

FINAL EXAMINATION

December 2017

P-16(TMP)
Syllabus 2012

Tax Management and Practice

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Wherever required, the candidate may make suitable assumptions and state them clearly in the answers.

Working notes should form part of the relevant answer.

All sub-divisions of a question should be answered continuously.

All questions in Income Tax relate to the Assessment Year 2017-18, unless stated otherwise.

Answer Question No.1 which is compulsory and answer any five from the rest.

1. (a) Choose the most appropriate alternative for the following: 1×10=10

(i) In respect of goods imported by a SEZ and used in manufacture, the anti-dumping duty is payable at _____ .

- (A) Nil
- (B) 25% of the rate applicable for others
- (C) 50% of the rate applicable for others
- (D) 75% of the rate applicable for others

(ii) For purposes of levy of service tax, services rendered outside employment by an employee to employee is

- (A) fully exempt
- (B) partially exempt
- (C) fully chargeable
- (D) None of the above

(iii) Where passengers are moved by air from Colombo to Chennai and the value of such services is ₹ 300 lakhs, the value of taxable service is

- (A) Nil
- (B) ₹ 300 lakhs
- (C) ₹ 45 lakhs
- (D) None of the above

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- (iv) Under the CST Act, 1956, the position of Government subsidy vis-à-vis sale price is
- (A) fully forms part of the same price
 - (B) 25% if includible in sale price
 - (C) 50% is includible in sale price
 - (D) does not form part of sale price
- (v) Application for Advance Authorization is to be made in duplicate in
- (A) Naya Ayuktha Form
 - (B) AAyat Niyat Form
 - (C) AA-1 Form
 - (D) None of the above
- (vi) Where PQR Ltd., is set up on 01-04-2016 and assuming that the necessary conditions are fulfilled, the basic rate of income-tax applicable (excluding surcharge and cess) under section 115 BA of the Income-tax Act, 1961 is
- (A) 25%
 - (B) 20%
 - (C) 22%
 - (D) None of the above
- (vii) Deduction at _____% under section 32AC would be available in the year of installation i.e. P.Y. 2016-17, even though the new plant and machinery of value exceeding ₹ 25 crores was acquired in the P.Y. 2015-16.
- (A) 10
 - (B) 15
 - (C) 20
 - (D) 25
- (viii) Mr. Humayun, an individual, has received a gift of teak cot worth ₹ 1,20,000 from his friend on 01-02-2017. The amount to be treated as income from other sources is
- (A) Nil
 - (B) ₹ 1,20,000
 - (C) ₹ 70,000
 - (D) None of the above
- (ix) Under section 2(22)(e) of the Income-tax Act, 1961, any payment (to the extent of accumulated profits) by a closely-held company by way of loan or advance to its shareholder, being a person who is the beneficial owner of shares, holding, _____ is deemed as dividend.
- (A) not less than 10% of the voting power
 - (B) not less than 15% of the voting power
 - (C) not less than 10% of the total of equity and preference shares
 - (D) not less than 15% of the total of equity and preference shares

- (x) Under section 80JJAA deduction available to an eligible assessee fulfilling prescribed conditions is _____% of the additional employees cost.
- (A) 10
(B) 15
(C) 30
(D) 40

(b) Fill up the blanks:

1×10=10

- (i) Assessee engaged in the business of transmission of power are eligible for additional depreciation at _____%.
- (ii) Penalty for not furnishing the report of international group is ₹ _____ per day when the delay is not more than one month.
- (iii) For resident senior citizen with total income of ₹ 4,40,000 the amount of tax rebate under section 87A would be ₹ _____.
- (iv) A foreign company whose total income exceeds ₹ 10 crore must pay surcharge at the rate of _____%.
- (v) A domestic company with total turnover of ₹ 4 crore during the previous year 2014-15 must pay tax for the assessment year 2017-18 at _____%.
- (vi) When a product is not defined in the Schedules and Section Notes and Chapter Notes it should be classified as per _____ test.
- (vii) Under excise law, the MRP is to be declared only on packages meant for _____ and not on wholesale packages.
- (viii) Service of transportation of passengers by air-conditioned stage carriers would be taxed after abatement of _____%.
- (ix) Threshold limit of consideration for levy of service tax for performance in classical art is ₹ _____.
- (x) A female passenger residing abroad for more than 1 year when comes to India, jewellery allowance is up to _____ grams with a value of cap of ₹ 1 lakh.

2. (a) Mr. Sarath, who runs a manufacturing unit in a DTA, has imported a machinery on 21-02-2017 from a nation, which is covered by a notification issued by the Central Government under section 9A of the Customs Tariff Act, 1975.

Following details are made available to you:

CIF value of consignment: Euro 40,000

Quantity imported: 800 kgs.

Exchange rate applicable: ₹ 70 = Euro 1

Basic customs duty: 10%

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 @ Euro 80 per kg. and the landed value of the commodity as imported.

You are required to determine the liability on account of normal duties, cess and the anti-dumping duty. Assume that only 'Basic Customs Duty' (BCD) and Secondary and higher education cess are payable.

Will there be change in your answer if the import is made by a SEZ unit?

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- (b) Mr. Prakash sold a vacant site for ₹ 100 lakhs on 10.09.2016. The site was acquired in April, 2008 for ₹ 20 lakhs. The stamp duty valuation on the date of sale was ₹ 110 lakhs. Mr. Prakash paid 2% as brokerage without deduction of tax at source and it was paid in cash. He deposited ₹ 30 lakhs in capital gain bonds issued by REC on 27.04.2017. He acquired a residential property in April, 2017 for ₹ 40 lakhs and in the document his name and his wife's name were mentioned as buyers. His wife is a home maker.

Compute the capital gains chargeable to tax in the hands of Mr. Prakash.

Cost inflation index: F.Y. 2008-09 = 582; F.Y. 2016-17= 1125.

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3. (a) Following is the Profit and Loss Account of Kalai & Co. for the year ended 31.03.2017:

Particulars	₹	Particulars	₹
Salary	1,89,500	Gross Profit	7,40,000
Contract Payments	1,50,000	Agricultural income (from lands in India)	40,000
Amount paid to university for scientific research	10,000	Dividend from Indian companies	15,000
Depreciation	1,10,000	Interest on income- tax refund	5,000
Working partners' salary	2,40,000		
Interest on capital	75,000		
Net Profit	25,500		
	8,00,000		8,00,000

Additional Information:

- (i) Salary includes payment to partner's son of ₹ 40,000. He was employed for only one month. The excess payment was ascertained at ₹ 15,000.
- (ii) The partnership deed provides for monthly salary to two partners @ ₹ 10,000 each and interest on capital at 15% per annum.
- (iii) Contract payments include a single contract given to Mr. R for ₹ 35,000. No tax was deducted on such payment.
- (iv) Depreciation eligible under section 32 has been computed and found as ₹ 1,21,000.

Compute the income chargeable under the head "Profits and Gains of business or profession" of the firm for the assessment year 2017-18.

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(b) The assessee sells the final product in gunny bags, which are returnable by the buyers. There is no specific agreement with the buyers about the return of gunny bags. In the light of the judgment of the Apex Court, state whether the value of such gunny bags should be included in the assessable value for central excise purposes. 5

(c) While a company has to pay service tax on monthly basis, a One Person Company can pay service tax on quarterly basis. Discuss the validity of the statement. 3

4. (a) State whether the TDS provisions are attracted in the following cases: 8

(i) Mr. Mahadevan engaged in trading business with a turnover of ₹ 80 lakhs for the previous year 2015-16 and turnover of ₹ 85 lakhs in the financial year 2016-17 paid interest of ₹ 30,000 to Mr. Swami.

(ii) Mr. Singhvi engaged in manufacturing activity paid salary of ₹ 3,50,000 to Mr. Ghosh during the previous year 2016-17 which is the first year of commencement of business.

(iii) Cure Well Hospitals Ltd. paid professional charges to Dr. Sakthikanal ₹ 40,000.

(iv) Garg & Co. a firm of Cost Accountants paid rent of ₹ 2,70,000 (₹ 22,500 per month) to a partner's son by cash.

(v) Ramnath & Co. paid interest on term loan taken for car of ₹ 31,000 to UCO Bank.

(vi) Mr. Ranjan resigned from MT Pharma after rendering service for 4 years. He received ₹ 60,000 from recognized provident fund account.

(vii) Padmaja & Co. made contract payments of ₹ 7,500 per month aggregating to ₹ 90,000 to CD & Co. during the year 2016-17.

(viii) Shiva Industries Ltd. paid brokerage of ₹ 18,000 to Sanvitha Ltd. on 30.01.2017.

(b) An intermediary product is captively used by a manufacturer for producing another product. Following details are furnished:

Particulars	Amount (₹)
Direct material (inclusive of excise duty at 5%)	42,000
Direct wages	8,500
Works overheads	6,500
Quality control costs	4,200
Research and development costs	2,800
Administrative overheads	6,000
Selling and distribution costs	3,500
Realizable value of scrap	1,600

Administrative overheads may be taken as 60% related to production.

You are required to ascertain the value of the excisable commodity (intermediary product). 8

5. (a) Barun Ltd. is engaged in providing taxable services. It received the following amounts in the month of September, 2016:

	Particulars	(₹)
(i)	Advance received from clients for whom no service was rendered so far	5,00,000
(ii)	Amounts received towards supply of farm labour	1,00,000
(iii)	Amounts received towards warehousing of medicines	2,40,000
(iv)	Demurrage charges recovered from medicine companies for use of services beyond the agreed period	50,000
(v)	Renting of vacant land to a stud farm	60,000
(vi)	Security deposit forfeited for damages done by service receiver (to the vacant land by stud farm) not due to unforeseen reasons	50,000
(vii)	Leasing of vacant land to a dairy farm	3,00,000
(viii)	Training of farmers on use of new pesticides and fertilizers	80,000

Barun Ltd. is not a small service provider and the service tax at 14% plus SBC @ 0.5% and KKC @ 0.5% are charged on the above said amounts, wherever applicable. You are requested to Compute the value of taxable service and service tax payable by Barun Ltd. 8

- (b) The following particulars relating to Mr. Saravanan relating to the assessment year 2017-18 are furnished to you:

	(₹)
Gross total income	9,10,000
Above includes the following:	
Short-term capital gains from sale of listed securities	40,000
Long-term capital gains from sale of house plot	1,10,000
Winnings from lotteries (Gross)	60,000
Loss from let out house property	- 45,000
Other information:	
Contribution towards Sukanya Samridhhi Scheme in the name of minor daughter	95,000
Stamp paper and registration expenses relating to residential house	45,000
Contribution to National Pension Scheme of the Central Government	1,10,000
Donation to Prime Minister's Relief Fund	35,000
Donation given to Navrang Charitable Trust registered u/s 12AA and recognised for section 80G purposes	60,000

Compute the deduction available to him under Chapter VIA of the Income-tax Act, 1961. 8

6. (a) RST Ltd. is engaged in manufacture of both excisable and non-excisable goods. From the Following are the particulars for the period from 01.10.2016 to 31.03.2017:

	Particulars	₹ in lakhs
(i)	Clearances of excisable goods bearing brand name of AFT Ltd.	80
(ii)	Exports sale of excisable goods to Bhutan	100
(iii)	Exports sale of excisable goods of UK and France	50
(iv)	Clearances of goods (duty paid based on annual capacity of production under section 3A of the Central Excise Act, 1944)	120
(v)	Clearances of goods subject to valuation based on retail sale price as per section 4A of the Central Excise Act, 1944. Cleared at MRP and eligible for 40% abatement.	150
(vi)	Job work under notification 214/86/CE dated 25.03.1986	40

The company operated in the premises previously occupied by XYZ Ltd. from 01.10.2016 to 31.03.2017. In the previous 6 months i.e. from 01.04.2016 to 30.09.2016, XYZ Ltd. had cleared excisable goods of the aggregate value of ₹ 130 lakhs.

State whether RST Ltd. can claim the benefit of exemption in terms of Notification No. 8/2003-CE dated 01.03.2003 for the financial year 2017-18. Your answer must be supported by reasons for treatment of each of the above items. 8

- (b) Mr. Narielwala is employed in a private limited company and has earned salary of ₹ 14 lakhs for the year ended 31.03.2017. He has paid profession tax of ₹ 14,000, life insurance premium of ₹ 1,70,000 (capital sum assured is ₹ 16 lacs on policy taken on 01.02.2016), donation of ₹ 86,000 to a project eligible for deduction under section 35AC and donation of ₹ 1,00,000 by cheque to a charitable trust recognised for section 80G.
- Compute his total income for the assessment year 2017-18. 8
7. (a) Ms. Laxmi (age 28), a cine actress derived income of ₹ 10 lakhs from acting in a film in foreign country with which India does not have any agreement for avoidance of double taxation. Tax of ₹ 2,00,000 was paid on such income in the foreign country. She earned ₹ 5,72,000 by way of income in India through acting in films. She let out a commercial property at Mumbai for a rent of ₹ 1 lakh per month since April, 2015. The municipal tax on the property paid was ₹ 60,000. Interest on moneys borrowed from SBI for acquisition of the property during the year amounts to ₹ 2,60,000. Principal amount of loan repaid during the year was ₹ 6 lakhs.
- She paid life insurance premium of her husband ₹ 60,000 and deposited ₹ 50,000 by way of tax saver deposit in her name.
- Compute the tax payable by Ms. Laxmi for the Assessment Year 2017-18. 8

- (b) State the Point of Taxation Rules applicable in the following cases and determine the point of taxation: 4

Sl. No.	Event	Case 1 Date	Case 2 Date
(i)	Commencement of provision of service	10.06.2016	15.07.2016
(ii)	Completion of service	20.10.2016	15.10.2016
(iii)	Invoice issued	30.10.2016	01.01.2017
(iv)	Payment received	15.10.2016	31.01.2017

(c) Determine the place of provision of service in the following cases with brief reasons: 4

- (i) Mr. Wilson resident of Bangalore, a consulting engineer provided consultancy services to a company based in Singapore in respect of a shopping complex located in Dubai.
- (ii) Mr. Ram owner of a property located in Chennai gives the property to Mr. Trump of London on rent for commercial purposes. Mr. Trump pays rent in Indian rupee at Chennai.
- (iii) Vikram Ltd. of Mumbai provides construction service to Modi Ltd. of Gujarat for construction of new building in Malaysia.
- (iv) Mr. Banerjee, a Kolkata based architect provided professional service for an immovable property located in Malaysia.

8. (a) Two exporters namely, Five Roses Pvt. Ltd. and Daffodils Garments Pvt. Ltd., regular exporters during the past five years, have achieved the status of One Star Export House in the financial year 2015-16. What would have been the minimum export performance of the two exporters to achieve such status?

Both the exporters are desirous of establishing export warehouses in accordance with the applicable guidelines. What should be their minimum export turnover to enable them to establish export warehouses? 8

(b) The following incomes have been earned by Dharmendra (HUF) and members of the said HUF:

- (i) The HUF is represented in a partnership firm by D, the karta. Interest on capital received at 15% is ₹ 3 lacs. D has also been paid a remuneration of ₹ 4 lacs, which is specified in the partnership deed. This amount is within the limits specified in section 40(b).
- (ii) On 01.01.2017, D has blended his individual house property into the hotch pot of the HUF. Gross rental from this house property is ₹ 3 lacs.
- (iii) D has gifted cash of ₹ 2 lacs to the HUF.
- (iv) D's minor son M has received stipend of ₹ 60,000 from a Cost Accountant under whom he is undergoing partical training.
- (v) From the income earned by HUF, salary of ₹ 1.2 lacs was paid to D, for looking after the family affairs.

How will the above items be treated in the hands of the HUF and individual assessment of D? Head of income is to be specified.

Computation of total income is NOT required.