Paper-14: Indirect and Direct - Tax Management

Time Allowed: 3 Hours **Full Marks: 100**

Whenever required, the candidate may make suitable assumptions and state them clearly on the answers.

Working notes should form part of the relevant answer.

Answer Question No. 1 (carrying 25 marks), which is compulsory and any five from the rest.

Question 1.
Fill up the blanks: **[1×25]**

(i) The Bill of Entry for ex-bond clearance from warehouse on payment of customs duty is of __________ (green; yellow; white) colour.

(ii) Section 10(32) of the Income Tax Act, 1961 provides for an exemption up to ____________, in respect of each minor child, where a minor's income is clubbed with the income of the parent (₹ 1,200, ₹ 1,500, ₹ 2,000).

(iii) Section 13 of the Customs Act, 1962 provides that, if the pilfered goods are restored to the importer after pilferage, the importer _______________ (shall be / shall not be) liable to pay duty.

(iv) In excise, if entire sale is made through 'related person', price relevant for valuation will be 'normal transaction value' at which the related buyer sales to unrelated buyer, as per rules ________________ (9 and 10; 1 and 9; 2 and 10) of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.

(v) An assessee can file revised return (as per section 139(5) of the Income-tax Act) for ___________ (three times; as many number of times; two times) within the limitation period if the assessee discovers any omission or wrong statement therein.

(vi) Section ______ of the Finance Act 1994 governs the valuation of taxable services, for the purposes of levy of service tax.

(vii) Special Audit under Section 14A of the Central Excise Act, 1944 can be ordered by any Central Excise officer, not below the rank of a/an __________________ (Assistant Commissioner of Central Excise; Deputy Commissioner of Central Excise; Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise), with the prior approval of the Chief Commissioner of Central Excise.

(viii) In the case of a non-resident engaged in the business of operation of aircraft, the income is determined under Section 44BBA of the Income Tax Act, 1961 at _____________ (7.5% of turnover; 10% of turnover; 5% of turnover).

(ix) In the fifteen digit registration number (Excise Control Code), under the Central Excise Act, 1944, the first ten characters represent the ____________________ allotted by the Income Tax Department.

(x) _______________ (Medicines; Petrol; Precious Stones) is not subjected to VAT.

(xi) The ____________ (demerger; amalgamation; slump sale) refers to the sale of the undertaking as a going concern and the consideration is not fixed for each and every asset separately and a lump sum consideration is arrived at for the undertaking as a whole.

(xii) Funeral, burial, crematorium or mortuary services including transportation of the deceased ______________ (is not/ is) a taxable service.

(xiii) Loss from business or profession (including unabsorbed depreciation) cannot be set-off against income under the head __________ (house properties; capital gains; salaries).

(xiv) Under Rule 15 of Central Excise Rules, 2002, Compounded Levy Scheme is presently applicable to ___________. (pan masala; aluminium circles; chewing tobacco).

(xv) _____________ connotes the exercise carried out by the taxpayer to meet his tax obligations in proper, systematic and orderly manner, availing all permissible exemptions, deductions and reliefs available under the relevant statutes as may be applicable to his case (Tax planning; Tax evasion; Tax avoidance).

(xvi) Under Section 3 of the Central Excise Act, 1944, duty is not levied on goods produced/ manufactured in _________________ (Special Economic Zone; Free Trade Zone; 100% Export Oriented Undertaking).

(xvii) Section 139(4) of the Income Tax Act, 1961 provides that, a belated return can be filed by the assessee for any previous year at any time, before the __________________________.

(xviii) Under Section 2(f) of the Central Excise Act, 1944, 'Labelling or re-labelling' of containers and re-packing from bulk packs to retail packs of natural or artificial mineral waters shall be considered as _________________.

(xix) Under Section 194LA of the Income Tax Act, 1961, any person responsible for paying to a resident any sum exceeding ₹2 Lakhs towards compensation for compulsory acquisition of the seller's urban industrial land under any law, has to deduct income-tax at the rate of _______________ (10%; 15%; 20%).

(xx) Under the provisions of Section 11A of the Central Excise Act, 1944, Show Cause Notice for recovery of excise duties not levied, or not paid or short levied or short paid or erroneously refunded can be served on the person chargeable with duty, within ______________ (6 months; 1 year; 2 years) from the relevant date.

(xxi) Section 272B of the Income Tax Act, 1961 provides that, if any person fails to comply with the provisions of Section 139A or to quote or intimate his Permanent Account

Number, as required under section 139A or willfully quotes or intimates a number which is false, then he shall be liable to a penalty of ____________________.

(xxii) Section 114 of the Customs Act, 1962, provides for levy of penalty in case of goods in respect of which any prohibition is in force not exceeding ____________ (one time of the value of the goods; two times of the value of the goods; three times of the value of the goods).

(xxiii) Under Section 4A of the Central Excise Act, 1944, the assessable value will be calculated on the basis of ___________________ (Transaction Value; Maximum Retail Price less Abatement; Maximum Retail Price).

(xxiv) A company whose gross total income consists mainly of income which is chargeable under the heads, 'Income from house property', 'Capital Gains' and 'Income from other sources' is called a/an ______________ (Investment Company; Section 25 Company; Foreign Company).

(xxv) As per section 2(ea)(i)(3) of the Wealth-tax Act, any house which the assessee may occupy for the purposes of any business or profession carried on by him __________ (is / is not) treated as 'asset'.

Question 2.

(a) M/s. Rashmi Ltd. purchased fibre 5,000 Kg @ ₹ 50 per Kg plus excise duty. The said fibre was used to manufacture intermediate product yarn. The said yarn was captively used for the manufacture of fabrics. The said fabric was exempt from duty. The other information are as follows:

(i) Normal processing loss: 2% of inputs in manufacture of yarn
(ii) Rate of excise duty on all products is 12.36%;
(iii) Assessable Value of yarn: ₹80 per Kg.;
(iv) Assessable Value of Fabric (Total): ₹10 lakhs;
(v) Colouring Dyes used in the manufacture of Fabric: ₹ 1 lakhs plus excise duty.
(vi) Duty on Capital Goods imported during the period and used in the manufacture of yarn: Basic Customs Duty ₹ 20,000; Additional duty of customs u/s 3(1) of the Customs Tariff Act ₹ 20,000; Additional duty of customs u/s 3(5) of the Customs Tariff Act ₹ 6,000.

Compute - (i) CENVAT Credit available; (ii) Duty payable.

M/s. Rashmi Ltd. is not eligible for SSI-exemption available under Notification No. 8/2003 CE.

(b) Compute the duties payable by a 100% EOU from the following information in respect of excisable goods cleared by it to Domestic Tariff Area on 1-4-2013:

(i) Assessable value under Excise Law = ₹1,20,000 (Assessable Value under Customs Law = ₹2 lakh);
(ii) Basic Customs Duty (net) = 10% ;
(iii) Excise duty on like goods manufactured in India = 12% ;
(iv) Additional duty of customs u/s 3(5) of Customs Tariff Act 1975 on similar goods = 4% ;
(v) Education Cess = 2% and Secondary and Higher Education Cess = 1 %.

Assume that the goods are not liable to VAT in India. The goods have been removed in accordance with the policy and procedures applicable to the EOU, after obtaining requisite permissions.

(c) Answer the following with the help of decided case law:
Whether the amount received by the employee on cessation of employment with his employer will be exempted from tax under section 17(3)(i) of the Income-tax Act?

[5+5+5]

Question 3.

(a) Mr. Umesh Malhotra, a resident individual, furnishes the following information, in respect of the assets held by him on 31.03.2014. Compute the net wealth of Mr. Umesh Malhotra, by explaining the reasons, for inclusion/exclusion of the following items in the computation of net wealth.

(i) Mr. Umesh Malhotra gifted jewellery worth ₹35 Lakhs, to his wife. The fair market value of such jewellery, as on the valuation date was ₹60 Lakhs.

(ii) A flat in Pune was purchased in 1998, under installment scheme, for ₹15 Lakhs. The flat is used by the assessee for his own residence. The fair market value of this self-occupied property was ₹30 Lakhs on the valuation date, and installment of ₹10 Lakh was also outstanding.

(iii) The assessee is a medical practitioner and possesses medical instruments worth ₹9 Lakhs, which are used by him in his profession.

(iv) The assessee purchased a land in Nagpur, in July 2010, in the name of his minor son (who was suffering from a disability specified under Section 80U of the Income Tax Act, 1961), for ₹6 Lakhs.

The house, situated in Gandhinagar, was shown to be of value of ₹70 Lakhs, in the wealth-tax return for the A.Y 2013-14. However, this property was sold on 26.03.2014 for ₹75 Lakhs. The sale deed in respect of the transfer of property in Gandhinagar, was executed in 10.05.2014.

(b) Find out the amount of service tax in the following cases -

Case 1 - Service provider is X Ltd. which is based in Jammu and Kashmir. Services are, however, provided in the State of Karnataka (amount of invoice being ₹8,50,000).

Case 2 - Service is provided by Y Ltd. to UNO in New Delhi (amount of invoice being ₹30,00,000).

Case 3 - Service is provided by Z Ltd. to a unit in a Special Economic Zone (amount of invoice being ₹4,00,000).

Case 4 - Service is provided by A Ltd. A Ltd was incorporated in 2004. Since then its annual turnover/gross receipt is not more than ₹6,00,000 (amount of invoice being ₹3,50,000).

(c) X, Y and Z are members of X (HUF). They are also partners of XYZ & Co., a partnership firm. X (HUF) deposits ₹ 90,000 in XYZ & Co. (interest rate being 20 per cent). On April 1, 2013 there is a partial partition of X(HUF) and after partial partition, the deposit of ₹90,000 with the firm is divided between the three members- X, Y and Z equally. In other words, from April 1, 2013, deposit of ₹90,000 is transferred in the individual names of X, Y and Z and the firm pays interest on the deposit to the individual partners. Discuss whether interest on deposit is covered by section 40(b) and interest will be partly disallowed.

(d) If it is given that A receives ₹ 1,05,000 on account of winnings from lotteries then what will be the gross amount of such winnings?

[5+4+5+1]

Question 4.

(a) Answer the following with the help of decided case law:
Whether the manufacture and sale of the specified goods that do not physically bear a brand name, from sale outlets, would disentitle the assessee from benefit of SSI exemption?

(b) ABC Ltd. purchased a Pollution Control equipment for ₹ 15,14,250 which is inclusive of excise duty at 16% plus education cess 2% plus secondary and higher education cess 1%. The equipment was purchased on 01-09-2011 and was disposed of as second hand equipment on 10-10-2013 for a price of ₹ 13,50,000. The excise duty rate on the date of disposal was 12% plus education cess @ 2% plus secondary and higher education cess 1%.

1. You are required to calculate the amount of CENVAT credit allowable for the financial year 2011-12 and 2012-13.
2. What is the amount payable towards CENVAT credit already availed at the time of disposal of the equipment in the financial year 2013-14?

Make suitable assumptions where required and show the working and explanation wherever required.

(c) Sweta Ltd. is one hundred per cent subsidiary company of Hema. Ltd. Sweta Ltd. owns Plants A and B (depreciation rate 30 per cent, depreciated value of the block ₹3,00,000 on April 1, 2013). Plant B(old) was purchased and put to use on November 10,2011 (cost being ₹70,000). Plant B is transferred by Sweta Ltd. to Hema Ltd. on December 14, 2013 for (i) ₹8,000, (ii) ₹2,70,000, (iii) ₹4,10,000. It is put to use by Hema Ltd. on the same day. Hema Ltd. owns Plant C on April 1, 2013 (depreciation rate 30 per cent, depreciated value; ₹60,000). Find out the tax consequences if Hema Ltd. is an Indian company or if Hema Ltd. is a foreign company.

[5+3+7]

Question 5.

(a) X is aged 35 years. His father has settled a house property in trust giving whole life interest therein to X. The income from the property for the years 2010-11 to 2013-14 was ₹70,000, ₹81,000, ₹82,000 and ₹86,000 respectively. The expenses incurred each year were ₹3,000, ₹17,000, ₹500 and ₹18,000 respectively. Calculate the value of life interest of X in the property so settled on the valuation date March 31, 2014 on the assumption that the value of house as per Schedule III is (i) ₹15 lakh, or (ii) ₹6 lakh. [Multiplier at the age of 35 is 10.804]

(b) During the accounting period ended on March 31st, 2014, a charitable trust derived — (i) income from property held for charitable purposes : ₹ 3,00,000 (₹ 1,50,000 received in cash and the remaining balance of ₹1,50,000 is to be received in the year 2015-16), (ii) voluntary contribution : ₹ 2,00,000 with no specific direction, and (iii) ₹20,00,000 with specific direction that it shall form corpus of the trust.
During the previous year 2013-14, the trust spends only ₹ 1,40,000 for charitable purposes. Determine its taxable income on the assumption that the trust has obtained extension of time for applying the unrealised income of ₹ 1,50,000 in the year of receipt, i.e., 2015-16 whereas it actually spends ₹ 30,000 in the year 2015-16 and ₹ 40,000 in the year 2016-17.

(c) Mr. Devesh Verma, an Indian resident, aged 52 years, returned to India after visiting England on 31.10.2013. He had been to England on 10.10.2013. On his way back to India he brought following goods with him –

(i) His personal effect like clothes etc. valued at ₹ 40,000.
(ii) 1 litre of Wine worth ₹ 1,000.
(iii) A video cassette recorder worth ₹ 11,000
(iv) A microwave oven worth ₹ 20,000.

What is the customs duty payable?

[4+6+5]

Question 6.

(a) Mr. Lal is a manufacturer of dutiable as well as exempted goods. Mr. Lal has manufactured goods of ₹ 1,00,00,000 in the Financial Year 2013-14. Out of this, ₹ 80,00,000 are taxable final products and ₹ 20,00,000 are exempted final products.

Excise duty paid on his inputs is ₹ 10,00,000.

Rate of basic excise duty on final products is 12% plus education cess @2% and SAH education cess @1%.

Discuss the options available to Mr. Lal for availment of CENVAT credit, if he is not able to bifurcate inputs between those used for exempt goods and taxable final products. Calculate CENVAT credit available to him under different options and explain which option is beneficial to him.

(b) Retails India Ltd. is an Indian company. The following incomes are noted from its books of account:
Income from a business in India — ₹ 7,60,000

Income from a business in a foreign country with whom India has ADT agreement — ₹ 4,32,000

According to the ADT agreement, ₹4,32,000 is taxable in India. However, it can also be taxed in the foreign country @ 11.85% which can be set off against Indian tax liability. Find out the Indian tax liability.

(c) X Ltd. is engaged in the business of manufacture of garments.

	₹
Sale proceeds of goods (domestic sale)	23,23,900
Sale proceeds of goods (export sale)	4,76,100

Amount withdrawn from general reserve (reserve was created in 1996-97 by debiting P&L A/c) Amount withdrawn from revaluation reserve	2,00,000 1,50,000
Total	31,50,000
Less: Expenses Depreciation (normal) Depreciation (extra depreciation because of revaluation) Salary and wages Income- tax Outstanding customs duty (not paid as yet) Proposed dividend Consultation fees paid to a tax expert Other expenses	 6,16,000 2,70,000 2,20,000 3,50,000 17,500 60,000 21,000 1,39,000
Net Profit	14,56,500

For tax purposes the company wants to claim the following:
- Deduction under section 80- IB (30 per cent of ₹14,56,500).
- Depreciation under section 32 (₹5,36,000)

The company wants to set off the following losses/allowances:

	For tax purposes ₹	For accounting purposes ₹
Brought forward loss of 2008 -09	14,70,000	4,00,000
Unabsorbed depreciation	—	70,000

Compute the net income and tax liability of X Ltd. for the assessment year 2014-15 assuming that X Ltd. has a (deemed) long-term capital gain of ₹60,000 under proviso (i) to section 54D(2) which is not credited in Profit and Loss Account.

[3+3+9]

Question 7.

(a) Gopal Care Ltd. imported a lift from England at an invoice price of ₹ 17,50,000. The assessee had supplied raw material worth ₹ 7,50,000 to the supplier for the manufacture of said lift. Due to safety reasons, the lift was not taken to the jetty in the port but was unloaded at the outer anchorage. The charges incurred for such unloading to ₹ 25,000 and the cost incurred on transport of the lift from outer anchorage to the jetty was ₹50,000. The importer was also required to pay ship demurrage charges ₹ 10,000. The lift was imported at an actual cost of transport ₹ 45,000 and insurance charges ₹ 20,000. Compute its assessable value.

(b) Discuss whether the following services are chargeable to service tax —

(i) Marketing service provided by Punjab Government to a business entity.
(ii) Development of course contents for Delhi University against a charge.
(iii) Service provided as agents for inland waterways.
(iv) Sale of time for broadcasting on Radio Mirchi.

(c) Answer the following with the help of decided case laws:
Whether for the purpose of Section 54EC of Income-tax Act, 1961, the period of investment of six months should be reckoned after the date of transfer or from the end of the month in which transfer of capital asset took place?

[5+4+6]

Question 8.

(a) M/s. ABC Ltd., a manufacturer of various excisable goods, furnishes you with the following information for the year ended 31st March, 2014. 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 2014-15:

(i) Clearances of finished excisable goods covered under Section 4A of Central Excise Act [Notified abatement 20% RSP of goods ₹ 150 lakhs;

(ii) Value of clearances of inputs as such under Rule 3(5) of Cenvat Credit Rules, 2004 on which Cenvat Credit has been taken ₹ 25 lakhs;

(iii) Value of clearances of excisable goods bearing brand name of foreign company which is assigned in favour of ABC Ltd. ₹ 86 lakhs;

(iv) Value of clearance as licensee of goods carrying the brand name of another person upon full payment of duty ₹ 250 lakhs;

(v) Value of clearance of waste and scrap which were exempt from duty ₹ 30 lakhs;

(vi) Value of clearances of plastic containers for packing of pickles produced by then under brand name of Nilons Pickles. Nilons pickles use these plastic containers ₹ 30 lakhs;

(vii) Clearances of other excisable goods ₹ 134 lakhs.

(b) Mr. A, a manufacturer, purchased raw material for ₹1,04,000 (inclusive of 4% VAT) and capital goods for ₹5,62,500 (inclusive of 12.5% VAT). The manufacturing and other expenses (excluding depreciation) are ₹1,17,000. He sells the resultant product at 80% above cost (VAT on sales is 20%). The capital goods are to be depreciated at 25% straight line. Ascertain the VAT payable in cash as per Gross Product Variant.

(c) X provides the following information for the quarter ending March 31, 2014 —

	₹
Sale of space for advertisement in Times of India	17,80,000
Sale of space for advertisement in billboards outside different cricket stadium in Maharashtra	62,90,000
Sale of space for advertisement in FM channels	18,50,500

Service tax is charged extra (wherever applicable). Invoices are issued within 10 days of completion of service. Payment is generally received after 4 months. Find out the tax liability for the quarter ending March 31, 2014.

[8+4+3]