Roll No. .....

INTERMEDIATE (IPC)
GROUP I - PAPER 4
TAXATION

MAY 2017

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 who has not opted for Hindi Medium answers in Hindi, 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.

In case any candidate answers extra questions(s)/sub-questions(s) over and above the required number, then only requisite number of questions first answered in the answer book shall be valued and subsequent extra questions answered shall be ignored.

Working notes shall form part of respective answers.

All question pertaining to Income Tax, relate to Assessment Year 2017-18, unless stated otherwise in the question.

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1. (a) Ms. Rekha, a resident individual aged 50, provides the following information for the financial year 2016-17 : **10**

(i) She is a partner in AK & Co. and received the following amounts from the firm :

Share of profit from the firm	₹ 35,000
Interest on capital @ 15% p.a.	₹ 3,00,000
Salary as working partner (fully allowed in the hands of the firm)	₹ 1,00,000

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(ii) She is running a rice mill as proprietor. The Net profit as per Profit & Loss Account is ₹ 4,50,000. The following items are debited to Profit and Loss account :

- Advance Income-tax paid ₹ 1,00,000
- Personal drawings ₹ 50,000

The following items are credited to Profit and Loss Account :

- Interest on savings bank account with SBI ₹ 12,000
- Interest on savings account with post office ₹ 5,000
- Dividend from listed Indian Company (DDT paid) ₹ 80,000

(iii) She owned a house property in Mumbai which was sold in January, 2015. She received ₹ 90,000 by way of arrear rent in respect of the said property in October, 2016.

(iv) She made the following investments :

Life insurance premium on a policy in the name of her married daughter ₹ 60,000. (The policy was taken on 1–10–2013 and the sum assured being ₹ 5,00,000).

Health insurance premium on a policy covering her mother aged 75. She is not dependant on Ms. Rekha. Premium paid by cheque ₹ 35,000.

Compute the Total Income and the tax liability of Ms. Rekha for the Assessment year 2017-18.

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(b) Mr. Rixon commenced rendering professional service for the first time from 01-12-2016. He Furnishes you the following information for the month of December, 2016 : **5**

Particulars	₹
(i) Amount received for the services to be rendered in February, 2017	8,00,000
(ii) Free service rendered to friends. (Value of similar services is ₹ 30,000)	
(iii) Services rendered during the month	5,50,000
(iv) Reimbursement of expenses received	2,25,000
Note : The amounts given above are inclusive of service tax and cesses, wherever applicable.	

Compute the service tax liability inclusive of cesses of Mr. Rixon for the month of December, 2016.

(c) The Sales and purchase of M/s Hindcare Ltd. for the month of January, 2017 are given hereunder : **5**

	₹
Purchase within State	
Raw Material Purchase (tax rate 12.5%)	6,00,000
Raw Material Purchase (tax rate 4%) (But the Invoice does not show the amount of tax separately)	2,50,000
Highseas Purchases (Customs duty paid @ 10%)	3,25,000
Sales within State	
Taxable Sale (tax rate 4%)	9,00,000
Exempted Sale [Raw Material for ₹ 2,50,000 (tax rate 12.5%) is used for producing such exempted goods]	6,25,000
Inter-State Sales	
Sale in the course of inter-State Trade or Commerce (CST 2%)	2,00,000

Compute the VAT payable for the month of January, 2017 (Assume that there is no opening and closing stock)

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2. (a) (i) During the last four years preceding the financial year 2016-17, Mr. Damodhar, a citizen of India, was present in India for 430 days. During the last seven previous years preceding the previous year 2016-17, he was present in India for 830 days. **2×4 =8**

Mr. Damodhar is a member of crew of a Dubai bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 12th August, 2016.

Following details are made available to you for the previous year 2016-17 :

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Damodhar	12th August, 2016
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Dhamodhar	21st January, 2017

In May, 2016 he had gone out of India to Singapore and Malaysia on a private tour for a continuous period of 29 days.

You are required to determine the residential status of Mr. Damodhar for the previous year 2016-17.

(ii) Discuss with brief reasons, whether rent received for letting out agricultural land for a movie shooting and amounts received from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assesse can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961.

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(b) State with reason, whether the following independent services are exempted services : 4

(i) Services provided as a match referee directly to Sports Authority of India for ₹ 2,50,000.

(ii) Security services provided to a Government recognized educational institution for ₹ 3,00,000.

(iii) Performing music concert by a renowned Carnatic singer in consideration for ₹ 1,40,000.

(iv) Collection of admission fee for music concert with fee of ₹ 1000 per person.

(**Note** : Assume that the service provider in each case is not entitled to avail Small Service Provider exemption.)

(c) Mr. Prakash provides the following information for the financial year 2016-17 : 4

(i) Inter-State sales ₹ 60,00,000 (inclusive of CST)

(ii) Freight ₹ 3,80,000 (which includes ₹ 1,00,000 not shown in the sales invoice separately.)

(iii) Goods sold to SRC Traders for ₹ 50,000 on 15-04-2016 were returned on 20-8-2016.

(iv) Goods for ₹ 60,000 dispatched on 23-6-2016 to Mr. Shankar got rejected and returned. These goods were received by Mr. Prakash on 25-2-2017.

Compute the taxable turnover and CST payable by Mr. Prakash. Assume the CST rate @ 2% and all transactions were covered by valid form 'C'.

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3. (a) Mr. Nambi, a salaried employee, furnishes the following details for the financial year 2016-17 : **8**

Particulars	₹
Basic salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession Tax (of this, 50% paid by employer)	7,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Nambi paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	30,000
Employer-Company owns a Tata Nano car, which was provided to the assessee, both for official and personal use. No driver was provided. (Engine cubic capacity less than 1.6 litres)	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	2,000

You are required to compute the income chargeable under the head "Salaries" for the assessment year 2017-18.

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(b) IJK Manufacturing Co. Ltd. is a unit eligible for small scale exemption but paying duty. Determine the amount of CENVAT credit available in respect of the following items procured by them in the month of March, 2017 : 5

Item	Excise Duty Paid ₹
(i) Raw material used in the factory	80,000
(ii) Goods used in the guest house for the personal use of employees newly recruited during their stay.	20,000
(iii) Capital goods used as parts and components in the manufacture of final products.	30,000
(iv) Office equipments used in an office within the factory.	20,000
(v) Light diesel oil	6,000

Note : Your answer must be supported by reasons.

(c) Rohan Limited exported some goods to Rohith Inc. of USA. It received $ 10000 as a consideration for the same and sold the foreign currency at ₹ 68 per US Dollar. 3

Compute the value of taxable services under Rule 2B of Service tax (Determination of Value) Rules, 2006 in the following cases :

(i) RBI reference rate for US dollars at that time is ₹ 69 per US dollar.

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(ii) RBI reference rate for US dollars is not available.

(iii) What would be the value of taxable service if US dollars 10000 are converted to 5000 UK Pounds. RBI reference rate at that time is ₹ 67 per US dollar and ₹ 100 per UK Pound.

4. (a) (i) A Korean Company Damjung Ltd. entered in to the following transactions during the financial year 2016-17 : **2×4 =8**

(a) Received ₹ 20 lakhs from a non-resident for use of patent for a business in India.

(b) Received ₹ 15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Japan. [Assume that the above amount is converted/stated in Indian Rupees].

(c) Received ₹ 7 lakhs from RR Co. Ltd., an Indian company for providing technical know-how in India.

(d) Received ₹ 5 lakhs from R & Co. Mumbai for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.

Explain briefly, whether the above receipts are chargeable to tax in India.

(ii) Mr. Ganesh owns a commercial building whose construction got completed in June 2015. He took a loan of ₹ 15 lakhs from his friend on 1-8-2014 and had been paying interest calculated at 15% per annum. He is eligible for pre-construction interest as deduction as per the provisions of the Income Tax Act.

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Mr. Ganesh has let out the commercial building at a monthly rent of ₹ 40,000 during the financial year 2016-17. He paid municipal tax of ₹ 18,000 each for the financial year 2015-16 and 2016-17 on 1-5-2016 and 5-4-2017 respectively.

Compute income under the head 'House Property' of Mr. Ganesh for the Assessment year 2017-18.

(b) Decide the point of taxation for the following cases : 4

Case	Date of completion of service	Date of Invoice	Date of receipt of payment
(i)	13-09-2016	01-11-2016	03-11-2016
(ii)	30-01-2017	03-12-2016	30-03-2017
(iii)	05-01-2017	01-01-2017	20-10-2016
(iv)	18-02-2017	12-02-2017	02-03-2017

(c) Shubh Nivesh (P) Ltd. imported a machinery from London for the purpose of providing a taxable service. The assessable value of imported machinery as per Custom law is ₹ 5,00,000. Basic Customs Duty is payable @ 10% and Education Cess and Secondary and Higher Education Cess of customs, are applicable. If the imported machinery is 4

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manufactured in India, the excise duty is leviable on the machinery @ 12.5%. Special CVD is payable on said machinery @ 4%. You are required to :

(i) Calculate the total customs duty payable.

(ii) Examine whether Shubh Nivesh (P) Ltd. can avail any CENVAT credit of the customs duties paid ? If so, how much ?

5. (a) Mr. Yuthistra bought a vacant Land for ₹ 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07. 8

He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mr. Yuthistra received ₹ 20 lakhs as advance in cash by executing an agreement.

The sale deed was executed and registered on 14-1-2017 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence the value of property for stamp duty purposes was ₹ 770 lakhs. Mr. Yuthistra, paid 1% as brokerage on sale consideration received.

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Subsequent to sale, Mr. Yuthistra made following investments :

(i) Acquired a residential house at Delhi for ₹ 110 lakhs.

(ii) Acquired a residential house at London for ₹ 190 lakhs.

(iii) Subscribed to NHAI capital gains bond (approved under section 54 EC) for ₹ 45 lakhs on 29-3-2017 and for ₹ 50 lakhs on 12-5-2017.

Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index : F.Y. 2004-05 = 480

F.Y. 2006-07 = 519

F.Y. 2016-17 = 1125

(b) (i) A manufacturer has arranged on 12th Feb. 2017, the delivery of a machinery directly at the place/premises of the job worker, to whom he regularly gives his materials for conversion on job work basis. Central excise duty has been paid on the same. He desires to know whether he can avail CENVAT credit in respect of such machinery installed at the premises of the job worker. Advise him suitably. 4

(ii) Answer the following with reference to CENVAT Credit Rules, 2004 :

(a) When will the CENVAT Credit be allowed in respect of service tax paid under full and partial reverse charge ?

(b) Is there any time limit for availing CENVAT Credit for inputs/input services ?

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(c) In the context of the provisions relating to service tax contained in the Finance Act, 1994, what is meant by the term "Consideration" ? State with brief reason (not exceeding one sentence), whether or not consideration is present in the following cases : 4

(i) Voluntary donations received by a charitable trust;

(ii) Gifts received from friends on an individual's birthday, and

(iii) Stipend received by an articled trainee from his employer, a Chartered Accountant.

6. (a) (i) Mr. Shyam, a resident of Chandigarh, provides the following information for the financial year 2016-17 : 2×4 =8

Particulars	₹
Income from Textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss an maintenance of race horse	15,000
Eligible current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of Assessment year 2016-17 brought forward	10,000
Speculation business loss of Assessment year 2016-2017	30,000

Compute the Gross Total Income of Mr. Shyam for the Assessment year 2017-18 and any other item of expense or loss eligible for carry forward.

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(ii) Mr. Rohan, a resident individual has Gross Total Income of ₹ 7,50,000 comprising of Income from Salary and income from house property for the assessment year 2017-18. He provides the following information :

Paid ₹ 70,000 towards premium on life insurance policy of his Handicapped Son (Section 80 U disability). Sum assured ₹ 4,00,000 ; and date of issue of policy 1-8-2015.

Deposited ₹ 90,000 in tax saver deposit in the name of his major son in State Bank of India.

Contributed ₹ 25,000 to The Clean Ganga Fund, set up by the Central Government.

Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2017-18.

(b) Explain the taxability or otherwise of the following with respect to service tax : 4

(i) Suit filing fee taken by court in respect of litigation.

(ii) Amount received by an employee from employer on pre-mature termination of his contract of employment.

(iii) Consideration received by a foreman of chit for conducting chit.

(iv) Services provided to Reserve Bank of India.

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(c) ABC Limited is a leading manufacturer of special type of shoes. Legal Metrology Act, 2009 requires declaration of Retail Sale Price on the package of the shoes and shoes are also notified u/s 4A of the Central Excise Act, 1944 (RSP based valuation provision). 4

Following information has been given by ABC Ltd. :

Particulars	Amount
Abatement available on shoes	25% of retail Price
MRP marked on the package	₹ 3,000 per pair of shoes
Price at which ABC Ltd. sells the shoes to their wholesalers	₹ 2,200 per pair of shoes
Price at which wholesalers sell the shoes to retail shops	₹ 2,500 per pair of shoes
Price at which shoes are sold by retailers to final consumers	₹ 2800 per pair of shoes (i.e. after ₹ 200 offered as discount on printed retail Price)
Excise duty	12.50%

(i) Calculate the Excise duty payable on a pair of shoes.

(ii) Calculate the Excise duty payable if the above mentioned shoes are not covered u/s 4A of the Central Excise Act, 1944

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7. Answer any **two** sub-divisions from (a) to (c) and the rest of sub-divisions : 2×4 =8

(a) Pallavi Bank Ltd., has paid interest of ₹ 9,000 to Mr. A, a resident Indian, from its Chennai branch and ₹ 8,000 from Bangalore branch. If there is no core banking services in the bank, is tax required to be deducted at source from such interest payments made on 31-3-2017 ? Will your answer be different if there is core banking service present in the bank ? Also, explain the provisions of the Income-tax Act, 1961 in this regard.

(b) By whom should the return of income be signed in the case of following persons :

(i) Political party;

(ii) Company which is being wound up;

(iii) Hindu Undivided Family, when karta is unable to sign, and

(iv) Scientific research association.

(c) Mr. Sachal, a resident individual aged 54, furnishes income details as under :

(i) Wholesale Cloth business, whose turnover is ₹ 150 lakhs, for which accounts are audited u/s 44AB. Income from such business ₹ 8,10,000.

(ii) Income from other sources ₹ 2,70,000.

(iii) Tax deducted at source ₹ 25,000.

(iv) Advance tax paid ₹ 1,03,000 on 14-3-2017.

Return of income will be filed on 11-12-2017. The assesse is willing to pay the requisite self-assessment tax. Calculate the interest payable under section 234B of the income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return.

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(d) What are the circumstances under which the registration certificate can be revoked under service tax ? 4

(e) ABC & Co., an LLP has aggregate value of taxable services of ₹ 40 lakhs in the financial year 2016-17. Is it allowed to pay service tax in the financial year 2017-18 on receipt basis ? If yes, what are the due dates for payment of service tax ? 4

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