

Paper 16 – Tax Management and Practice

Answer to MTP_Final_Syllabus 2012_Jun2017_Set 1

Paper 16 – Tax Management and Practice

Full Marks: 100

Time allowed: 3 hours

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

- 1.(a) Fill in the blanks: [5×1=5]
- (i) Where three types of taxable services are rendered by an individual, _____ service tax return(s) has / have to be filed.
 - (ii) Cenvat credit to be claimed on diesel purchased for generators used in factory is at _____ rate.
 - (iii) The rate of service tax applicable in respect of a charitable institution conducting yoga classes would be _____.
 - (iv) While making intra head adjustment, loss from the business of owing and maintaining race horse can be set off against _____ only.
 - (v) Section _____ provides for imprisonment in case of failure to file the return of Income.

Answer:

- (i) one
- (ii) nil
- (iii) nil
- (iv) Income from owing and maintain of horse race
- (v) 276CC

- (b) Choose the most appropriate alternative: [5×1=5]
- (i) Mr. X an Indian resident, aged 45 years, returned to India after visiting USA on 10/04/2016. He had gone to USA on 13/03/2016. On his way back to India he brought a watch worth 23,000 with him. The customs duty will be payable by him:
 - (a) nil
 - (b) ₹ 8,292
 - (c) ₹ 2,369
 - (d) none of the above.
 - (ii) Which of the following is a Duty Exemption Scheme under Foreign Trade Policy 2015-2020?
 - (a) Merchandise Exports from India Scheme (MEIS);
 - (b) Duty Drawback Scheme;
 - (c) Advance Authorisation Scheme;
 - (d) Service Exports from India Scheme (SEIS).
 - (iii) M/s. DLF Ltd., sponsored ₹ 20 lakhs in respect of a Tournament organized by Board of Council for Cricket in India (BCCI). The person liable to pay tax:
 - (a) DLF Ltd.
 - (b) BCCI
 - (c) both DLF Ltd. & BCCI
 - (d) exempted service.
 - (iv) An application for advance ruling by any person for determination whether an arrangement, is an impermissible avoidance agreement as referred to in Chapter X is to be made in Form No. _____.
 - (a) 34A
 - (b) 34C
 - (c) 34D
 - (d) 34EA
 - (v) Maximum qualifying limit for deduction u/s 80C is
 - (a) 50,000
 - (b) 1,00,000

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- (c) 1,50,000
(d) None of the above.

Answer:

- (i) (a)
(ii) (c)
(iii) (a)
(iv) (d)
(v) (c)

(c) State true or false with reasons: [5×2=10]

- (i) Consumption Type Variant is not a variant of VAT.
(ii) Services provided in relation to health services used primarily for personal use is not included in the definition of input services as per Cenvat Credit Rules.
(iii) In the context of anti-dumping duty, the difference between the normal value and the export price of the goods is the injury margin.
(iv) The authority will not allow the application when the question involves determination of fair market value of any property.
(v) Can revised return can be further revised.

Answer:

(i) False: VAT could be levied with three specific variants, viz., Gross Product Variant, Income Type Variant, and Consumption Type Variant.

(ii) True: As per rule 2(l) of the Cenvat Credit Rules, input service excludes such services which are provided in relation to health services, beauty treatment, outdoor catering etc. used primarily for personal use.

(iii) False: Margin of dumping is the difference between normal value (i.e. exporter's sale price in his country) and export price (price at which he is exporting the goods) of the goods.

(iv) True: The authority will not allow the application when the question involves determination of fair market value of any property.

(v) True: If the assessee discover any omission or any wrong statement in a revised return, it is possible to revise such a revised return provided it is revised within the same prescribed time. [Niranjan Lal Ram Chandra v CIT (1982) 134 ITR 352 (All); CIT v Shrivastava (Dr. N.) 170 ITR 556 (MP)].

2. MNO Corporation LLP, is carrying on two businesses viz. Textile manufacture and Operation of cold chain facility. It gives you the following information for the year 31.3.2017:

Net profit as per Profit & Loss Account:

From Textile Manufacture	₹10,25,000
From Operation of cold chain facility	₹ 20,50,000

The following items are debited to Profit & Loss Account:

- (i) Interest on capital payable to partners @ 15% on total capital of ₹ 100 lakhs.
(ii) Working partner salary ₹ 36 lakhs (i.e., ₹ 1 lakh each per month for 3 partners).
(iii) Depreciation on textile factory building ₹ 5 lakhs,
(iv) Depreciation on plant & machineries of textile business ₹ 35 lakhs.
(v) Keyman insurance policy premium paid ₹ 1,55,000.

Other Information:

Eligible depreciation under section 32 for the previous year 2016-17 are—

- (i) On plant & machineries of textile business ₹ 27 lakhs.
(ii) On factory building relating to textile business ₹ 4 lakhs.

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The assessee set up and operating a cold chain facility since 1.4.2015. It incurred capital expenditure towards construction of cold chain facility during the period from 1.6.2013 to 31.3.2015 as under.

Cost of land (acquired on 1.6.2013) ₹ 30 lakhs.

Cost of construction of building and machineries installed till 31.3.2015 ₹ 50 lakhs.

The income of the firm for the previous year 2015-16 (Assessment Year 2016-17) is given below:

Income from textile manufacture ₹ 12 lakhs.

Income from cold chain facility ₹ 60 lakhs (before deduction under section 35AD)

The firm originally had 4 equal partners and one partner retired on 31.3.2016. The partnership agreement authorizes payment of salary and interest on capital which are debited to Profit & Loss Account.

You are requested to compute the total income of the firm for the A.Y. 2017-18.

Note — Ignore Alternate Minimum Tax (AMT) under section 115JC.

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Answer:

Computation of total income of MNO Corporation LLP for the A.Y. 2017-18

Particulars	Amount (₹)	Amount (₹)
Profits and Gains from Business or Profession Consolidated net profit as per profit and loss account (₹ 10,25,000 + ₹ 20,50,000)		3,075,000
Add: Expenses debited to profit & loss account but disallowed or to be considered separately		
1. Interest on capital payable to partners in excess of 12%	3,00,000	
2. Working Partner's salary (to be allowed separately)	3,600,000	
3. Depreciation relating to textile business as per books of account (₹ 5 lakhs + ₹ 35 lakhs)	4,000,000	
		7,900,000
		10,975,000
Less: Depreciation as per Income-tax relating to textile business [27 Lakh + 4 Lakh]		31,00,000
Book Profit		7,875,000
Less: Remuneration to working partner (See Working Note 2)		3,600,000
Income under the head PGBP for both business		4,275,000
Business Income from textile manufacturing business (See working Note 3)		2,025,000
Balance shall be business income from specified business of operating a cold chain facility (₹ 4,275,000 - ₹ 2,025,000)	2,250,000	
Less: Set off brought forward loss of specified business under section 73A (See Working Note 4)	1,125,000	
		1,125,000
Total Income		3,150,000

Working Notes:

1. Keyman insurance premium paid is allowable as deduction.
2. Remuneration allowed as per section 40(6)]

On First ₹ 3,00,000 of book profit- 90% of book profit	2,70,000
On the balance book profit 60% of ₹ 7,575,000	4,545,000
But limited to actual remuneration paid	3,600,000
3. Computation of profit from textile manufacturing business:

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Particulars	Amount (₹)
Net profit as per profit and loss account	1,025,000
Add: Depreciation relating to textile business as per books of account (₹ 5 lakhs+ ₹ 35 lakhs)	4,000,000
	5,025,000
Less: Depreciation relating to textile business as per Income-tax	3,100,000
Balance	1,925,000
Add: Proportionate interest on capital disallowed 1/3 of ₹ 3,00,000 [apportioned in the ratio of net profits of textile business and specified business as per profit and loss account.]	1,00,000
Profit from textile manufacturing business	2,025,000

4. Computation of brought forward loss of specified business of setting up and operating a cold chain facility for P.Y. 2015-16 relevant to Assessment Year 2016-17

Particulars	Amount (₹)
Income from cold chain facility [before deduction under section 35AD]	6,000,000
Less: Deduction under section 35AD [150% of ₹ 50,00,000] (As business has commenced on 1.4.2015 which is on or after 1-4-2013)	7,500,000
Expenditure on acquisition of land is not eligible for deduction u/s 35 AD	
Loss of specified business for P.Y. 2015-16	1,500,000
Less: 1/4th of the loss attributable to the retiring partner not allowed to be carried forward as per section 78(1)	3,75,000
Balance loss of the specified business to be c/f as per section 73A to be set off from the specified business in the subsequent years	1,125,000

- 3.(a) Compute the deduction allowed under section 80C and the net-tax p by A from the following information submitted by him for the assessment year 2017-18:

Particulars	Amount (₹)
Gross Salary	4,80,000
Royalty (Gross)	27,000
Expenses allowable from royalty	5,000
Interest on fixed deposits with bank (gross)	13,000
LIP on his own life (sum assured ₹ 20,000) policy issued on 1-4-2013	6,000
LIP on the life of his wife	2,000
LIP on the life of his major son (not dependent on A)	2,500
LIP on the life of dependent brother	2,000
Contribution to a Recognised Provident Fund	20,000
Amount deposited in PPF Account	15,000
Contribution to ULIP	3,000
Repayment of housing loan taken from LIC (principal amount ₹ 23,000 and interest ₹ 30,000)	53,000
Subscription to National Saving Certificate IXth issue	25,000
Amount incurred on the education of: (a) Child X ₹14,000	

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(b) Child Y ₹ 7,000 (c) Child Z ₹ 5,000	
Term deposit for 5 years with a scheduled bank	20,000
Five year time deposit in Post Office	15,000
Contribution to Sukanya Samriddhi Account	50,000
He had taken the loan from LIC for construction of a residential house property which was completed in 2014 and which is being utilized by A for his own residence.	

[8]

Answer:

Computation of net tax payable by Mr. A

Particulars	Amount (₹)	Amount (₹)
Income from salary		
Gross salary	4,80,000	
Less: Deduction u/s 16	Nil	4,80,000
Income from House property		
Annual value (being self employed)	Nil	
Less: Deduction u/s 24		
Interest on money borrowed for construction	30,000	(30,000)
Income from other sources		
Royalty	27,000	
Less: Expenses	5000	22,000
Interest on fixed deposit with bank		13,000
Gross Total Income		4,85,000
Less: Deduction u/s 80C to 80U		
U/s 80C (See working note)		1,50,000
Total Taxable Income		3,35,000
Tax on ₹ 3,35,000		8,500
Less: Rebate u/s 87A		5,000
		3,500
Add: Education cess & SHEC @ 3%		105
Tax (rounded off)		3610
Calculation of Deduction allowable u/s 80C		
LIP on own life (limited to 10% of sum assured)		2000
LIP on life of wife		2000
LIP on life of major son		2500
LIP on life of brother		--
Contribution to RPF		20,000
Contribution to PPF		15,000
Contribution to ULIP		3,000
Repayment of housing loan (Principal amount ₹ 23,000)		23,000
Subscription to National Saving Certificate IXth Issue which will subscribe to eligible issue of capital		25,000
Term deposit for 5 years with a scheduled bank		20,000
Five year time deposit with Post office		15,000
Contribution to Sukanya Samiriddhi A/c		50,000
		1,98,500
But limited to		1,50,000

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- (b) From the following information submitted to you, compute the total income of A for the assessment year 2017-18 and calculate his tax liability assuming he is not allowed deduction under sections 80C to 80U.

Particulars	Amount (₹)
Income from salary	3,00,000
Income from house property	40,000
Business loss	(-) 1,90,000
Loss from a specified business referred to in section 35AD	(-) 60,000
Short-term capital loss	(-) 60,000
Long-term capital gain	2,40,000

[8]

Answer:

Computation of total income of A for the A.Y 2017-18

Particulars	Amount (₹)	Amount (₹)
Income from salary		3,00,000
Income from House property		
Income	40,000	
Less: Business loss adjusted	10,000	
		30,000
Business Loss	(-) 1,90,000	
Less: Set off against capital gain	1,80,000	
Less: Set off against house property	10,000	Nil
Loss from specified business not allowed to be set off	(-) 60,000	
Income from Capital Gain		
Long term capital gain	2,40,000	
Less: Short term capital gain	60,000	
	1,80,000	
Less business loss adjusted	1,80,000	Nil
Gross Total Income		3,30,000
Less: Deductions		Nil
Total Income		3,30,000
Tax on ₹ 3,30,000		8,000
Less: Rebate u/s 87A		5,000
		3,000
Add: Education cess & SHEC @ 3%		90
		3,090
Notes:		
1. Business loss should first be set off from long-term capital gain as the long-term capital gain is taxable @ 20% where as the income from house property, in this case, is taxable @ 10%.		
2. It may be noted that business loss cannot be set off against income under the head salary.		

- 4.(a) State the benefits available to status holders in the context of foreign trade policy 2015-20.** [8]

Answer:

Benefits to status holders:

- 1) Authorisation and Customs Clearances for both imports and exports may be granted on self declaration basis;
- 2) Fixation of Input Output Norms (SION) on priority by the Norms Committee i.e. within 60 days.
- 3) Exemption from compulsory negotiation of documents through banks. The remittance receipts, however, would continue to be received through banking channels by way of e-BRC by DGFT.

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- 4) Exemption from furnishing of Bank Guarantee in Schemes under foreign trade policy.
- 5) Two Star Export Houses and above are permitted to establish export warehouses.
- 6) Three Star and above Export House shall be entitled to get benefit of Accredited Clients Programme (ACP) as per the guidelines of CBEC.
- 7) Status holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to an annual limit of ₹ 10 lakh or 2% of average annual export realization during preceding 3 licensing years, whichever is higher.
- 8) Manufacturer exporters who are also Status Holders shall be eligible to self-certify their goods as originating from India.

(b) X & Co Ltd. had made an application to the Settlement Commission. The issue in the said application related to cash credits in the books of account. The Commission passed an order making addition to the income on the basis of difference in gross profit rate adopted, which was neither an issue in the application nor in the report of the Commissioner of Income-tax. Discuss the validity of the order of the Settlement Commission. [8]

Answer:

The issue under consideration is whether the Settlement Commission can pass an order making addition to the income on the basis of difference in gross profit rate adopted, which was NEITHER an issue in the application nor in the report of the Commissioner of Income-tax.

Section 245D(4) provides that the Settlement Commission, after examination of records and (report of the Commissioner and after examining such further evidence as may be placed before or obtained by it, may, in accordance with the provisions of the Act, pass such order as it thinks

Further, section 245D(5) provides that the materials brought on record before the Settlement Commission shall be considered by the Members of the concerned Bench before passing any order life section 245D(4).

"Consideration" means independent examination of the evidence and material brought on record before the Settlement Commission by the members and application of mind thereto with a view to independently assess the materials and evidence, whether adduced by the applicant or by Commissioner, and come to a conclusion by themselves.

This view has been upheld in case of Supreme Agro Foods P Ltd. v Income-tax Settlement commission (2013) 353 ITR 385 (P & H).

The Settlement Commission, therefore, has to consider the material brought on record before it and "consideration" means independent examination of the evidence and material on record.

In this case, since the material was available before the Settlement Commission and such material has been taken into consideration for returning a finding which is relevant for determining the undisclosed income of the applicant, the addition made on the basis of difference in gross profit rate adopted is justified.

Therefore, the order of the Settlement Commission is valid.

5.(a) Uber (USA) operating radio taxi services in India. In the month of January 2017, the following services are rendered by it.

Free services provided to new customers who travelled for the first time. However, payment made to taxi drivers ₹ 10,00,000.

Hire charges collected from customers ₹ 12,25,500. Payment made to taxi drivers ₹ 11,00,000.

Uber appointed X Pvt. Ltd., as their representative in India. Person liable to pay service tax is willing to avail abatement if any.

You are required to find:

(i) Who is liable to pay service tax.

(ii) Service tax liability

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(iii) Due date of payment of service tax

Assume for all services point of taxation is in the month of January 2017.

[2+6+1]

Answer:

Particulars	Value in ₹ (1)	Value in ₹ (2)
(i) Service tax is liable to pay by aggregator or representative of the aggregator if he has no place of business in India	X Pvt. Ltd.	X Pvt. Ltd.
Value of services paid to taxi driver	10,00,000	12,25,500
Less: Abatement 60%	-6,00,000	-7,35,300
Value of service subject to service tax	4,00,000	4,90,200
(ii) Service tax 14%	56,000	68,628
Swachh Bharat Cess 0.5%	2,000	2,451
Krishi Kalyan Cess 0.5%	2,000	2,451
(iii) Due date	6-2-2017	6-2-2017

(b) A SSI unit has effected clearances of goods of the value of ₹ 475 lacs during the Financial Year 2015-16. The said clearances include the following: (i) Clearance of excisable goods without payment of excise duty to a 100% EOU unit ₹ 120 lacs, (ii) Job work in terms of notification no. 214/86 CE, which is exempt from duty - ₹ 75 lacs, (iii) Export to Nepal and Bhutan - ₹ 50 lacs, (iv) Goods manufactured in rural area with the brand name of the others ₹ 90 lacs. Examine with reference to the notification governing SSI, under the Central Excise Act whether the benefit of exemption would be available to the unit for the Financial Year, 2016-17. [7]

Answer:

While calculating the turnover of ₹ 400 lakhs, following are not required to be considered -

(i) Deemed exports i.e. supplies to 100% EOU (₹ 120 lakhs);

(ii) Job work that amounts to 'manufacture' done under notifications No. 214/86-CE, 83/ 94-CE and 84/94-CE (₹ 75 lakhs).

Turnover in respect of sale to EOU (₹ 120 lakhs) and job work under notification No. 214/86-CE (₹ 75 lakhs) is required to be excluded for purpose of SSI exemption limit of ₹ 400 lakhs. Turnover of SSI excluding these sales is ₹ 280 lakhs (₹ 475 - ₹ 120 - ₹ 75 lakhs). Hence, the SSI unit will be entitled to exemption in 2016-17 upto first turnovers of ₹ 150 lakhs.

6.(a) An importer imported some goods for subsequent sale in India. The Customs Officer assessed value of goods for ₹ 10,19,090.

The above value includes the following:

Air Freight 25% on Free on Board (FOB)

Insurance @1.125%

Unloading charges @1% on Cost, Insurance and Freight (CIF)

Importer approached you to find correct assessable value for his import. [10]

Answer:

Assessable value (AV) = (FOB + Insurance + Air freight) + 1% on CIF towards unloading charges

Let assume FOB = X

Add: Air Freight = 0.25X

Add: Insurance = 0.01125X

CIF Value = 1.26125X

Add: unloading charges 1% on CIF value = 0.0126125X

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Assessable value	----- = 1.2738625X ===== ₹
FOB value	= 8,00,000 (₹ 10,19,090 ÷ 1.2738625)
Add: Air freight 20% on FOB	= 1,60,000
Add: Insurance @1.125%	= 9,000
CIF Value	----- = 9,69,000
Add: 1% unloading charges on CIF value	= 9,690
Assessable value	----- = 9,78,690 =====

(b) X Ltd (manufacturer) provides the following information for the month of April:

Purchases within the state on 1st April:	
Purchase of Raw materials and Components	₹ 1,00,000
4% VAT paid on above purchases	₹ 4,000
Machinery (Capital Goods) purchased for (life 10 years)	₹ 5,00,000
4% VAT paid on above capital Goods	₹ 20,000
Sales within the state:	
Total value of sale	₹ 4,00,000
@4% VAT payable on sales	

Compute the VAT under Income Variant.

[6]

Answer:

Sales	₹ 4,00,000
Less: Cost of Materials and Components	₹ 1,00,000
Proportionate amount of Depreciation on Machinery	<u>₹ 50,000</u>
Net Sales	₹ 2,50,000
VAT payable on ₹ 2,50,000 x 4%	₹ 10,000

Alternatively:

4% VAT on sales	= ₹ 16,000
Less: ITC on Input goods	= ₹ 4,000
Less: ITC on Capital goods to the extent of Depreciation	<u>= ₹ 2,000 (₹ 50,000 x 4%)</u>
Net VAT payable	= ₹ 10,000

7.(a) Parsvnath Music System Ltd. imported recorded audio and video discs in boxes each containing 50 discs. Each individual disc was then packed in transparent plastic cases known as jewel boxes. An inlay card containing the details of the content of the compact disc was also placed in the jewel box. The whole thing was then shrink wrapped and sold in wholesale. The Department contended that the said process amounted to manufacture.

Explain, with the help of decided case law, if any whether Department's contention is justified in law.

[5]

Answer:

The Bombay High Court observed that none of the activity that the assessee undertook involved any process on the compact discs that were imported. It held that the activities carried out by the assessee did not amount to manufacture since the compact disc had been complete and finished when imported by the assessee. They had been imported in finished and completed form.

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The activity of packing imported compact discs in a jewel box along with inlay card does not amount to manufacture under section 2(f) of the Central Excise Act, 1944 [CCE v Sony Music Entertainment (I) Pvt. Ltd. 2010 (249) ELT 341 (Bom)].

Hence, Departmental contention is not justifiable.

(b) ABC Ltd., imported artemia cyst (i.e. brine shrimp eggs). The same has been classified as 'prawn feed' under the heading 2309 (i.e. Heading 2309 of the Customs Act, 1975, includes products of a kind used in animal feeding, not elsewhere specified or included, obtained by processing vegetable or animal materials to such an extent that they have lost the essential characteristics of the original material, other than vegetable waste, vegetable residues and by-products of such processing.) which includes products used as animal feed. However, the Department contended that this product was classifiable under the heading 0511.99 (i.e. which refers to other products in the category of non edible animal products). The contention of importer was that these imported cysts contained little organisms/ embryos which later became larva that prawns feed on. Therefore, according to them, the nature and character of the product was not changed by nurturing or incubation. You are required to examine whether the contention of the Department is justified in law. [5]

Answer:

If a product undergoes some change after importation till the time it is actually used, it is immaterial, provided it remains the same product and it is used for the purpose specified in the classification. Therefore, in the given case, it examined whether the nature and character of the product remained the same.

The Hon'ble High Court held that if the embryo within the egg was incubated in controlled temperature and under hydration, a larva was born. This larva did not assume the character of any different product. Its nature and characteristics were same as the product or organism which was within the egg.

Hence, the Court in the case of Atherton Engineering Co. Pvt. Ltd. v UOI 2010-TIOL-271-HC-Kol-Cus., held that the said product should be classified as feeding materials for prawns under the heading 2309. These embryos might not be proper prawn feed at the time of importation but could become so, after incubation.

The contention of the Department is not justified in law.

(c) Mr. Thomas provides taxable services which are exported. He claimed rebate of service tax paid on input services used in providing the services which were exported by him in July, 2016. The Assistant Commissioner of Central Excise has denied the claim of Mr. Thomas and the disallowance was confirmed by Commissioner (Appeals). Does Mr. Thomas have the right to file an appeal with CESTAT, against the order of Commissioner (Appeals)? Justify. [6]

Answer:

Section 35EE of the Central Excise Act says that in respect of orders passed by Commissioner (Appeals) relating to transit loss, processing loss, rebate of duty or export without payment of duty, a revision application has to be filed with the revision authority.

As per section 86 of the Finance Act, 1994, an appeal can be made to CESTAT against the order of Commissioner (Appeals). However, section 35B of the Central Excise Act in line with the provision of section 35EE bars an appeal to CESTAT in respect of transit loss, processing loss, rebate of duty on export without payment of duty. There was no such restriction in section 86 under service tax.

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With effect from 14.05.2015, the Finance Act, 2015 has amended section 86 of the Finance Act, 1994. It prescribes that the remedy against the order passed by Commissioner (Appeals) in a matter involving rebate of service tax on input services or rebate of duty paid on inputs, used in providing the service which has exported, shall be governed by section 35EE of the Central Excise Act, 1944.

In view of the above, Mr. Thomas cannot file appeal with CESTAT against the order of Commissioner (Appeals) who denied service tax rebate. Mr. Thomas has to file revision application with the revision authority (Central Government) under section 35EE of the Central Excise Act, 1944.

8.(a) Kio Japan and AB Ltd, an Indian Company are Associated Enterprises. AB Ltd manufactures Cellular Phones and sells them to Kio Japan and Geel, a Company based at Beijing. During the year AB Ltd supplied 2,50,000 Cellular Phones to Kio Japan at a price of ₹ 3,000 per unit and 35,000 units to Geel at a price of ₹ 4,800 per unit. The transactions of AB Ltd with Kio and Geel are comparable subject to the following considerations –

- (a) Sales to Kio is on FOB basis, sales to Geel are CIF basis. Freight and Insurance paid by Kio for each unit is ₹ 700.
- (b) Sales to Geel are under a free warranty for Two Years whereas sales to Kio are without any such warranty. The estimated cost of executing such warranty is ₹ 500.
- (c) Since Kio's order was huge in volume, quantity discount of ₹ 200 per unit was offered to it.

Compute Arm's Length Price and amount of increase in Total Income of AB Ltd, if any, due to such Arm's Length Price. [8]

Answer:

Computation of Arm's Length Price of Products sold to Kio Japan by AB Ltd

Particulars	Amount (₹)	Amount (₹)
Price per Unit in a Comparable Uncontrolled Transaction		4,800
Less: Adjustment for Differences		
(a) Freight and Insurance Charges	700	
(b) Estimated Warranty Costs	500	
(c) Discount for Voluminous Purchase	200	(1,400)
Arm's Length Price for Cellular Phone sold to Kio Japan		3,400

Computation of Increase in Total Income of AB Ltd

Particulars	Amount (₹)
Arm's Length Price per Unit	3,400
Less: Price at which actually sold to Kio Japan	(3,000)
Increase in Price per Unit	400
No. of Units sold to Kio Japan	2,50,000
Therefore, increase in Total Income of AB Ltd (2,50,000 x ₹ 400)	₹ 10 Crore

(b) Quipro Ltd is an Indian Company engaged in the business of developing and manufacturing industrial components. Its Canadian Subsidiary Techpro Inc. supplies technical information and offers technical support to Quipro for manufacturing goods, for a consideration of Euro 80,000 per year.

Income of Quipro Ltd is ₹ 70 Lakhs. Determine Taxable Income of Quipro Ltd if Techpro charges Euro 1,00,000 per year to others in India. What will be the answer if Techpro charges Euro 50,000 per year to others. (Rate per Euro = ₹ 60) [8]

Answer:

Particulars	In Lakhs	In Lakhs
	Amount (₹)	Amount (₹)

Answer to MTP_Final_Syllabus 2012_Jun2017_Set 1

When Price Charged for Comparable Uncontrolled Transaction is	€1,00,000	€1,00,000
Price actually paid by Quipro Ltd [$\$ 80,000 \times ₹ 60$]	48	48
Less: Price Charged in Rupees (under ALP) [$1,00,000 \times 60$] and [$50,000 \times 60$]	60	30
Incremental Profit on adopting ALP (A)	(12)	18
Total Income before adjusting for differences due to Arm's Length Price Add: Difference on Account of Adopting Arm's Length Price (if [A] is positive)	70 -	70 18
Total Income of Quipro Ltd	70	88
Note: U/s 92(3), Taxable Income cannot be reduced on applying ALP. So, difference on account of ALP is ignored		