

Roll No.

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

NOV 2016

Total No. of Questions – 7

Total No. of Printed Pages – 12

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.

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

Working notes should form part of the respective answers.

All question pertaining to Income Tax, relate to Assessment Year 2016-17, unless stated otherwise in the question.

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1. (a) Mr. Raghuveer, a resident individual aged 35 years, furnished the following information from his Profit and Loss Account for the year ended 31st March 2016: **10**
- (i) The net profit was ₹ 6,50,000.
- (ii) The following incomes were credited in the Profit & Loss Account:
- (a) Interest on government securities ₹ 25,000
- (b) Dividend from a foreign company ₹ 18,000
- (c) Gold coins worth ₹ 55,000 received as gift from his father.

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- (iii) Depreciation debited in the books of account was ₹ 85,000. Depreciation allowed as per Income-tax Act, 1961 was ₹ 96,000.
- (iv) Interest on loan amounting to ₹ 68,000 was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31st March 2016.
- (v) General expenses included :
- (a) An expenditure of ₹ 20,500 which was paid by a bearer cheque.
 - (b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.
- (vi) He contributed the following amounts by cheque :
- (a) ₹ 45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
 - (b) ₹ 20,000 to the Swachh Bharat Kosh set up by the Central Government.
 - (c) ₹ 28,000 towards premium for health insurance and ₹ 2,500 on account of preventive health check up for self and his wife.
 - (d) ₹ 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

You are required to compute the total income of Mr. Raghuveer for the Assessment Year 2016-17.

- (b) ET Bank Ltd. furnishes the following information relating to the services provided and the gross amount received. Compute the value of taxable services and service tax liability. 6

	(₹ in lakh)
(i) Sale and purchase of forward contract	25
(ii) Commission charged on debt collection services	18
(iii) Margin earned on reverse repo transactions	5
(iv) Administrative charges collected for extending home loans	12

Assume :

- (a) ET Bank Ltd. is not eligible for small service provider exemption.
 (b) Service tax is not included in the above amounts and is to be charged separately @ 14.5%.
- (c) Nagarjuna Ltd. of Tamil Nadu provides the following information for the month of December 2015 : 4

<u>Particulars</u>	<u>Amount (₹)</u>
Purchase of raw materials from the local market (excluding VAT @ 4%)	45,00,000
Half of the goods manufactured from the above raw materials were exported at a sale price of ₹ 25,00,000. Remaining goods were given on lease to Mr. X of Karnataka at a deemed sale price of ₹ 35,00,000 (excluding VAT @ 12.50%).	

You may assume that exports are subject to Zero rate of tax and input tax credit of tax paid on raw material used in the manufacture of leased goods is available immediately. Compute the amount of net VAT payable/refund and input tax credit for the month of December 2015.

2. (a) Mr. Anand Prakash, a resident individual, aged 55 years, purchased 10 Plots in the financial year 1993-94 for ₹ 12 Lakh. On 1st April 2004, he started a business of property dealing and converted all 10 plots as stock in trade of his business and recorded the cost at ₹ 40 Lakh in his books being the Fair market value on 1st April 2004. 8
- On 31st March 2010, he sold all 10 Plots for ₹ 55 Lakh and purchased a residential house property for ₹ 50 Lakh. He has constructed 2 rooms in this residential house in June 2011 and has spent ₹ 8 Lakh.
- He sold the above residential house on 5th Feb 2016, for ₹ 70 Lakh. The valuation adopted by Stamp valuation authority for the payment of stamp duty was ₹ 92 Lakh. On the request of Mr. Anand Prakash, A.O. made a reference to the valuation officer. The Valuation Officer determined the value at ₹ 95 Lakh. Mr. Anand Prakash paid brokerage 1% of sale consideration.
- Compute the total Income and total Tax liability of Mr. Anand Prakash for the Assessment year 2016-17.
- (Cost Inflation Index : 1993-94-244; 2004-05-480; 2010-11-711; 2011-12-785; 2015-16-1081.)
- (b) Purve Sainik Security Service Ltd providing the security services, entered into a contract with Women Welfare Mandal, for exhibition of jewellery held between 22nd August 2015 to 26th August, 2015. Contract signed on 5th August 2015 and the company received an advance of ₹ 5,00,000 by an account payee cheque on signing date . On 22nd Aug 2015, the company received ₹ 6,00,000 by credit card and on 26th August 2015 ₹ 4,00,000 by pay order. 5
- Determine the value of taxable service and the service tax liability payable by Purve Sainik Security Service Ltd. Assuming the above company is not eligible for SSP exemption and service tax has been charged separately @ 14.5%.

- (c) Compute the taxable turnover and the tax liability of M.R. Saket under CST Act, assuming that the VAT rate within the state is 4%. 3

Total inter state sales during the financial year 2015-16 were ₹ 25,00,000 inclusive of CST. The sales do not include the following :

- (i) Goods worth ₹ 50,000 provided as free samples to Mr. C of Ludhiana.
- (ii) Sale of goods amounting to ₹ 1,50,000 to Mr. Sam, a foreign tourist.
- (iii) Despatch of goods worth ₹ 2,00,000 to Mr. Saket's branch located in another State.
- (iv) Hypothecation of the goods worth ₹ 12,00,000 for a working capital loan from SBI amounting to ₹ 10,00,000.

3. (a) (i) Mr. Rajnesh, a citizen of India, serving in the Ministry of Finance in India and transferred to High Commission of Australia on 15th March 2015. He did not come to India during the financial year 2015-16. His income during the financial year 2015-16 is given here under : 2×4
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<u>Particulars</u>	₹
Salary from Govt. of India	7,20,000
Foreign Allowances from Govt. of India	6,00,000
Rent from a house situated at London, received in London	3,60,000
Interest accrued on National Saving Certificate during the year 2015-16	45,000

Compute The Gross Total Income of Mr. Rajnesh for the Assessment year 2016-17.

(6)

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- (ii) Mr. Rakesh has 15% share holding in RSL (P) Ltd and has also 50% share in Rakesh & Sons, a partnership firm.

The accumulated profit of RSL(P) Ltd. is 20 Lakh. Rakesh & Sons had taken a loan of ₹ 25 Lakh, from RSL (P) Ltd. Explain, whether the above loan is treated as dividend, as per the provision of Income Tax Act, 1961.

- (b) Mr. Dhingra rendered the following services by renting his properties located in Gujarat for various uses :

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- | | |
|---|------------|
| (i) Land let out to Jumbo Circus | ₹ 1,50,000 |
| (ii) A building let out to Singhania classes for
providing coaching to CA students | ₹ 5,00,000 |
| (iii) A vacant land used for horticulture | ₹ 3,00,000 |
| (iv) A building let out to EXIM Ltd. for use, as a
corporate office | ₹ 8,00,000 |

Determine the value of taxable services and service tax liability thereon @ 14.5%. Assume, Mr. Dhingra is not eligible for small service provider exemption and the above mentioned amounts are exclusive of service tax.

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- (c) The Inter State Sales of Mr. Raghav are ₹ 60,00,000 (inclusive of CST) 3
for the F.Y. 2015-16 and the Inter State Sales include :
(i) Excise duty ₹ 6,00,000;
(ii) Deposits for returnable containers & Packages ₹ 10,00,000;
(iii) Freight (not shown separately in invoice) ₹ 2,00,000.

Compute the Taxable turnover and CST payable.

Assuming Rate of Central Sales Tax is 2% and all the transactions / sales were covered by valid 'C' form.

4. (a) State with reasons whether the following receipts are taxable or not 4×2
=8
under the provisions of Income-tax Act, 1961 ?
- (1) Mr. Suri received a sum of ₹ 5,00,000 as compensation, from 'Yatra Foundation', towards the loss of property on account of Flood Disaster at Chennai during December 2015.
 - (2) Mr. Suman received an advance of ₹ 3 lakhs on 06-06-2015 to transfer his residential house property. Since the transfer was not effected during the previous year due to failure in negotiations, he deducted the advance money forfeited from the cost of acquisition of the property.
 - (3) Mr. Federer, a non-resident residing in Sweden, has received rent from Mr. Nadal, also a non-resident residing in France in respect of a property taken on lease at Mumbai. Since this income is received outside India from a non-resident, Federer claims that his income is not chargeable to Tax in India.
 - (4) TDS is not applicable in respect of payment of ₹ 1,00,000 to Mr. Pandey a resident, being interest on recurring deposit with SBI.

- (b) Compute the CENVAT credit available to M/s. Shine Enterprises Ltd. in respect of the following services availed by it in the month of October 2015 ; duly mentioning why CENVAT Credit is available ? 5

Nature of Service availed	Service Tax paid ₹
(a) Market Research Services	2,00,000
(b) Service of General Insurance taken for motor vehicles which are not capital goods	52,000
(c) Credit Rating Services	1,09,000
(d) Health & Fitness Centre service for the personal use of the Managing Director of the Company	72,000
(e) Repairs & Renovation services for office premises	1,40,000

- (c) Examine the validity of the following statements under Central Excise Act, 1944 and under Central Excise Rules, 2002 : 3
- (i) Goods subjected to NIL rate duty are not excisable goods.
- (ii) XYZ Ltd., manufacturer of Khandasari Molasses, claims that it is not liable to pay excise duty on the molasses produced.

5. (a) (i) Mr. Kamal grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. The cost of cultivation of 40% of paddy produce is ₹ 7,00,000 which is sold for ₹ 15,00,000; and the cost of cultivation of balance 60% of paddy is ₹ 12,00,000 and the market value of such paddy is ₹ 24,00,000. To manufacture the rice, he incurred ₹ 2,00,000 in the manufacturing process on the balance (60%) paddy. 4×2
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The rice was sold for ₹ 30,00,000.

Compute the Business income and Agriculture Income of Mr. Kamal.

- (ii) Compute the amount of LTC Exemption in the following cases with reference to the provision under Income Tax Act, 1961:
- (a) Mr. Suresh went on a holiday on 09/09/2015 to Mysore with his wife and 3 children – one daughter born on 02/02/2009 and twin sons born on 05/05/2011. The total cost of travel was ₹ 80,000. The ticket cost for Mr. Suresh and his wife was ₹ 50,000 and for all three children was ₹ 30,000. The employer reimbursed total ticket cost ₹ 80,000.
- (b) In the above case (a), if among his 3 children the twin sons born on 02/02/2009 and the daughter was born on 05/05/2011, what shall be the exemption ?
- (b) Shanti Ltd. imported an equipment in the month of May 2015 whose assessable value was US \$ 18,000. 5
- (i) From the following additional information, compute the duty payable –
- (a) Date of Entry inward was 09-05-2015. Basic custom duty on that date was 20% and Exchange rate notified by Central Board of Excise & Customs was US \$ 1 = ₹ 60.
- (b) Date of Bill of Entry was 13-05-2015. Basic custom duty on that date was 10% and Exchange rate notified by Central Board of Excise & Customs was US \$ 1 = ₹ 65.
- (c) Additional Duty payable under section 3(1) of the Customs Tariff Act, 1975 was 12.5%.
- (d) Additional Duty payable under section 3(5) of the Customs Tariff Act, 1975 was 4%.
- (e) Education Cess was 2% and Secondary & Higher Education Cess was 1%.
- (ii) How much CENVAT credit can Shanti Ltd. avail ?

- (c) Maruti Ltd., a manufacturer of Cars sold a car to S.K. Enterprise Ltd. at a price of ₹ 4,50,000 excluding taxes and duties. It also charged the following additional amounts for providing extra benefits : 3

	₹
(i) Assembly of Music System	15,000
(ii) Design and Engineering charges	25,000
(iii) Outward Freight and handling charges from factory to depot	2,500
(iv) Special Accessories to beautify the car	18,000

Determine the total amount of Central Excise Duty payable as per Central Excise Act, 1944, with explanation and reason.

6. (a) Discuss the provision under Income Tax Act for Payment of Advance Tax in case of Capital Gain. 2
- (b) (i) Specify the persons who are authorized to verify u/s 140, the return of income filed u/s 139 of the Income Tax Act, 1961 in case of a company. 2
- (ii) Mr. Satya is a manufacturer of goods in a factory located in Navi Mumbai. On 1st April 2015, there were 120 workmen engaged in his factory. Due to increase in demand of his products, he employed 140 new workmen during the previous year 2015-16 which included : 4
- (a) 15 casual workmen
- (b) 25 contract labourers
- (c) 40 workmen employed on 20th April, 2015
- (d) 35 workmen employed on 1st May, 2015
- (e) 25 workmen employed on 5th August, 2015

Compute the Deduction under Section 80JAA, if available to Mr. Satya for Assessment year 2016-17, if wages are paid to each worker @ ₹ 3,000 per month. His profit from the manufacture of goods for Assessment year 2016-17 is ₹ 5.50 lakhs.

- (c) Mr. Abhishek, a taxable service provider, filed his Service Tax return for the half year ended 30th September 2015 on 01-12-2015. He seeks your advice on the following issues : 5

- (i) Is he liable for any late fee for the delayed filing of half yearly return ? If yes, how much ?
- (ii) Can he revise such belatedly filed return ? If yes, what will be the last date of filing the same ?

- (d) Examine the validity of the following statements under the provisions of Customs Act, 1962 : 3

- (i) Customs duty is not attracted on goods jettisoned from the vessel to save the vessel from sinking.
- (ii) Customs duty is not attracted for any imported goods pilfered before unloading.

7. (a) Answer any **two** of the following of three sub divisions : 2×4
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- (i) Discuss the provisions, relating to the premature withdrawal from Employees Provident Fund, under section 192A, for AY 2016-17.
- (ii) (1) Mr. Kamal filed his Return of Income for the Assessment Year 2014-15 on 30-03-2016. Can he revise such return of income ? If so Why ?

- (2) Mr. Atal, a super senior citizen, has reported a Gross Total Income ₹ 5,60,000 and the deductions eligible under Chapter VI-A amounting to ₹ 70,000 for the previous year 2015-16. Is he liable to file his return of income u/s 139(1) for the Assessment year 2016-17 ? If so Why ?

- (iii) Mr. Barun provides you the following information and requests you to determine the Advance Tax liability with due dates for the financial year 2015-16.

Estimated tax liability for the financial year 2015-16 ₹ 65,000

Tax deducted at source for this year ₹ 5,000

- (b) Explain the manner in which Service tax is payable by an aggregator. 4
- (c) Decide with reasons whether the following places can be treated as "Place of Removal" in terms of Rule 2(qa) of CENVAT Credit Rules, 2004. 4
- (i) Warehouse of XYZ Ltd. wherein the excisable goods have been permitted to be deposited without payment of duty.
- (ii) Customs Port from where goods are directly exported by the manufacturer exporter to his foreign buyer.