

## **Paper 16 – Tax Management and Practice**

## PTP\_Final\_Syllabus 2012\_Jun2015\_Set 2

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The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL B</b>	<b>KNOWLEDGE</b>  What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	<b>COMPREHENSION</b>  What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
	<b>APPLICATION</b>  How you are expected to apply your knowledge	Illustrate	Use an example to describe or explain something
		Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
	<b>ANALYSIS</b>  How you are expected to analyse the detail of what you have learned	Solve	Find an answer to
		Tabulate	Arrange in a table
		Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
Construct		Build up or compile	
	Prioritise	Place in order of priority or sequence for action	
	Produce	Create or bring into existence	

**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 2015-16, unless stated otherwise.

**Section A**

**Answer any five Questions**

**1.(a)** XYZ 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 1997-98 by debiting P&L A/c)	2,00,000
Amount withdrawn from revaluation reserve	1,50,000
<b>Total</b>	<b>31,50,000</b>
Less: Expenses	
Depreciation (normal)	6,16,000
Depreciation (extra depreciation because of revaluation)	2,70,000
Salary and wages	2,20,000
Income- tax	3,50,000
Outstanding customs duty (not paid as yet)	17,500
Proposed dividend	60,000
Consultation fees paid to a tax expert	21,000
Other expenses	1,39,000
<b>Net Profit</b>	<b>14,56,500</b>

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 2009 -10	14,70,000	4,00,000
Unabsorbed depreciation	-	70,000

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Compute the net income and tax liability of XYZ Ltd. for the assessment year 2015-16 assuming that XYZ 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. **[10]**

**(b)** Discuss in respect of the following items, the manner of treatment for Mrs. A's wealth-tax assessment for the assessment year 2015-16.

- 1 A house property at Calcutta was given to her as a gift by her husband on October 1, 1965. She, with her husband and children, is living in the house for the last 15 years. Its value on March 31, 2015 was ₹ 3,50,000.
2. She has another house property at Nainital given to her as a gift by her father on January 1, 1972 on the occasion of her birthday. This house is also used by her as her own residence where she lives during summer vacations only. The value of the house on March 31, 2015 was ₹ 22,00,000. **[4]**

**2. (a)** Mr. Selvam, 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. **[6]**

**(b)** M/s. Sujata 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 is 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 ₹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. Sujata Ltd. is not eligible for SSI-exemption available under Notification No. 8/2003-CE. **[5]**

**(c)** On 8-4-2014, M/s. Nikhil Agrawal Packaging cleared plastic bottles whose assessable value was ₹10,00,000 and duty payable was ₹1,23,600. On 16-4-2014, the purchaser returned the plastic bottles to M/s. Nikhil Agrawal Packaging. M/s. Nikhil Agrawal Packaging took credit of duty of ₹1,23,600 on basis of invoice issued at the time of clearance of plastic bottles. The Department denies the credit on the ground that the duty on such goods has not been paid, as

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the due date for payment of duty falls on 05-05-2014. Discuss whether contention of department is correct. [3]

**3. (a)** Define arm's length principle. Also mention the difficulties in applying the arm's length principle. [7]

**(b)** Suvham Ltd. Collected following sums (exclusive of taxes) –

- (1) Transport of passengers on vessel from Chennai to Port Blair : ₹ 6 lakh;
- (2) Transport of passengers by vessels from Chennai to Dubai : ₹ 40 lakhs (services of ₹ 6 lakh was provided after crossing maritime zones of India);
- (3) Transport of passengers by vessels from Dubai to Chennai : ₹ 50 lakhs (services of ₹ 7 lakh were provided after crossing maritime zones of India);
- (4) Transport of passengers by stage carriage : ₹ 10 lakh;
- (5) Transport of passengers by contract carriage : ₹ 5 lakh;
- (6) Transport of passengers by contract carriage for tour : ₹ 6 lakh;
- (7) Transport of passengers by ropeway: ₹ 2 lakh;
- (8) Running cruise ships : ₹ 6 lakh (within territorial waters of India);
- (9) Metro transport of passengers : ₹ 140 lakhs;
- (10) Transport through national waterways: ₹ 8 lakh.

Compute taxable value.

[7]

**4. (a)** Compute the duty payable under the Customs Act, 1962 for an imported machinery based on the following information:

- (i) Assessable value of the imported equipment US \$ 12,000.
- (ii) Date of Bill of Entry 25.03.2015 basic customs duty on this date 20% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = ₹ 65.
- (iii) Date of Entry inwards 21.03.2015 Basic customs duty on this date 16% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = ₹ 57.
- (iv) Additional duty payable under Section 3(1) and (2) of the Customs Tariff Act, 1975: 15%.
- (v) Additional duty under Section 3(5) of the Customs Tariff Act, 1975: 4%.
- (vi) Education Cess @ 2% and secondary and higher education cess @ 1%.

Make suitable assumptions where required and show the relevant workings and round off your answer to the nearest Rupee. [6]

**(b)** What is Provisional Assessment? How it is finalized? Whether any interest is payable or receivable regarding this matter? [8]

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**5. (a)** During the accounting period ending March 31,2015, a charitable trust derived (a) 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 2016-17), (b) voluntary contribution: ₹2,00,000 with no specific direction, and (c) ₹20,00,000 with specific direction that it shall form corpus of the trust.

During the previous year 2014-15, 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., 2016-17 whereas it actually spends ₹30,000 in the year 2016-17 and ₹40,000 in the year 2017-18. **[4]**

**(b)** The following information is submitted by Uma for the assessment year 2015–2016 (i.e., previous year ending March 31,2015)-

	₹
Capital gain on sale of a property situated in Pune (amount is received in Mauritius)	18,10,000
Income from a business in Pune controlled from Mauritius	20,50,000
Income from a business in Mauritius controlled from Pune (amount is received in Mauritius)	15,90,000
Rent from a commercial property in UK received in Mauritius but later on remitted to India	28,80,000
Consultancy fees received from an Indian company (for a project situated in UK) (amount is deposited in his account with Citibank, Pune branch, however, it is withdrawn by him in Mauritius)	10,50,000
Interest from deposits with an Indian company received in Mauritius	1,30,000
Profits for the year 2013-14 of a business in Mauritius remitted to India during the previous year 2014-15 (not taxed in India earlier)	7,70,000
Gift received from parents of Mrs. Uma	10,00,000
Royalty received from the Government of West Bengal (paid to him in Mauritius for project situated in Mauritius)	3,00,000

Determine the net income of Uma for the assessment year 2015-16 in the following cases -

- a. Case 1 - If Uma is resident and ordinarily resident in India,
- b. Case 2 - If Uma is resident but not ordinarily resident in India,
- c. Case 3- If Uma is non-resident in India.

**[5]**

**(c)** Ganesha Ltd is one hundred per cent subsidiary company of Siva. Ltd. Ganesha Ltd owns Plants A and B (depreciation rate 30 per cent, depreciated value of the block ₹3,00,000 on April 1, 2014). Plant B(old) was purchased and put to use on November 10,2012 (cost being ₹70,000). Plant B is transferred by Ganesha Ltd to Siva Ltd on December 14, 2014 for (a) ₹8,000, (b) ₹2,70,000, (c) ₹4,10,000. It is put to use by Siva Ltd on the same day. Siva Ltd owns Plant C on

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April 1, 2014 (depreciation rate 30 per cent, depreciated value; ₹60,000). Find out the tax consequences if Siva Ltd is an Indian company or if Siva Ltd is a foreign company. **[5]**

**6. (a)** The following particulars are furnished for the Previous Year 2014-15

	₹
Net Profit as per Profit & Loss A/c (after deducting Depreciation of ₹ 6,80,000)	90,97,000
Depreciation allowable u/s 32 of Income Tax Act	7,77,000
Disallowable expenses	85,000
Deduction received u/s 10AA (as calculated)	78,00,000
Long Term Capital Gains (on sale of land)	3,00,000
Deduction received under Chapter VI A(as calculated):	
80G	55,000
80IB	80,000

Calculate Tax Liability assuming that the Assessee is an LLP, Firm, Individual, HUF, AOP and BOI.

**[9]**

**(b)** Mountain 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 as amended for the financial year 2014-2015. The following details are provided:

(Amount in ₹)

15,000 kg of inputs purchased @ 1011.24 per kg. (inclusive of central excise duty @ 12.36%)	1,51,68,600
Capital goods purchased on 28-06-2014 (inclusive of excise duty at 12.36%)	44,94,400
Finished goods sold (at uniform transaction value throughout the year)	3,00,00,000

Calculate the amount of excise duty payable by M/s. Mountain Ltd. in cash, if any, during the year 2013-14. Rate of duty on finished goods sold should taken at 12.36% for the year and you may assume that the selling price is exclusive of central excise duty. There is neither any processing loss nor any inventory of input and output. Show your workings and notes with suitable assumptions as required. **[5]**

**Section B**

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

**7. Answer the following with the help of decided case laws [3 × 5 =15]**

**(a)** 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]**

**(b)** Can the rental income from the unsold flats of a builder be treated as its business income merely because the assessee has, in its wealth tax return, claimed that the unsold flats were stock-in-trade of its business? **[5]**

**(c)** Can business contracts, business information, etc., acquired by the assessee as part of the slump sale be described as 'goodwill', be classified as an intangible asset to be entitled for depreciation under section 32(1)(ii)? **[5]**

**8. Answer the following with the help of decided case law: [3 × 5 =15]**

**(a)** CENVAT Credit cannot be utilized for paying sums payable under Section 11D of Central Excise Act, 1944. Comments **[5]**

**(b)** Articles of precious metals made and supplied by the applicant to their customers according to their specifications and designs and some articles of jewelry like pendants of various shapes and sizes made by involving various complex processes on raw precious metals is 'Manufacture' as the resultant product has its own distinct character, identity and use.

Whether the process amounted to manufacture or not? And if it is carried out as job work even then it will be manufacture or not? **[5]**

**(c)** Even before the issuance of show cause notice if the Service Tax and Interest amount has been deposited by the assessee, then department cannot hold that the assessee should have known quantum of penalty also on its own and should have deposited at least its 25% within thirty days.

Whether Department's plea that assessee should have known quantum of penalty and deposited at least its 25% within thirty days was justified? **[5]**

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

**(a)** In case of assessee-company was engaged in generation and distribution of power. It supplied power to GEB and ESL - In accordance with agreement of power generation and supply thereof with GEB and ESL tax payable by assessee-company was agreed to be reimbursed by both companies - Whether as per agreement between assessee and GEB, amount of income-tax calculated and paid by GEB was part of tariff charged by assessee on



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sale of electricity and not reimbursement of expenses and, therefore, it was part of receipts in hands of assessee.

**[7]**

**(b)** Whether the price used for selling of a product below the cost price for penetration of market can be considered as transaction value?

**[8]**