

Paper-14: Indirect and Direct - Tax Management

Time Allowed: 3 hours

Full Marks: 100

All the questions relate to the assessment year 2014-15, unless stated otherwise.

Working notes should form part of the answers.

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

1. Fill up the blanks:

[1×25]

- (i) For SSI exemption benefits, the value of clearances in the previous year should not be exceed the limit of _____. (₹150 lakhs; ₹450 lakhs; ₹400 lakhs).
- (ii) For the purpose of levy tax on income other than agricultural income, Union list contain entry _____. (Entry No. 92C; Entry No. 82; Entry No. 97)
- (iii) A partnership firm is taxable at the rate of _____. (30%; 35%; 40%)
- (iv) A person can be said to have substantial interest, if he is entitle for _____ (20% or more; 10% or more; 50% or more) of share of profit.
- (v) The term income includes the following types of incomes- (Legal and illegal both; Legal only; Illegal only).
- (vi) If total income of Mr. X is Rs. 3,00,000, his tax liability including surcharge and cess shall be _____. (10,300; 11,330; 8,240)
- (vii) The way to reduce tax liability by taking full advantage provided by the Act is _____. (Tax Planning; Tax evasion; tax management).
- (viii) Determine the status of X and Y who are the legal heir of Z is _____. (Body of individual; Individual; Association of person).
- (ix) Capital receipt is _____. (Dividend from investment; Bonus shares; Sale of technological know-how; Compensation received for compulsory evacuation of place of business)
- (x) Capital receipt does not include _____. (Dividend on investment; Bonus shares; Sale of know-how; Compensation received for vacating business place)
- (xi) If an assessee earns rent from a sub-tenant in respect to tenanted property let out as a residence, the said rent is _____. (Exempt under Section 10; Taxable under the head income from house property; Taxable as business income, as the letting out is a commercial activity; Taxable as income from other sources, unless the assessee is in the business of subletting properties on a regular basis)
- (xii) if any expenditure is incurred by an Indian company wholly and exclusively for purpose of amalgamation or demerger, the said expenditure is _____. (not allowable as a deduction as a deduction in computing "Profits and gains from business or profession; Fully deductible as revenue expenditure in the year in which it is incurred; allowable as a deduction, spread over eight successive previous years beginning if the previous year in which the amalgamation or demerger taken place;

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allowable as a deduction, spread over five successive years beginning with the previous year in which the amalgamation or demerger taken place)

- (xiii) Under Section 41(4) of the Income-tax Act, 1961, where a bad debt allowed as a deduction under Section 36(1)(vii) in an earlier year is subsequently recovered, _____. (It is taxable to the extent of 50% of recovery, in the year of receipt, as business income; It is taxable as business income in the year of recovery; It is added back to the income of the year when it was written off and taxed as business income; It is taxable as income from other sources in the year of receipt)
- (xiv) Long-term capital gains arising on compulsory acquisition of agricultural land held by a domestic company within specified urban limits is _____. (not exempt under Section 10(37); exempt under Section 10(37) in full; 50% of the receipt is exempt under Section 10(37); 25% of the receipt is exempt under Section 10(37))
- (xv) Goods specified under Standards of Weights and Measures Act, 1976 as well as in the notification issued by the Government of India along with rate of abatement can be assessed under _____. (Maximum Retail Price; Transaction Value; Retail Price; Whole Sale Price)
- (xvi) Interconnected undertakings means _____. (Head office and Branch office; Holding and subsidiary companies; Group of companies; Companies under the same management)
- (xvii) Part of transaction value includes _____. (Transportation charges from the place of removal to the place of buyer; Transportation charges from the place of factory to the place of branch; Transportation charges from the place of distributor to the place of buyer; Transportation charges from the place of buyer to any other place)
- (xviii) Excisable goods removed for re-warehousing and export therefrom without payment of duty by using the _____. (B-3 Bond; B-2 Bond; B-4 Bond; B-7 Bond)
- (xix) CT-1 form received by the manufacturer from _____. (Merchant exporter; EOU unit; Manufacturer; First stage dealer)
- (xx) If proper invoice for export along with the packing list and ARE -1 form in _____. (Sixtuplicate; Duplicate; Triplicate; Quadruplicate)
- (xxi) No rebate is allowed if the rebate amount is less than _____. (₹ 500; ₹ 1,000; ₹2,000; ₹ 4,000)
- (xxii) The unutilized CENVAT Credit can be carried forward _____. (Up to 6 months; Up to 8 years; Without any time limit; Up to 10 years)
- (xxiii) Cenvat Credit on capital goods can be claimed in the year in which it is purchased is _____. (Up to 50%; Up to 100%; Up to 25%; Up to 75%)
- (xxiv) Cenvat Credit on goods other than capital goods can be utilized _____. (As soon as goods received into the factory; Only after payment actually made; Only after the goods actually sold; As soon as manufacture takes place.

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- (xxv) Cenvat Credit is not applicable if the purchased goods are _____. (Light Diesel Oil; Steel products; Plastic products; Wood products)

Question 2.

- (a) Ram Ltd., a closely held Indian company, is engaged in the business of manufacture of paints in India. A profit or loss account for the year ending 31.3.2014 is given below:

Profit and Loss Account

Figures in lakhs

Particulars	₹	Particulars	₹
Salary and wages	7.50	Sales	48.00
Postage and Telegrams	0.40	Amount withdrawn from	3.00
Travelling and Conveyance	0.50	General Reserve	
Depreciation	5.00		
Income-tax	4.00		
Wealth tax	0.10		
Excise duty due	1.00		
Provisions for future losses	0.60		
Proposed dividend	0.80		
Loss of subsidiary company	0.50		
Audit fee	0.25		
Director remuneration	8.00		
Deferred tax liability	1.35		
Net profit	21.00		
Total	51.00		51.00

Additional information

1. The excise duty due on 31.3.2014 was paid on 2.12.2014.
2. Custom duty of ₹ 1,20,000 which was due on 31.3.2012 was paid during the financial year 2013-14
3. Depreciation as per income tax is ₹11.43 lakhs.
4. The company wants to set off the following losses/allowances:

	For tax purposes (₹)	For accounting purposes (₹)
Brought forward loss of assessment year 2013-14	12,00,000	10,00,000
Unabsorbed depreciation	3,00,000	3,00,000

Compute the total income of the assessee and the tax liability for the assessment year 2014-15.

- (b) A owns a house property situated in Delhi which is not let at all during the previous year. Compute the net maintainable rent of the house property assuming:
- (i) The annual rent assessed by the local authority is ₹2,00,000 and the tax levied is ₹ 30,000.
 - (ii) The property has not yet been assessed by the local authority.
- The fair market rent of the property is ₹ 2,40,000 and the standard rent is ₹2,20,000.

[10+5=15]

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Questions 3.

(a) Mr. X presents following details for quarter ending 31st March, 2013 -

- (1) Opening Balance of Input VAT credit as on 1-1-2013 : ₹ 25,000.
- (2) Inputs purchased during 1-1-2013 to 31-3-2013 : ₹ 40 lakh.
- (3) Within the state sales of manufactured goods : ₹ 50 lakh.
- (4) Inter-state Sales : ₹ 6 lakh.

CST rate is 2%. There was no inventory as on 1-1-2013 or 31-3-2013. The VAT laws governing Mr. X provide for the refund of input-VAT credit after the end of the first financial year itself.

VAT rate is 12.5% on inputs and 4% on sales. Compute the amount of refund available to Mr. X.

(b) Write a short note on rebate of duty on goods exported out of India under the Central Excise. What are the conditions and limitations subject to which rebate is granted on finished goods?

[7+8 =15]

Questions 4.

(a) Mention the various export promotion schemes under FTP.

(b) Explain the 'Principle of Restriction' under FTP.

(c) Briefly discuss duty remission schemes.

[3×5=15]

Question 5.

(a) Who are the residents eligible to file an application for advance ruling under the Customs Act, 1962?

(b) Explain the procedure in appeal to be followed by the Commissioner (Appeals).

[7+8=15]

Question 6.

(a) Profit and Loss A/c of R G and Sons, a partnership firm is as follows:

Particulars	₹	Particulars	₹
Establishment and other expenses	3,00,000	Gross Profit	11,60,000
Interest on Capital to partners @ 24% p.a.	48,000	Rent from House Property	60,000
Interest on loan to partners @ 20%	20,000	Interest from Government Securities	32,000
Interest on loan to Mrs. @ 16%	24,000		
Municipal taxes of let out house property	10,000		
Repairs of the house property	5,000		
Donations to National Children's Fund	10,000		
Remuneration to partners	5,60,000		

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Interest on money borrowed for investment in Government Securities	10,000		
Sales tax	25,000		
Net Profit	2,40,000		
	12,52,000		12,52,000

Other information

- (a) Out of municipal taxes of ₹10,000; ₹6,000 was payable on 31.3.2014 and the same was paid on 30.6.2014.
- (b) Sales tax includes a sum of ₹10,000 payable on 31.3.2014. ₹6,000 was paid on 31.7.2014 and ₹4,000 was paid on 30.11.2014, although the due date of payment under the Sales-tax Act was 14.5.2014.

Compute:

- (i) The book-profit.
- (ii) The maximum amount of remuneration deductible u/s 40(6).
- (iii) The Total Income of the firm assuming that the maximum remuneration allowable u/s 40(6) is paid to the partners.
- (iv) Also state the income from the firm which will be taxable in the hands of the partners.
- (b) The Assessing Officer has reasons to believe that the following incomes of the assessment year have escaped assessment:

	Amount of income escaped assessment
Assessment year 2007-08	1,90,000
Assessment year 2008-09	95,000
Assessment year 2009-10	5,20,000

The Assessing Officer has issued 3 notices on 15.11.2013. Are these notices valid?

What will be your answer if the person has some assets located outside.

[10+5=15]

Question 7.

- (a) Rahim, a resident Indian, has derived the following incomes for the previous year relevant to the assessment year 2014-15.

Sl. No.	Particulars	₹
1.	Income from profession	2,84,000
2.	Rent from house property in Country X ₹ 10,000 p.m. received there, municipal tax paid in that country ₹20,000 (Tax paid in Country X for his income in equivalent Indian rupees 10,000 on the net income of ₹ 1,00,000)	
3.	Royalty on books from foreign country Y (eligible for deduction under section 80QCB) (Tax paid in country Y @ 20%) converted in Indian rupees	10,00,000
4.	The expenses incurred for earning royalty	1,00,000
5.	Interest from scheduled banks	18,000

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Rahim wishes to know whether he is eligible to any double taxation relief and if so, its quantum. India does not have any Double Taxation Avoidance Agreement with Countries X and Y.

(b) Punjab National Bank provides the following information for the month of June:

CENVAT Credit available on Inputs	₹ 2,00,000
CENVAT Credit available on Inputs Services	₹ 4,00,000
Service Tax liability before availing eligible CENVAT	₹10,00,000

Determine the amount of CENVAT Credit available to Punjab National Bank for the month of June, 2012 in view of Rule 6(3B) of Cenvat Credit Rules, 2004. Also determine the net service tax liability of the bank after availing the eligible CENVAT Credit. **[7+8=15]**