

## **Paper-11 Indirect Taxation**

## PTP\_Intermediate\_Syllabus 2012\_Jun2015\_Set 1

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

	Learning objectives	Verbs used	Definition
<b>LEVEL B</b>	KNOWLEDGE  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
	COMPREHENSION  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
		Illustrate	Use an example to describe or explain something
	APPLICATION  How you are expected to apply your knowledge	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
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS  How you are expected to analyse the detail of what you have learned	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-11 Indirect Taxation**

**Time Allowed: 3 hours**

**Full Marks: 100**

Working notes should form part of the answers.

**1. Answer the following questions [1 × 20= 20]**

- (i)** Can parliament make a law on State List to implement international treaty?
- (ii)** What is the meaning of an 'assessee' in relation to Service Tax?
- (iii)** A taxpayer transfers his business to another person - what is to be done with the Registration?
- (iv)** Can excess payment be adjusted while paying tax for the next month or quarter?
- (v)** Can service tax be paid by cheque?
- (vi)** Whether a single Return is sufficient when an assessee provides more than one service?
- (vii)** What are the records to be maintained by the persons availing credit?
- (viii)** If export proceeds are received in Indian currency, will it be denied export benefit?
- (ix)** Whether Cenvat Credit is available on CST sale?
- (x)** Whether refund of VAT Credit is possible?
- (xi)** What is the periodicity of issue of C form?
- (xii)** Whether fees paid to Court or Tribunal subject to service tax?
- (xiii)** What are the duties levied under Central Excise Act?
- (xiv)** Whether capital goods not defined as Capital goods will be eligible as input?
- (xv)** What are the types of Drawback rates?
- (xvi)** When transaction value shall be accepted even where the buyer and seller are related?
- (xvii)** What is the date for determination of rate of duty in case of goods cleared from warehouse?
- (xviii)** What is the taxable event under Custom Act in case of exportation?
- (xix)** P Ltd., a company incorporate is USA holds 30% shares in Q Ltd. an Indian Company. It also holds 32% shares of R Ltd., a company incorporated in Germany. Whether Q Ltd. and R Ltd are associated enterprise?
- (xx)** T Ltd. participates in the management or control or capital of P Ltd. Whether T Ltd. and P Ltd. is an associate enterprises?

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### (2) Answer any two questions [2 × 2= 4]

- (a) Who can make a law on tax – Centre or State?
- (b) If there is a matter in Concurrent List and both Centre and State make a law on that matter, which law will prevail?
- (c) Who can make a law for Wealth tax on agricultural property – Central or State?

### (3) Answer any two questions [2 × 8=16]

(a) Vendibility criterion/Marketability is a litmus test to be fulfilled before any goods can be subjected to levy of excise duty. Discuss this statement with the help of decided cases.

(b) Determine the assessable value for purpose of excise duty under the Central Excise Act, 1944 in the following cases:

- (i) An assessee sells his excisable goods for ₹ 120 per piece and does not charge any duty of excise in his invoice. Subsequently it was found that the goods were not exempted from excise duty but were liable at 20% advalorem.
- (ii) Certain excisable goods were sold for ₹ 120 per piece and 20% advalorem is the rate of excise duty. Subsequently it was found that the price cum duty was in fact ₹ 140 per piece as the assessee had collected ₹ 20 per piece separately.
- (iii) The cum duty price per piece was ₹120 and the assessee had paid duty at 20% advalorem. Subsequently it was found that the rate of duty was 30% advalorem and the assessee had not collected anything over and above ₹ 120 per piece.

(c) Amar Ltd., purchased a lathe machine at a cum-duty price of ₹ 18,63,680. The excise duty rate charged on the said machine was 16% plus education cess 2% plus secondary and higher education cess 1%. The machine was purchased on 1-7-2014 and was disposed of on 30-9-2016 for a price of ₹ 10,00,000 in working condition as second hand machine.

Calculate the amount of CENVAT credit allowable for the financial year 2014-15 and 2015-16 and also specify the amount payable towards CENVAT credit already taken at the time of disposal of the machinery in the year 2016-17.

### (4) Answer any two questions [2 × 6= 12]

(a) Miss Sonam imported certain goods weighing 1,000 kgs. with CIF value US \$ 40,000. Exchange rate was 1 US \$ = ₹ 60 on the date of presentation of bill of entry. Basic customs duty is chargeable @ 10% and education cess as applicable. There is no excise duty payable on these goods, if manufactured in India. As per Notification issued by the Government of India, anti-dumping duty has been imposed on these goods. The anti-dumping duty will be equal to difference between amount calculated @ US \$ 60 per kg. and 'landed value' of goods. You are required to compute custom duty and anti-dumping duty payable by Miss Sonam.

(b) Compute the assessable value for purpose of determination of Customs duty from the following data: - (i) Machinery imported from USA by air (FOB price) - USD 4,000 (ii) Accessories compulsorily supplied alongwith the machinery - USD 1,000 (iii) Air freight - USD 1,200 (iv) Insurance Charges - Actuals not available (v) Local agent's commission to be paid in Indian Currency – ₹ 9,300 (vi) Transportation from Indian Airport to factory ₹ 4,000. Exchange rate USD 1 = ₹ 48. Provide explanations where necessary.

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(c) Mrs. & Mr. LMN visited Germany and brought following goods while returning to India. (i) Their personal effects like clothes, etc., valued at ₹ 40,000. (ii) A personal computer bought for ₹46,000. (iii) A laptop computer bought for ₹ 95,000. (iv) Two litres of liquor bought for ₹ 1,600. (v) A new camera bought for ₹ 47,400. What is the amount of customs duty payable?

**(5) Answer any two questions [2 × 4= 8]**

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

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

(c) Briefly discuss duty remission schemes.

**(6) Answer any two questions [2 × 10= 20]**

**(a)(i)** Pallav Ltd. is providing taxable services. The services became taxable from 1-7-2012. Pallav Ltd. for the month of March, 2015 received following receipts (in ₹) (inclusive of service tax) - (i) Amount received in respect of services rendered in May 2014 - 10,30,000 (ii) Services provided to the Branch of World Health Organisation - a unit of UN -1,03,000 (iii) Services rendered to its Auditors - 5,15,000 (no payment received but adjusted against Audit Fee Payable) (iv) Advance received for services to be rendered in May, 2015 - 6,18,000 (v) Services provided to office staff and their relatives free of cost - 20,000. Out of the advance received, 50% was returned on 15-4-2015 to the party, as they have closed their operations from 31-3-2015. Compute the taxable services and service tax payable for March, 2015 by Pallav Ltd. When the tax is due for payment? **[5]**

**(ii)** Surekha Ltd. commenced its business on 21st June, 2014 in Kolkata. It has provided /availed following services upto 31st March, 2015. Determine its service tax liability for the Financial Year 2014-15 - (i) Taxable services provided under its own brand name : ₹ 9,00,000 (ii) Declared services (Sum charged ₹ 4 lakh, but value determined as per valuation rules is 60% i.e. ₹2,40,000) (iii) Services wholly exempt under Notification No. 25/2012-ST dated 20-6-2012 – ₹ 6,00,000 (iv) Services provided under brand-name of other person – ₹ 3,60,000 (fully taxable) (v) Aailed services of goods transport agency and paid freight of ₹ 2,00,000. The assessee is ready to opt any exemption available to it under Service Tax Law (Make suitable assumptions wherever required and show workings.) **[5]**

**(b)(i)** Compute the interest payable for the delayed payment of service tax by the service providers in the following cases - (a) Service provider Fontec Ltd. – ₹ 1,23,600, delay 20 days. The aggregate value of taxable services rendered in the previous financial year was ₹ 40 lakhs (b) Service provider Mr. Param – ₹ 2,16,000, delay 25 days. The aggregate value of taxable services rendered in the previous financial year was ₹ 62 lakhs. Assume that the service tax liability and the delay given relates to a period in the financial year 2014-15. **[5]**

**(ii)** Mini Ltd., a unit in SEZ, received services from various service providers in relation to authorized operations in SEZ during the month July, 2014. At the time of making payment, service provider asks it to pay tax, however, it argues that service tax is not applicable on taxable services provided to it. The following details are furnished for the month July, 2014:

(a) Value of Taxable services used exclusively for authorised operations within SEZ: ₹5,00,000

(b) Value of Taxable Services used by SEZ units and DTA units : ₹ 8,00,000

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- (c) Value of Taxable services used wholly for DTA units : ₹ 3,00,000  
(d) Export Turnover of SEZ Unit: ₹ 1,00,00,000  
(e) Turnover of DTA Unit: ₹ 60,00,000  
(f) Service Tax Rate: 12.36%

Compute the amount payable as service tax by M/s. Mini along with incentives available to it by way of exemption/refund/CENVAT Credit for the month assuming that all conditions are complied with. **[5]**

**(c)(i)** Mr. Raman has provided the following services during the year 2014-15. Determine whether he is eligible for small service provider exemption during the year 2015-16:

	Particulars	₹
(a)	Service exported outside India	5,00,000
(b)	Renting of residential dwelling for residence	5,00,000
(c)	Service fully exempt under mega exemption notification	8,00,000
(d)	Declared services (Value as per Section 67 read with the valuation rules is 40% of the total amount charged)	6,00,000
(e)	Value of Services in which 30% abatement has been provided; and	2,00,000
(f)	Other services provided (including ₹ 50,000 towards services where whole of the service tax was payable by the service recipient)	5,60,000

**[5]**

**(ii)** A partnership firm, gives the following particulars relating to the services provided to various clients by them for the half-year ended on 30-09-2014.

- (i) Total Bills raised for ₹ 8,75,000 out of which bill for ₹ 75,000 was raised on a approved International organization and payments of bills for ₹ 1,00,000 were not received till 30-09-2014.
- (ii) Amount of ₹ 50,000 was received as an advance from SR Ltd. on 25-09-2014 to whom the services were to be provided in October, 2014. You are required to find out the:
- (a) Taxable value of services; and  
(b) Amount of service tax and education cess and secondary and higher education cess payable. **[5]**

### **(7) Answer any two questions [2 × 6= 12]**

**(a)** Compute net VAT liability of Sujay from the following information –

Raw materials from foreign Market (Includes duty paid on imports @20%) – ₹ 1,20,000

Raw material purchased from local market –

Cost of Raw material ₹ 2,50,000

Add : Excise duty @ 16% ₹40,000

Sub-total ₹ 2,90,000

Add: VAT @ 4% ₹ 11,600

Total ₹ 3,01,600

Raw material purchased from neighbouring State (Includes CST @ 2%) – ₹ 51,000

Storage and transportation cost – ₹ 9,000

Manufacturing expenses – ₹ 30,000.

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Sujay sold goods to Kesav and earned profit @ 12% on the cost of production. VAT rate on sale of such goods is 4%.

**(b)** Pawan, a registered dealer submits the following information for the month of February, 2015

(A) Details of purchase –

- (i) Raw material purchased from another State (CST @ 2%) - ₹10,00,000
- (ii) Raw material X purchased within the State - ₹15,00,000 Vat rate 1%
- (iii) Raw material Y imported from Singapore (includes customs duty paid @ 10%) - ₹11,00,000
- (iv) Raw material Z purchased within the State - ₹6,00,000 Vat rate 12.5%

(B) Details of sales –

- (i) Sale of goods produced from raw material X - ₹ 27,00,000 Rate of Vat 4%
- (ii) Sale of goods produced from inter-state purchase and imported raw materials - ₹32,00,000 Rate of Vat 1%
- (iii) Sale of goods produced from raw material Z - ₹ 8,00,000 Rate of Vat 12.5%.

(Note - The purchase and sales figures given above do not include VAT/CST.)

Assume that there was no opening or closing inventory. Compute the amount of Value Added Tax (VAT) payable by Pawan for the month of February, 2015.

**(c)** Gold 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 –

- (i) Total contract price (excluding VAT) ₹ 1,80,00,000
- (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 ₹ 40,00,000
- (iv) Other service charges paid for the execution of the contract ₹ 20,00,000
- (v) Cost of consumables used not involving transfer of property in goods ₹ 10,00,000.

Gold 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. Make suitable assumptions where required and show the workings.

**(8) Answer any two questions [2 × 4= 8]**

**(a)** LMN Ltd is an Indian Company engaged in the business of developing and manufacturing Industrial components. Its Bangkok Subsidiary Techpro Inc. supplies technical information and offers technical support to LMN Ltd for manufacturing goods, for a consideration of Euro 3,00,000 per year.

Income of LMN Ltd is ₹ 270 Lakhs. Determine the Taxable Income of LMN Ltd if Techpro charges Euro 3,50,000 per year to other entities in India. What will be the answer if Techpro charges Euro 1,80,000 per year to other entities. (Rate per Euro may be taken at ₹ 80).

**(b)** XY Japan and Z Ltd. an Indian company are associated enterprises. Z Ltd. manufactures Mobile phones and sells them to XY Japan and L.G. Korea. During the year, Z Ltd. supplied 1,20,000 Mobile phones to XY Japan at a price of ₹2,000 per unit and 20,000 units to L.G. Korea at a price of ₹3,200 per unit. The transactions of Z Ltd. with XY and L.G. are comparable subject to the following differences:

- (i) While sales to XY on FOB basis, sales to L.G. are CIF basis. The freight and insurance paid by XY for each unit is ₹300.
- (ii) The sales to L.G. are under a free warranty for 1 year whereas sales to XY are without such warranty. The estimated cost of executing such warranty may be taken at ₹350.

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(iii) XY placed large order and as such Z Ltd. offered a quantity discount of ₹50 per unit to XY. Compute the arm's length price and the amount of increase in the total income of Z Ltd, if any, due to such arm's length price.

(c) PK Japan and XYZ India Ltd. are associated enterprises. XYZ India Ltd. imports 200 Air-conditioners from PK Japan at a price of ₹15,000 per unit and these are sold to ITC Hotel Ltd. at a price of ₹17,000 per unit. XYZ India Ltd. has bought similar products from Samsung India Ltd. and sold to Oberai Hotel at a gross profit of 10% on sales. XYZ Ltd. incurred freight of ₹400 and custom duty of ₹ 1,500 per unit in case of purchases made from PK Japan and ₹200 in case of purchases from Samsung India Ltd.

Compute the arm's length price and the amount of increase in the total income of XYZ Ltd., if any, due to such arm's length price.