

**INTERMEDIATE (IPC)
GROUP I - PAPER 4
TAXATION**

NOV 2015

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any five questions from the remaining six questions.

Wherever necessary suitable assumptions may be made and disclosed by way of note.

Working notes should form part of the respective answers.

All questions pertaining to Income Tax relate to Assessment Year 2015-16, unless stated otherwise in the questions.

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1. (a) Mrs. Ann provides the following information for the Financial year ending 31-3-2015. Compute her total income and tax payable thereon for AY 2015-2016 as per Income Tax Act 1961. **10**

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Income / Receipts :

- (1) Salary from M/s. Prominent Technologies, – ₹ 60,000 per month
(Joined from 1st March, 2014).
- (2) She is in receipt of HRA, ₹ 15,000 per month and also educational allowance of ₹ 1,500 per month for all the three of her children.
- (3) She bought a truck on 01-08-2014 and has been letting it on hire. She does not maintain books of account for this business. But she declares for income tax purpose, that she is earning net income of ₹ 11,000 per month from this business.
- (4) She received ₹ 8,500 as interest on Post Office Savings Bank Account.
- (5) She received ₹ 25,000 as interest from Company Deposits.
- (6) Amounts withdrawn from National Savings Scheme (Principal ₹ 10,000 & Interest ₹ 25,000)

Expenses / Payments :

- (1) Interest payable to bank ₹ 1,000 per month on loan for the purchase of truck.

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- (2) Total interest paid to bank for loan borrowed for investing in company deposits is ₹ 5,000.
- (3) Rent paid for residence is ₹ 18,000 per month.
- (4) Tuition fees paid for the year 2014-15 for her three children is ₹ 50,000, ₹ 30,000 and ₹ 20,000 respectively, to educational institution situated in India.
- (5) Medical insurance premium for her and for her husband is ₹ 30,000 (paid by cheque) and ₹ 25,000 (paid by cash) respectively.
- (6) She has deposited during the year, in 5 year Post office Recurring Deposit Scheme ₹ 20,000.

(b) Compute Service tax liability of Mr. Dominic, a selling agent of lottery for the month of July 2014, using the following details. 6

- (i) Lucky Star-a Jackpot organized for Kerala Government where guaranteed Prize payout is $> 80\%$
Aggregate face value of lottery tickets sold ₹ 37,00,000
- (ii) Magic Winner - Another Jackpot organized for Kerala Government where guaranteed Prize payout is $< 80\%$
Aggregate face value of lottery tickets sold ₹ 55,00,000

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- (iii) Commission received from the sale of above tickets, was 10% of aggregate face value of lottery tickets sold.

Will there be any difference in the Service Tax liability of Mr. Dominic, if he opts for special provision of Service Tax, as provided under rule 6 of Service Tax Rules, 1994 instead of paying Service Tax at normal rates ?

- (c) The total CST sales of 'X' Ltd. for the Financial Year 2014-15 are ₹ 75 lakhs. Company provides the following additional information :

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(i) Goods sold to Mr. A for ₹ 1,00,000 on 16-04-2014, were returned by him on 10-07-2014.

(ii) A buyer Mr. B, to whom goods worth ₹ 50,000 were dispatched on 12-05-2014 rejected such goods. The said goods were received back on 15-11-2014.

(iii) Goods sold to Mr. C for ₹ 5,00,000 on 16-06-2014 were returned by him on 12-03-2015.

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(iv) The total turnover of the year includes Dharmada ₹ 30,000.

(v) All the amounts mentioned are inclusive of tax.

Determine the amount of taxable turnover and tax liability of 'X' Ltd. under CST Act, assuming all transactions were covered by valid C forms and VAT rate within the state is 5%.

2. (a) Mr. Soham, an Indian Citizen left India on 20-04-2012 for the first time to setup a software firm in Singapore. On 10-04-2014, he entered into an agreement with LK Limited, an Indian Company for the transfer of technical documents and designs to setup an automobile factory in Faridabad. He reached India along with his team to render the requisite services on 15-05-2014 and was able to complete his assignment on 20-08-2014. He left for Singapore on 21-08-2014. He charged ₹ 50 Lakhs for his services from LK Limited.

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Determine the residential status of Mr. Soham for the Assessment Year 2015-2016 and explain as to the taxability of the fees charged from LK Limited as per the Income Tax Act, 1961.

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- (b) D & Company is engaged in the sales of spaces for advertisements in different medias. It furnishes the following information for the quarter ending 31-12-2014. 5

	Amount (₹)
(i) Sales of space for advertisement in Zee TV	25,00,000
(ii) Sale of space for advertisement in various websites	12,00,000
(iii) Sale of space for advertisement in DNA Newspaper	5,50,000
(iv) Sales of space for advertisement in various multiplexes	32,00,000

D & Company also assist it's clients in the preparation of advertisement for which it earned ₹ 8,50,000 during the said quarter.

Invoices were issued within 30 days of completion of service and the payment was received in the month of January, 2015.

Compute the service tax liability @ 12.36% for the quarter ending 31-12-2014 assuming the above mentioned amounts are exclusive of service tax.

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- (c) Mr. Mahesh of Kolkata purchased goods from Mr. Suresh of Assam amounting to ₹ 8,55,000 including VAT @ 12.50% in the month of January, 2015. He incurred ₹ 2,50,000 as manufacturing & other expenses and added @ 25% profit on cost. 3

Mr. Mahesh sold 80% of the goods to Mr. Nayan of Kolkata and charged VAT @ 12.50% on 02-02-2015. Remaining 20% of the goods were transferred to his branch in Manipur on 05-02-2015.

Compute the net VAT payable and input tax credit, if any for the month of February 2015.

3. (a) Mr. Martin sold his residential house property on 08-06-2014 for 70 lakhs which was purchased by him for 20 lakhs on 05-05-2005. 8

He paid ₹ 1 lakh as brokerage for the sale of said property. The stamp duty valuation assessed by sub registrar was ₹ 80 lakhs.

He bought another house property on 25-12-2014 for 15 lakhs.

He deposited 10 lakhs on 10-11-2014 in the capital gain bond of National Highway Authority of India (NHAI).

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He deposited another 10 lakhs on 10-07-2015 in the capital gain deposit scheme with SBI for construction of additional floor of house property.

Compute income under the head "Capital Gains" for A.Y. 2015-2016 as per Income Tax Act 1961 and also Income tax payable on the assumption that he has no other income chargeable to tax.

Cost inflation index for Financial Year 2005-06 = 497 and 2014-15 = 1,024.

- (b) Seethe Granites Ltd. purchased a machine for ₹ 20,00,000 on 1-9-2013. The excise duty rate charged on the said machine was 16% plus education cess 2% plus secondary and higher education cess 1%. It was sold on 30-09-2014 for ₹10,00,000, as second hand machine at the same rate of excise duty. 4

Calculate the amount of CENVAT to be reversed at the time of disposal of the machinery in the year 2014-15 towards 100% CENVAT credit utilized and exhausted by the month of April 2014.

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(c) Mr. Arnab Ghosh, a manufacturer, furnished the following particulars : 4

	₹
Price of machine excluding tax and duties	2,00,000
Transit insurance shown separately	10,000
Packing charges	10,000
Extra charges for designing the machine	25,000
Outward freight beyond the place of removal	15,000
Cash discount allowed to customer for full payment made in advance	2%
VAT	5%
Excise Duty	12%

Calculate the excise duty payable by Mr. Arnab Ghosh, stating the reason for inclusion or exclusion for duty.

4. (a) Mr. Venus provides the following details for the previous year ending 8

31-3-2015

(i) Salary from HNL Ltd. ₹ 50,000 per month

(ii) Interest on FD with SBI for the

Financial Year 2014-15 ₹ 72,000 (Net of TDS)

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- (iii) Determined long term capital loss of
AY 2013-14 (to be carried forward) ₹ 96,000
- (iv) Long term Capital gain ₹ 75,000
- (v) Loss of minor son ₹ 90,000 computed in accordance with the provisions of Income tax Act. Mr. Venus transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
- (vi) Loss of his wife's business ₹(2,00,000)

She carried business with funds which Mr. Venus gifted to her.

You are required to compute taxable income of Mr. Venus for the AY 2015-16.

- (b) Mr. Atmaram who was the Receiver of services, provides the following data. He requests you to explain the (i) Point of taxation and (ii) Due date of payment of service tax as per the Service Tax Law and procedures. 4

	Dates of Invoice	Dates of Payment
(i)	15-10-2014	10-11-2014
(ii)	20-10-2014	15-02-2015

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- (c) M/s. Packard Industries (not an SSI Unit) are in production of corrugated paper cartons. It provides the following details for the month of June 2014 : 4

It sold waste and scrap generated in the course of manufacture. Besides it also manufactured prohibited goods and sold. On such information :

(A) Whether excise duty payable on the following items ?

(i) Waste	₹ 1,50,000
(ii) Scrap sale	₹ 11,50,000
(iii) Manufacture of prohibited goods	₹ 2,50,000

(B) When and how ?

- (i) Payment of excise duty to be made.
(ii) Return of excise duty to be filed.

5. (a) State with reasons, the allowability of the following expenses incurred by MN Limited, a wholesale dealer of commodities, under the Income Tax Act, 1961 while computing Profit & Gains from business or profession for the Assessment Year 2015-2016. 8
- (i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.

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- (ii) Purchase of building for setting up a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted.
- (iv) Commodity transaction tax paid ₹ 20,000 on sale of bullion.

(b) Discuss whether the following services are chargeable to service tax or not ? 4

- (i) Paddy milled into rice on job work basis.
- (ii) A hockey player gets fees from Indian Hockey Federation for Participating in an International event.
- (iii) Sonakshi Sinha a brand ambassador of Colgate Palmolive Ltd. gets ₹ 15,00,000 for advertising its products.
- (iv) Testing of newly developed drugs by an approved clinic research organization.

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(c) Justify the following statements with reference to the provisions of VAT. 4

- (i) Sub-lease can be taxed.
- (ii) Central Sales Tax is not vatable.
- (iii) Sale of food in hotel is a deemed sales liable to VAT.
- (iv) Refund can be claimed for goods returned under Hire Purchase Transactions.

6. (a) Mr. Raphaël constructed a shopping complex. He had taken a loan of ₹ 25 lakhs for construction of the said property on 01-08-2012 from SBI @ 10% for 5 years. The construction was completed on 30-06-2013. Rental income received from shopping complex ₹ 30,000 per month-let out for the whole year. Municipal Taxes paid for shopping complex ₹ 8,000.

Arrears of rent received from shopping complex ₹ 1,20,000.

Interest paid on loan taken from SBI for purchase of house for use as own residence for the the period 2014-2015, ₹ 3 lakhs.

You are required to compute Income from House property of Mr. Raphael for AY 2015-2016 as per Income Tax Act, 1961.

- (b) Mariam importers, imports a carton of goods from Japan on 10-11-2014 containing 5000 pieces valued ₹ 1,00,000. 4

On the said product, Customs Duty – 10% and excise duty at 12% ad valorem is leviable.

Similar products in India are assessable u/s 4A of Central Excise Act 1944, after allowing an abatement of 30%. MRP printed on package at the time of import is ₹ 30.

Special CVD u/s 3(5) of customs tariff act 1975 is also applicable to the product.

Determine the total duties payable under Customs Act.

- (c) Briefly explain whether CST will be applicable :- 4

(i) When Goods are sent by dealer outside the state to his other place of business.

(ii) If at the time of stock transfer outside the state, dealer has an order for such purchase in hand.

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7. (a) Answer any two of the following three sub-divisions : 2×4
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- (i) Explain briefly the provisions of advance tax on capital gains and casual income.
- (ii) What are the consequences of failure to deduct or pay the tax under section 201 of the Income Tax Act, 1961 ?
- (iii) Who are the persons authorized to verify return of income in the case of individual under section 139 of the Income Tax Act, 1961 ?

(b) Ms. Madhavi, a practicing chartered accountant in Jammu & Kashmir provides the following information for the half year ended 30th September, 2014. 4

	Amount (₹)
(i) Audit fees received from Jammu and Kashmir Bank, Jammu	5,50,000
(ii) Audit fees received from Punjab National Bank, Delhi	8,50,000
(iii) Audit fees received from other clients in Jammu & Kashmir	2,00,000
(iv) Consultancy charges for services rendered outside Jammu & Kashmir	2,90,000
(v) Fees received as part time lecturer in a local college.	1,30,000

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Compute the amount of service tax payable @ 12.36% by Ms. Madhavi for the half year ended 30th September 2014.

Assume Ms. Madhavi is not eligible for small service provider. All the above amounts are exclusive of service tax.

- (c) Explain the provisions with regard to filling of CENVAT credit returns as explained in sub rule (7) to (11) of CENVAT Rules. **4**

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