

Paper-14: Indirect and Direct - Tax Management

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.

(a) Fill up the blanks:

[25 × 1]

- (i) The maximum amount of deduction is allowed under section 80C of the Income-tax Act in a previous year is _____.
- (ii) 15% of Advance Tax should be paid by a corporate assessee on or before _____.
- (iii) Loss in a speculation business can be carried forward to the subsequent year and set off only against the profits of a _____ carried on in that year.
- (iv) Employer's contribution towards an approved superannuation fund is chargeable to tax in the hands of employees to the extent such contribution exceeds ₹ _____ per assessment year.
- (v) Sitting fees paid to directors for attending Board Meeting is not a salary but taxable as _____.
- (vi) The effective rate of service tax _____ % of the value of taxable service.
- (vii) Form _____ is prescribed for application to get registered u/s 7 of CST Act.
- (viii) Services rendered by a foreign diplomatic mission located in India are included in the _____ list of service in the context of service tax.
- (ix) As per the definition of goods in excise, the two essential elements of goods are it should be movable and _____.
- (x) _____ means a person engaged in the manufacture or production of goods on behalf of a principal manufacturer from any inputs or goods supplied by the said principal manufacturer or by any other person authorised by him.
- (xi) There are two types of registration in the context of VAT, one is Compulsory Registration and another is _____ Registration.
- (xii) In case of Anti-dumping, margin of dumping means the difference between normal value and _____.
- (xiii) The _____ sale price should be the maximum price at which excisable goods in packaged forms are sold to ultimate consumer.
- (xiv) Unbranded software is _____. (goods/ service)
- (xv) VAT prevents the _____ effect of tax by providing set-off/ input credit of tax paid earlier.

MTP_Final_Syllabus 2008_Jun 2015_Set 2

- (xvi) In customs, _____ means transfer from one conveyance to another with or without payment of duty.
- (xvii) In excise, Design and Engineering Charges being an essential process/activity for the purpose of manufacture shall be _____ (included/ excluded) in the Assessable value.
- (xviii) _____ products are such products, which are produced in a process naturally in the course of manufacture of a finished product, which involves more than one process.
- (xix) Surcharge at the rate of _____ is applicable in case total income of a foreign company exceeds ₹1 crore, but does not exceed ₹10 crore for the Assessment Year 2015-16.
- (xx) Recovery of unrealized rent is chargeable to tax under the head _____.
- (xxi) Where bonus shares are issued prior to 01.04.81, the cost of acquisition shall be the _____ as on _____.
- (xxii) In case of an individual cash in hand on the last moment of the valuation date in excess of _____ is an 'asset' u/s 2(ea) of Wealth Tax Act.
- (xxiii) 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 _____.
- (xxiv) Section 80GGB of the Income Tax Act, 1961 provides for deduction in respect of contribution given by a/an _____, to a political party, or an electoral trust.

Question 2.

- (a) 'U' was born in 1977 in India. His parents were also born in India in 1948. His grandparents were, however, born in England. 'U' was residing in India till 15.3.2012. Thereafter, he migrated to England and took the citizenship of that country on 15.3.2014. He visits India during 2014-15 for 90 days. Determine the residential status of 'U' for assessment year 2015-16. [5]
- (b) Describe how indirect taxes are administered in India. [2]
- (c) Write the advantages of indirect taxes (any two). [2]
- (d) Boral Ltd., which is engaged in the manufacture of excisable goods started its business in May, 2014. It availed small scale exemption in terms of Notification No. 8/2003-C.E. dated 01-03-2003. The following details are provided (₹);

15,000 kg of inputs purchased @ ₹ 992.70 per kg. (inclusive of excise duty @ 12.36%)	1,48,90,500
Capital goods purchased on 25-06-2014 (inclusive of excise duty at 12.36%)	45,60,000
Finished goods sold (at uniform transaction value throughout the year)	2,50,00,000

MTP_Final_Syllabus 2008_Jun 2015_Set 2

Calculate excise duty payable by M/s. Boral Ltd. in cash, if any, during year 2014-15. Rate of duty on finished goods sold may be taken at 12.36% and you may assume that selling price is exclusive of central excise duty. There is neither any processing loss nor any inventory of input and output. Show your workings notes with suitable assumptions as required. [6]

Question 3.

(a) When is the CENVAT Credit on inputs not admissible? [4]

(b) A sole proprietary concern, whose written down value of the block of assets as on 1.04.2014 carrying 15% rate of depreciation was ₹5,00,000, purchased another asset of the same block on 1.04.2014 for ₹2,00,000. The said concern was succeeded by the company on 1.09.2014. After the succession, the company purchased another asset of the same block on 1.1.2015 for ₹1,60,000. Compute the depreciation available to the proprietary concern and the company for the assessment year 2015-16. [6]

(c) S. Kumar has the following assets on 31st March, 2015:

Asset	Market Value (₹)	Loan Outstanding (₹)
Gold	87,00,000	10,00,000
Residential House at Pune	45,00,000	2,00,000
Residential House at Andheri	90,00,000	27,00,000
Residential House at Mahape (Let out though out the year)	65,00,000	11,00,000
Commercial House at Thane used for his own business	1,15,00,000	50,00,000
Shares	25,00,000	5,00,000
Boat	1,50,000	2,50,000
Motor Car	9,00,000	3,00,000
Bank deposit	58,00,000	Nil
Commercial complex at Andheri having 25 offices	2,50,00,000	1,55,00,000

Besides above mentioned loans, S. Kumar took a loan of ₹1,00,000 from his bank for his brother's marriage. Moreover, out of loan of ₹2,50,000 taken for boat, he utilized ₹50,000 for financing expenses on his foreign visit.

Determine his Net Wealth.

[5]

Question 4.

(a) Whether the metal scrap or waste generated during the repair of his worn out machineries/ parts of cement manufacturing plant by a cement manufacturer amounts to manufacture?

[5]

(b) ABC Ltd. is engaged in the manufacture of 'paracetamol' tablets that has an MRP of ₹ 50 per strip. The company cleared 1,00,000 tablets and distributed as physician's samples. The goods are not covered by MRP, but the MRP includes 12.36% Excise Duty and 2% CST. If the cost of production of the tablet is ₹ 2 per tablet, determine the total duty payable. **[3]**

(c) Anu purchased 5,000 shares of S Ltd. @ ₹200 per share on 5.7.2014. S Ltd. declares a dividend of ₹10 per share. The record date is fixed as 4.9.2014. Anu received the dividend immediately after the record date. The above shares were sold by Anu on 5.11.2014 for:

(a) ₹175 per share

(b) ₹192 per share

(c) ₹205 per share

Compute the income/loss in each case.

[7]

Question 5.

(a) Following transactions took place in the factory of Pisco Ltd. —

(i) An imported consignment of Raw Materials was received vide Bill of Entry dated 2nd Dec, showing the following Customs Duty payments —

Basic Customs Duty ₹ 10,000

Additional Duty (CVD) ₹ 12,000

Special Additional Duty ₹ 4,000

(ii) A consignment of 1,000 kgs of inputs was received. The Excise Duty paid as per the invoice was ₹ 12,360. While the input was being unloaded 45 kgs were damaged, and were found to be not usable.

(iii) Some inputs for final product were received. These were accompanied by a certified Xerox Copy (photo copy) of Invoice No. 270 dated 23rd Dec. indicating the Excise duty of ₹ 5,500 has been paid on inputs. The original for duplicate copy of invoice are not traceable.

Indicate the eligibility of CENVAT Credit under the CENVAT Credit Rules, 2004 with explanations where necessary. **[5]**

(b) Akhtar owns three cars and silver furniture (value of cars being ₹25,00,000 and of silver furniture being ₹35,00,000 of 31.03.2015). He take loan of ₹4,70,000 by pledging there to invest in shares. You are requested by Akhtar to calculate amount of wealth tax payable by him for the assessment year 2014-15. **[5]**

(c) A, B and C are three partners in a firm of lawyers having an equal share in profits. For the assessment year 2015-16 income of the firm from profession is ₹40,000 after paying salary of ₹72,000 to A and ₹48,000 to B. The interest income of the firm is ₹60,000. The personal incomes of A, B, and C are ₹ 1,98,000; ₹ 1,96,000 and ₹ 1,95,000 respectively. They have deposited a sum of ₹10,000 each in Public Provident Fund Account. Determine the taxable income of the firm and its partners. **[5]**

MTP_Final_Syllabus 2008_Jun 2015_Set 2

Question 6.

(a) R, S, G are three members of an AOP sharing profit and losses in the ratio of 2:2:1. The profit and loss account of the AOP for year ending 31.3.2015 is as follows:

	₹		₹
Cost of good sold	52,00,000	Sales	63,00,000
Interest to members @ 24%		Long-term capital gain	1,60,000
R	48,000		
S	72,000		
G	24,000		
Salary to members			
R	90,000		
G	40,000		
Other expenses	3,80,000		
Net Profit	6,06,000		
	64,60,000		64,60,000

Other Information:

1. The AOP gives a donation of ₹40,000 to a public charitable trust (not debited to P/L A/c) which is eligible u/s 80G.
2. Out of other expenses ₹20,000 are not deductible by virtue of section 43B.

Other incomes and particulars of the members are given below.

	Amount ₹	Nature of Income	Deduction u/s 80D	PPF contribution ₹
R	1,22,000	Saving bank Interest	₹3,000 medical	12,000
S	1,16,000	Saving bank Interest		4,000
	10,000	Dividend from U.T.I		
G	1,10,000	Interest on company Deposits	₹4,000 medical insurance premium	5,000

Find out the liability of the AOP and members for the assessment year 2015 –16. **[12]**

(b) Describe the benefits in case of supply to EOUs (Export Oriented units) from DTA (Domestic tariff Area) units? **[3]**

Question 7.

(a) DEB Ltd. has a manufacturing unit situated in Lucknow. In the financial year 2014-15, the total value of clearances from the unit was ₹ 465 lakhs.

The breakup of clearances is as under:

- i. Clearances worth ₹ 85 lakhs of certain non-excisable goods manufactured by it.

MTP_Final_Syllabus 2008_Jun 2015_Set 2

- ii. Clearances worth ₹ 55 lakhs exempted under specified job work notification.
- iii. Exports worth ₹ 100 lakhs (₹ 75 lakhs to USA and ₹ 25 lakhs to Nepal).
- iv. Clearances worth ₹ 50 lakhs which were used captively to manufacture finished products those are exempt under notifications other than Notification No. 8/2003-CE., dated 01-03-2003 as amended.
- v. Clearances worth ₹ 200 lakhs of excisable goods in the normal course.

Explain briefly, the treatment for various items and state, whether the unit will be eligible for the benefits of exemption under Notification No. 8/2003-CE dated 1-3-2003 as amended for the financial year 2015-16. **[5]**

(b) M/s. SURYA Ltd. received the following sums (exclusive of taxes). Compute its service tax liability (Ignore small service provider's exemption)-

- (1) Commission from selling of various goods belonging to other parties : ₹ 6.5 lakh ;
- (2) Commission from acting as Clearing and Forwarding Agent: ₹ 6.8 lakh ;
- (3) Commission from acting as clearing agent: ₹ 4.8 lakh ;
- (4) Commission from acting as forwarding agent: ₹ 2 lakh ;
- (5) Margin earned from trading in shares : ₹ 4.6 lakh ;
- (6) Margin from trading in futures : ₹ 4.8 lakh ;

[4]

(c) Assessee a company entered into a collaboration agreement with owner of an immovable property, who executed a General Power of Attorney (GPA) in assessee's favour - Sub-Registrar resisted to register GPA on basis of circular issued by Government of NCT of Delhi, holding that transaction was, in effect, a transaction of sale, and it was sought to evade stamp duty - Whether, circular directing Registrars not to register conveyance of immovable property based on a GPA, was contrary to observation of Supreme Court and was liable to be set aside. **[6]**

Question 8.

(a) Uday Ltd. of Mumbai (having diversified business) has provided the following services, whose values are listed below. Compute its service tax liability:

- (1) Services provided to a company located in Colombo in relation to organization of a sport event in Colombo: ₹ 25 lakh;
- (2) Services provided to a company located in Srinagar in relation to festival celebration in Srinagar: ₹ 5 lakh;
- (3) Services provided to a company located in Chennai in relation to fashion show in Dubai: ₹12 lakh;
- (4) Services of online database access and retrieval services provided from its website: ₹17 lakhs (out of this, ₹10 lakh was provided to recipients located outside India). **[3]**

MTP_Final_Syllabus 2008_Jun 2015_Set 2

(b) Umar 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.

Sl. No.	Particulars	Amount (₹)
(i)	Total contract price (excluding VAT @ 12.5%)	1,95,00,000
(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 (excluding VAT @12.5%)	40,00,000
(iv)	Other service charges paid for the execution of the contract (excluding VAT @12.5%)	20,00,000
(v)	Cost of consumables used not involving transfer of property in goods (excluding VAT @12.5%)	15,00,000

Umar 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.

[4]

(c) Under Central Excise Tariff Act goods are classified using 8-digit system as headings under 'Harmonised System of Nomenclature' — Justify.

[3]

(d) From the following particulars, calculate assessable value and total customs duty payable:

- (i) Date of presentation of Bill of entry : 14-05-2014 [Rate of BCD 25%; Exchange Rate: ₹43.40 and rate notified by CBEC ₹ 43.80]
- (ii) Date of arrival of goods in India: 27-05-2014 [Rate of BCD 20%; Exchange Rate; ₹ 44.10 and rate notified by CBEC ₹ 44.20]
- (iii) Rate of Additional Customs Duty : 12%;
- (iv) CIF value 2,000 US Dollar; Air Freight 500 US Dollars, Insurance cost 100 US Dollars [Landing Charges no ascertainable].
- (v) Education Cess applicable 3%
- (vi) Assume there is no special CVD.

Also determine the Cenvat credit eligibility if the buyer is — (1) manufacturer (2) service provider and (3) trader. [Provide working notes as and when required]

[5]