

FINAL EXAMINATION

December 2013

Indirect & Direct—Tax Management

F-P14(TXM)
Syllabus 2008

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

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

1. Fill up the blanks:

1×25

- (i) The rate of tax collected at source (TCS) applicable in respect of scrap is _____. (1%; 2%; 5%)
- (ii) Advance income-tax payable by a resident, aged 61, deriving income of ₹ 9 lacs, solely from house property, is ₹ _____. (1,05,000/-; Nil; 90,000/-)
- (iii) Mr. A has rendered free services to his close relative; an outsider would have charged ₹ 1,12,360 for such services. The value of taxable services is ₹ _____. (1,00,000/-; NIL; 1,12,360)
- (iv) Exclusive Economic Zone extends to _____ Nautical miles from the base line. (12; 200)
- (v) In case of shipping business of non-residents, Previous year and Assessment year _____ be same. (will; will not)
- (vi) Dividend received from company having only agricultural income _____ an Agricultural income for a shareholder. (is; is not)
- (vii) Cost inflation index as notified by the Central Government for the financial year 2013-14 is _____. (882; 939)
- (viii) A residential property which is let out for a period of 310 days in the previous year _____ treated as asset u/s 2 (ea) of the Wealth Tax Act. (is; is not)
- (ix) Cenvat credit rules _____ require input—output correlation to be established. (do; do not)
- (x) The Service Tax Registration certificate will be granted by superintendent of central excise in seven days in Form No. _____. (F4; ST-2)
- (xi) Certificate of registration under CST Act, shall be issued by the authority in Form _____. (A, B, D)
- (xii) Any Sum received towards dues written off earlier, after the discontinuance of a business is _____. (taxable; not taxable)
- (xiii) A Unit in SEZ is _____ to be registered under Central Excise Laws. (required; not required)
- (xiv) In exercise of power under first proviso to section 47(2) of the Customs Act, 1962, the Central Govt. specified that importers paying customs duty of ₹ _____ crore or more per bill of entry shall pay customs duty electronically. (one; ten)
- (xv) As per Section 47(2) of Customs Act, interest is payable if customs duty is not paid within _____ days of return of Bill of Entry to importer. (two; seven)

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(2)

- (xvi) The goods included in the _____ Schedule of Central Excise Act are same as those on which excise duty is payable under section 4A of the Central Excise Act. (Second; Third)
- (xvii) Form 'C' is issued by the purchasing dealer to selling dealer every _____ basis. (monthly; quarterly)
- (xviii) A person responsible for paying any sum to any resident individual contractor for carrying out any work is liable to deduct tax at source under section 194C of income tax act @ _____. (1%; 2%)
- (xix) An assessee under Wealth Tax Act who concealed wealth is liable to pay maximum penalty of _____ of wealth tax sought to be avoided. (300%; 500%)
- (xx) Landing charges of _____ is to be added to CIF value for arriving at the assessable value under customs law. (3%; 1%)
- (xxi) Transaction of sale of goods for ₹ 7 crore, by a domestic company to a partnership firm in India, in which one of the directors of the company is a partner _____ subject to transfer pricing provisions under the Income Tax Act. (is; is not)
- (xxii) Short-term capital gain on sale of shares listed in a recognized stock exchange on which security transaction tax is paid is liable to income tax at _____ (15%; 10%)
- (xxiii) An order passed by the Commissioner under section 12AA of the Income Tax Act refusing to grant registration to a charitable trust can contested in appeal before _____ [Commissioner (Appeals); Income Tax Appellate Tribunal].
- (xxiv) A return for income tax assessment year 2011-12 filed on 1st April, 2013 is _____ return. (valid; invalid)
- (xxv) Penalty for failure to furnish tax audit report on or before the due date is $\frac{1}{2}\%$ of the sales or _____, whichever is less. (₹ 1,50,000; ₹ 1,00,000)

2. (a) Victory Polymers is launching a new product in the market. To penetrate the market, for fourteen months, the company wishes to have a competitive price, which would be below its cost. The Managing Director wishes to know whether the said price, which is below its cost price, will be accepted by the Excise Department as transaction value. He fears that the Department might contend that as the extra commercial consideration was involved in this case an additional consideration should be added to the price for the purpose of duty and hence the Department might invoke Best Judgment Assessment, fixing the price at manufacturing and selling costs plus reasonable margin. As the Cost Accountant of the company, give your views. 5

(b) The following details of import of a machinery made on 21.3.2013 are furnished:

Price paid for imported machinery (FOB value)	\$ 45,000
Packing charges	\$ 300
Service commission paid to MMTC, the Canalising Agent	\$ 1,200
Inspection charges paid to an independent agency	\$ 200
Ocean Freight	\$ 1,000

Subsequent to the import, there was a price increase in the international market; the price of the machinery,

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- (c) Mr. Anirudh has recently obtained VAT registration and has devised the following proforma of VAT invoice to be issued by him. Provide the corrections to be made in the format, if any. 5

Anirudh Dealer in computers Fairlands, Salem 636 016			
TIN: 012345678901			Sl. No.
Name and address of buyer:			Date:
Description of goods	Qty.	Rate per unit	Amount
VAT Payable			
Total Amount			
(Being computer generated invoice, no signature is required)			

3. (a) VKS Pipes Ltd. had claimed CENVAT credit on a machinery purchased on 12.03.2007. This machinery was destroyed by fire on 22.03.2013. As per the terms of the policy, the insurance company compensated to the assessee, an amount which was inclusive of excise duty. The Department wishes to reverse the CENVAT credit availed earlier. Is the same justified? 3
- (b) Sekar & Co., a firm, furnishes the following details pertaining to the half year ended 31st October, 2012: 4

Particulars	Amount ₹
Service charges billed and received for recruiting labour for overseas projects	9,30,000
Advances received from clients, for which services were not rendered in this half year	2,00,000
Service charges billed and received for supply of farm labour	3,45,000
Receipts for services rendered to UNO	2,34,000
Service charges billed and received for supply of labour for State Govt. projects	6,12,000

All the receipts above are excluding service tax, wherever applicable. The assessee has provided taxable services of ₹ 34 lacs during the earlier year. Ascertain the value of taxable services rendered by the assessee during the half year ended 31st October, 2012.

- (c) Mr. Subramani running an industrial undertaking, has purchased a new machinery on 12.07.2012 as per following details:

	₹
Basic price excluding excise duty	5,00,000 +
Excise duty charged by supplier	51,500 +
Installation expenses	8,500 +
Government subsidy received for buying above	1,20,000

He purchased another machinery, earlier used by another person, for ₹ 3,00,000 on 21.01.2013.

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- (d) Mr. Rakesh Kumar, a resident Indian, holds 25% equity share capital in M/s A Ltd., a domestic company. M/s A Ltd., hires trucks owned by Mr. Rakesh Kumar's son and paid rent of ₹ 50 lakh during previous year 2012-13. Briefly explain the applicability of transfer pricing provisions under the Income-tax Act, 1961 in respect above transaction. 3
4. (a) A Limited has two units-one engaged in production of mobile handsets and the other engaged in production of music systems. The company has decided to sell its unit producing music systems as a going concern by way of slump sale for ₹ 500 lakhs to a new company, B Limited in which it holds 75% shares. The Balance Sheet of A Limited as on 31st March, 2013 is as follows:

	Mobile Handset Unit	Music Systems Unit
Fixed Assets	100	200
Debtors	125	125
Inventories	70	40
Liabilities	40	70
Paid up share capital		₹ 350 lakhs
General Reserve		₹ 200 lakhs
Securities Premium		₹ 30 lakhs
Revaluation Reserve		₹ 140 lakhs

The company set up the music system unit on 1st April, 2007. The written down value of the block of assets for tax purpose as on 31st March, 2013 is ₹ 180 lacs of which ₹ 80 lakhs are attributable to music system unit.

- (i) Compute tax liability that would arise to A Limited from the slump sale. 8
- (ii) Would your answer change, if A Limited holds all the shares of B Limited? 2
- (b) Mrs. And Mr. Akash visited USA and brought following goods while returning to India on 10th June, 2012. 5
- Their personal effects like clothes valued at ₹ 70,000.
 - A personal computer bought for ₹ 50,000
 - A laptop computer bought for ₹ 1,00,000.
 - Four liters of liquor bought for ₹ 4,000.
 - A new camera bought for ₹ 60,000. 3
- What is the amount of customs duty payable?

5. (a) What are the activities that are not considered as manufacture as per Central Excise Act? 10
- (b) Mr. Ravi executed a "will" during his life time. His friend, Mr. Kini was appointed as executor under the "will". Mr. Ravi died on 15th June, 2012. The executor could complete the distribution of assets after the valuation date 31st March, 2013.
- The records of wealth tax of Mr. Ravi reveal that (a) the return of net wealth for the valuation date 31st March, 2012 was not filed; (b) wealth tax demand for the assessment year 2009-10 is still payable.
- Advise Mr. Kini on his obligations under the Wealth Tax Act. 5

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(b) Who are the persons deemed to be related as per Central Excise Act? 4

(c) M/s Pravat Ltd., supplies raw material to M/s Akash Ltd. a job worker. After completing the job work, the finished product of 5000 packets are returned to M/s Pravat Ltd. putting of the retail sale price as Rs. 20/- on each packet. The product of the packet is covered under MRP provisions and 40% abatement is available on it. Determine the excisable value under Central Excise Law from the following details. 3

Particulars	Amount in ₹
Cost of Raw material supplied to M/s Akash Ltd.	30,000
Job workers charges including profit	10,000
Transportation charges for sending raw material to M/s Akash Ltd. job worker	3,000
Transportation charges for returning the finished packets to M/s Pravat Ltd.	3,000

(d) Mrs. Priyanka, an Interior Designer based in Kolkata provides her service to an Indian Hotel Chain (which has business establishment in Mumbai) for its newly acquired property in London. On the basis of Place of Provision of Service Rules, 2012, state whether the service would be taxable in India. 4

7. (a) Under the EXIM policy, various Input Duty Relief schemes have been devised to obtain inputs free from duty or to grant refund of the same. Briefly discuss about five schemes. 5

(b) Discuss how to determine whether a particular product to be classified as a "cosmetic" or "medicament" for excise tariff purpose. 5

(c) State the quantum of penalty that can be levied in each of the following cases: 1×5=5

- Failure to get books of account audited in response to the notice issued under section 142(2A) of the Income-tax Act. *5000 and 5000*
- Failure to furnish audit report as required under section 92E of the Income Tax Act. *2000*
- Failure to deposit tax deducted at source. *1000*
- Failure to file return of Income before the end of the assessment year. *2000 + 15% of 2000*
- Failure to file return of income by a charitable institution registered under section 12AA of the Income Tax Act. *1000*

8. (a) What are undisclosed sources of income under the Income Tax Act, 1961? 6

(b) M/S AJANTA Ltd. a Service Provider, fails to pay service tax of ₹ 2.08 lakhs which is payable by 6th May, 2012. Compute the amount of penalty payable under section 76 of service tax act, if the amount deposited on 16th March, 2013. 4

(c) (i) PQR Ltd. who is an exporter finds that, the amount of draw back refunded to it is less than what it is entitled to on the basis of the rates of drawback announced by the Central Government. Briefly discuss whether PQR Ltd. can claim the difference of draw back short refunded? If yes what is the procedure to be followed in this regard? 3

(ii) XYZ Ltd. exported a consignment of manufactured goods. The company had paid import duty and Central Excise duty on the components used in the manufacture. A duty draw back rate has been fixed for