

Paper 16 – Tax Management and Practice

Time Allowed: 3 hours

Full Marks: 100

This paper contains 9 questions, divided in two sections Section A and Section B. In total 7 questions are to be answered. Answer any five questions from Section A (out of six questions - Questions Nos. 1 to 6).

In Section B, Question No.9 is compulsory and answer any one question from the remaining two questions of the section (i.e. out of Question nos. 7 & 8).

Students are requested to read the instructions against each individual question also . All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

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

Section A

Answer any five Questions

1. (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Postage and Telegrams	0.40	Amount withdrawn from General Reserve	3.00
Travelling and Conveyance	0.50		
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.

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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 2014-1 [10]

- (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:

- The annual rent assessed by the local authority is ₹2,00,000 and the tax levied is ₹ 30,000.
- 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. [4]

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

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

- (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? [8]

3. (a) RP Ltd. an Indian company sold goods to S Ltd. in which RP Ltd. has Substantial interest @1425 per piece. As per the most appropriate method the following arms length prices have been determined:

Situation 1	1475
Situation 2	1425
Situation 3	1375
Situation 4	1525

- Compute the arm's length price assuming the Central Government has notified the variation to be 3%.
- What will be your answer if actual price charged for the specified domestic transaction is ₹1,375 instead of ₹1,425. [7]

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- (b) Rosserie Private Limited is engaged in providing the taxable services. Compute the value of taxable service and the service tax payable by it in the month of March, 2014 from the information furnished below:

Receipts	₹
Advances received from clients for which no service has been rendered so far	8,00,000
Demurrage charges recovered for use of the services beyond the agreed period	50,000
Security deposits forfeited for damages done by service receiver owing to his negligence in the course of receiving a service	5,00,000

Besides, the above receipts, one of the clients - SBS Ltd. made a payment of ₹ 1,50,000 (out of which ₹ 25,000 were paid extra by mistake). However, Rosserie Private Limited refused to return the excess payment received.

Additional Information: Rosserie Private Limited is not eligible for small service providers' exemption under Notification No. 33/2012-ST, dated 20-06-2012. [7]

4. (a) Who are the residents eligible to file an application for advance ruling under the Customs Act, 1962? [6]

- (b) Explain the procedure in appeal to be followed by the Commissioner (Appeals). [8]

5. 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		
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.

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- (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.

[10]

- (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.

[4]

6. (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

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. **[9]**

- (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

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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. **[5]**

Section B

Question no. 9 is compulsory and Answer any one Question from 7 & 8.

7. Answer the following Questions [3x5=15]

- (a) Would the provisions of deemed dividend under section 2(22)(e) be attracted in respect of financial transactions entered into in the normal course of business?
- (b) Would interest earned on fixed deposits made by a social club with its corporate members satisfy the principle of mutuality to escape taxability?
- (c) Can an assessee revise the particulars filed in the original return of income by filing a revised statement of income?

8. Answer the following Questions [8+7=15]

- (a) Whether the charges towards pre-delivery inspection and after-sale-service recovered by dealers from buyers of the cars would be included in the assessable value of cars?
- (b) In case the testing is critical to ensure marketability of manufactured product i.e. the manufacture is not complete without testing; is CENVAT credit of the testing material allowed?

9. Answer the following Questions [7+8 =15]

- (a) Would refund of excise duty and grant of interest subsidy under the incentive scheme formulated by Central Government for public interest, namely, to accelerate industrial development, generate employment and create opportunities for self-employment in state of Jammu and Kashmir be treated as a revenue receipt or a capital receipt?
- (b) In case of specific classification viz-à-viz classification based on material used/composition of goods, which one should be adopted?