods worth ₹ 5,00,000 including VAT. He intends to earn a gross margin of 10% on his net purchase cost. The VAT rate is 12.5% on both purchases and sales. You are required to**

- Find his selling price and the net VAT payable.
- How would you demonstrate to him that the VAT payable by him is only on the value addition? 2+6=8

Answer:

7. (a) (i) If sale is complete within the State, the sale will not be inter-state if after such sale, goods are taken outside the State by buyer. Further, if goods are sent on stock transfer basis, it will not be an inter state sale.

(ii) Penultimate sale is the last sale immediately prior to the original export. According to section 5(3) of the CST Act, the last sale or purchase of any goods, preceding the sale or purchase occasioning the export of those goods out of the territory of India shall also be deemed to be in the course of such export. Form H is required

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to be issued by buyer to seller.

- (iii) (a) $2,50,000 \times 2\% = 5,000$
(b) $2,50,000 \times 12.5\% = 31,250$
(c) $2,50,000 \times 12.5\% = 31,250$

- (b) (i) (i) NIL
(ii) 2%
(iii) NIL
(iv) NIL

(ii)

Particulars	Amount in ₹
Purchase Value (excluding VAT)	4,44,444
Add: Value Addition @ 10%	44,444
	4,88,888
Add: VAT @ 12.5%	61,111
Invoice Value	5,49,999
Computation of VAT Payable	
Output VAT	61,111
Less: Input VAT Credit	55,556
VAT Payable	5,555
Check	
Profit Addition	44,444
VAT @ 12.5% on above	5,555

8. Answer any three questions:

5×3=15

- (a) State the situations where a manufacturer can claim remission of excise duty on manufactured goods. Whether such remission is admissible in case of theft of goods?
(b) Write short notes on 'Transit' and 'Transshipment' of goods under Customs Act.
(c) Explain in brief provisions relating to service tax on 'Service provided by the Government'.
(d) Explain role of a Cost Accountant under VAT.

Answer:

8. (a) Remission of Excise Duty:

Rule 21 of the Central Excise Rules, 2002 provides for remission of duty if the assessee can prove to the satisfaction of the relevant authority that:

- The goods have been lost or destroyed by natural cause or by unavoidable accident; or
- The manufacturer claims them as unfit for consumption or for marketing, before their clearance.

Depending upon the amount of duty, the competent authority may be Inspector, Superintendent, Assistant/ Deputy Commissioner, Joint/ Additional Commissioner, Commissioner/ Principal Commissioner, empowered to remit the duty payable on goods, subject to such conditions as may be imposed by him or ordered in writing. But no remission of duty shall be granted for any loss or destruction or deterioration of any goods taking place after the goods have been cleared for home consumption on payment of duty or in cases of theft.

- (b) Transit of goods occur when any goods imported in any conveyance is allowed to remain on the conveyance and to be transited without payment of duty to any place outside India or any customs station. (Sec. 53 of Customs Act).

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Transshipment means transfer from one conveyance to another with or without payment of duty. It means to say that goods brought originally imported from outside India into India, then transhipped to another vessel or vessels to a place within India or outside India.

- (c) All services provided by Government are not exempt from service tax. Sovereign activities of Government are not taxable.

Services provided by the Government are taxable when the recipient of service is a business entity.

Any service provided by the Government or a local authority to a business entity has been made taxable with effect from 1st April 2016.

However, in certain cases, exemptions are available.

- (d) Cost Accountants have the following key roles to play in proper implementation of VAT:
- (A) Record Keeping;
 - (B) Tax Planning;
 - (C) Negotiation with suppliers to reduce price;
 - (D) Helping departmental officers;
 - (E) External audit of VAT records.
 - (F) Internal audit of Vat compliances.