INTERMEDIATE (IPC) MAY 2015

Roll No. .....

GROUP I - PAPER 4

TAXATION

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.

Attempt any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made and stated clearly by way of a note.

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

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1. (a) Dr. Shashank is a noted child specialist of Mumbai. His Income and Expenditure account for the financial year ended 31-03-2015 is given below : **10**

Expenditure	Amount (₹)	Income	Amount (₹)
To Staff salary	2,78,000	By Fee receipts	16,76,000
" Administrative expenses	1,64,000	" Winning at TV game	
" Medicine consumed	3,95,800	show (Net of TDS)	35,000
" Consumables	57,500	" LIC policy matured	1,15,000
" Depreciation	1,25,000	" Honorarium for giving	
" Rent of clinic	1,20,000	lectures at seminars	24,000
" Donation to National Children's Fund	51,000		
" To Net Profit	6,58,700		
Total	**18,50,000**	**Total**	**18,50,000**

(1) Depreciation computed as per Income Tax Rules, 1962 has been ascertained at ₹ 75,000.

(2) Medicines consumed include cost of medicine for self and family of ₹ 18,000 and for treating poor patients of ₹ 24,000 from whom he did not charged any fee either.

(3) Salary includes ₹ 30,000 paid in cash to a computer specialist who computerized his patient's data on 30th September, 2014 at 3 p.m.

(4) Donation to National Children's Fund has been made by way of an account payee cheque.

(5) He has paid a sum of ₹ 25,000 for a Life Insurance Policy (Sum assured ₹ 2,00,000) of himself, which was taken on 1-07-2012.

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(6) He also contributed ₹ 1,20,000 towards Public Provident Fund.

(7) Dr. Shashank also paid interest of ₹ 10,000 on loan taken for higher education of his daughter.

(8) Dr. Shashank made investments in equity shares listed in a recognized stock exchange of ₹ 30,000 and units of equity oriented fund of Rajiv Gandhi Equity Savings Scheme of ₹ 40,000.

(9) Dr. Shashank also made donation of ₹ 1,00,000 to a charitable trust registered & eligible for deduction under Income Tax Act, 1961.

You are required to compute the total income and tax payable by Dr. Shashank for the Assessment Year 2015-16.

(b) MCSS Tech Solutions is providing taxable Information Technology software services, and provide the following information related to the services rendered, invoice issued and payment received for these services, for the half year ended on 31st March 2015. 6

	Particulars	Amount ₹
(i)	Advance received on 31st March, 2015 for upgradation and enhancement of software service to be rendered in the month of April, 2015.	7,50,000
(ii)	Service provided to United Nations in New Delhi for analysis, design and programming of latest information technology software.	6,00,000
(iii)	Service billed to various clients. (including the services provided to United Nations)	56,00,000

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Service tax, Education cess and Secondary and Higher Education cess have been charged separately in all the bills.

Compute the value of total taxable services and the total service tax payable by MCSS Tech. Solutions @ 12.36% for the half year ended on 31st March, 2015.

(c) Mr. Devansh, a dealer of rice plant machinery in the State of Punjab, provide the following informations : 4

Total inter-state sales during the F.Y. 2014-15 is ₹ 95,00,000, CST included in this sales; This sales also include the following :

Dharmada ₹ 7,50,000

Freight ₹ 4,50,000 (₹ 3,00,000 shown separately in the invoices)

Cost of packing boxes for machinery are of ₹ 68,500 and installation and commissioning charges shown separately are of ₹ 65,000. Determine CST payable assuming that all transactions were covered by valid 'C' forms and the VAT rate within the state is 5%.

2. (a) (i) Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients ? 4

(a) Salary paid to Mr. David, a citizen of India ₹ 15,00,000 by the Central Government for the services rendered in Canada.

(b) Legal charges of ₹ 7,50,000 paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court.

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(c) Royalty paid to Rajeev, a non-resident by Mr. Mukesh, a resident for a business carried on in Sri Lanka.

(d) Interest received of ₹ 1,00,000, on money borrowed from France, by Ms. Dyana, a non-resident for the business at Bangalore.

(ii) Ms. Bindu, a non-resident, residing in New York since 1990, came back to India on 19-02-2013 for permanent settlement in India. Explain her residential status of Ms. Bindu for the Assessment Year 2015-16. In accordance with the various provision of Indian Income tax Act. **4**

(b) Rahul & Co. is a firm engaged in the business of recruitment and supply of Manpower. It furnishes the following details pertaining to the quarter ended 31-03-2015 : **5**

		Amount (₹)
(i)	Amount collected from clients for recruitment of	
	Permanent Staff	5,00,000
	Temporary Staff	3,00,000
(ii)	Amounts collected from clients for pre-recruitment screening	2,50,000
(iii)	Domestic helps arranged for friends & relative (Value of similar services is ₹ 45,000 to other customers)	–
(iv)	Amount collected from a warehouse of agricultural produce for labour provided for loading and unloading.	1,75,000

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(v) Advances received from prospective employers for conducting campus interviews in colleges to be held in May 2015. 2,00,000

(Such campus interviews could not be conducted due to student's strike in those colleges. Hence, the advances received was later on returned to the employers)

None of the clients of Rahul & Co. was a body corporate during the relevant quarter. Compute the value of taxable services rendered and the total service tax payable @ 12.36% by the assessee for the relevant quarter assuming that Rahul & Co. is not eligible for the small service provider's exemption in the financial year 2014-15. All above amounts are inclusive of service tax, where applicable.

(c) Balaji enterprises, a registered dealer provide the following details of purchases, sales, etc. for the year ended 31st March, 2015 : **3**

Particulars	Amount ₹
Purchase of raw materials within State (1500 units), inclusive of VAT @ 12.5%	4,05,000
Inter-State purchases of raw materials, inclusive of CST @ 2%	3,06,000
Import of raw materials, inclusive of custom duty of ₹ 50,000	4,50,000
Capital goods purchased on 15-6-2014, inclusive of VAT levy @ 10% (input credit to be spread over 3 financial years)	3,30,000
Manufacturing expenses	1,75,000
Sales of taxable goods within state, inclusive of VAT @4%	10,92,000
Sale of exempted goods within state, (manufactured from Inter-State purchase of raw materials)	2,25,000

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Closing Stock of 200 units of raw material purchased within State as on 31st March, 2015. Input tax credit is allowed only on raw materials used in manufacturing of taxable goods. Compute the net VAT liability of Balaji enterprises, for the year ended on 31st March, 2015.

3. (a) Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA), the company provides the following details for the previous year 2014-15. **8**

Particulars	**Rudra Ltd.** (₹)	**Unit in DTA** (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2015-16, in the following situations :

(i) If both the units were set up and start manufacturing from 22-05-2008.

(ii) If both the units were set up and start manufacturing from 14-05-2012.

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(b) BC Pvt. Ltd., a manufacturer, has furnished the following information : **5**

Sr. No.	Particulars		Excise Duty/ Service Tax Paid (₹)
(i)	Input 'A'	Invoice dated 23-09-2014	1,56,000
(ii)	Input 'B'	Invoice dated 10-4-2015	1,35,000
(iii)	Input 'C'	Invoice missing	89,460
(iv)	Input Service 'X'	Invoice dated 12-11-2014	45,340
(v)	Input Service 'Y'	Invoice dated 20-9-2014	68,240
(vi)	Machinery (being eligible capital goods under Chapter 82)	Invoice dated 12-9-2014	3,54,670
(vii)	GTA service for bringing raw materials to the factory (Payment has not been made to GTA but service tax has been paid under reverse charge)	Invoice dated 14-4-2015 Value of Services ₹ 3,00,000	9,270

Excise duty/Service tax given above are including education cess and secondary and higher education cess. BC Pvt. Ltd. is not entitled to SSI exemption. You are required to determine the total CENVAT credit that can be availed by BC Pvt. Ltd. during the month of April, 2015.

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(c) Rajeshwari Industries imported a machinery from Germany in an aircraft. The bill of entry was presented on 12-07-2014 and the aircraft arrived in India on 25-07-2014. The rate of import duty are : 3

Particulars	Date	Rate of Custom Duty
Bill of entry on	12-07-2014	12%
Arrival of aircraft on	25-07-2014	15%

In the above case, determine the applicable rate of import duty.

4. (a) From the following details furnished by Mr. Dinesh, a marketing manager of XL Corporation Ltd., Delhi. Compute the gross total income for the Assessment Year 2015-16. 8

Particulars	Amount (₹)
Salary including Dearness Allowance	6,50,000
Conveyance allowance of ₹ 900 p.m.	10,800
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mr. Dinesh.	82,000

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Dinesh purchased a flat in a co-operative housing society in Dwarka, Delhi for self occupation for ₹ 35,00,000 in April 2011, which was finance by a loan from Bank of India of ₹ 20,00,000 @ 11% interest and his own savings of ₹ 5,00,000 and a deposit of ₹ 10,00,000 from Bank of Baroda, to whom he let out his another house in Rohini, Delhi on lease for ten years. The rent payable by Bank of Baorda is ₹ 35,000 per month. Other relevant particulars are given below :

(i) Municipal taxes paid by Dinesh for his flat in Dwarka are ₹ 18,000 per annum and for his house in Rohini are ₹ 12,000 per annum.

(ii) Principal loan amount outstanding as on 01-04-2014 was ₹ 18,50,000.

(iii) He also paid ₹ 8,000 towards insurance of both the houses.

(iv) In the financial year 2013-14, he had gifted ₹ 40,000 each to his wife and minor son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% per annum.

(v) Mr. Dinesh's son is studying in a school run by the employer company throughout the financial year 2014-15. The education facility was provided free of cost. The cost of such education in similar school is ₹ 2,500 per month.

(vi) Dinesh also received gifts of ₹ 45,000 each from his two friends during the financial year 2014-15.

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(b) With reference to the service tax laws as contained in the Finance Act, 1994, kindly explain the followings :

(i) What will be the point of taxation in case of continuous supply of services ? 2

(ii) Mohan, a service provider had received ₹ 2,50,000 in advance, from Rakesh. Mohan had deposited service tax on such amount in the relevant half year. He finally rendered services valuing to ₹ 2,20,000 only and refunded balance amount to Rakesh. Mohan want to adjust service tax on ₹ 30,000 refunded by him from his current dues of Service Tax. Advise him. 2

(c) A manufacturer of machinery sold his machine on which excise duty is payable under Section 4 of Central Excise Act, 1944. 4

	Amount (₹)
Total Invoice Price	7,50,000
Erection Charges	50,000
(Erection to be done at customer's factory)	
Packing Charges	12,000
Design Charges	20,000
Insurance Charges (for dispatch to customer's factory)	8,000
Outward freight (from place of removal to customer's factory)	17,000
State VAT	12.50%

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Cash discount @ 2% was allowed as the customer had made full advance payment. Excise duty rate is 12% and education and secondary & higher education cesses as applicable. Calculate Assessable Value of the machine and excise duty payable.

5. (a) Ms. Mohini transferred a house to her friend Ms. Ragini for ₹ 35,00,000 on 01-10-2014. The Sub Registrar valued the land at ₹ 48,00,000. Ms. Mohini contested the valuation and the matter was referred to Divisional Revenue Officer, who valued the house at ₹ 41,00,000. Accepting the said value, differential stamp duty was also paid and the transferred was completed. 8

The total income of Mohini and Ragini for the assessment year 2015-16, before considering the transfer of said house are ₹ 2,80,000 and ₹ 3,45,000, respectively. Ms. Mohini had purchased the house on 15th May 2010 for ₹ 25,00,000 and registration expenses were ₹ 1,50,000.

You are required to explain provisions of Income-tax Act, 1961 applicable to present case and also determine the total income of both Ms. Mohini and Ms. Ragini taking into account the above said transactions. Cost inflation indices for :

(i) Financial Year 2010-11 : 711 and

(ii) Financial Year 2014-15 : 1024

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(b) State whether the following services are covered under negative list of services under Section 66 D. Need not assign any reason. **4**

(i) Service provided by the Department of Post by way of speed post, express parcel post, Life Insurance and agency services provided to a person other than Government.

(ii) Service provided by way of supply of farm labour relating to agriculture.

(iii) Services by way of renting of residential dwellings for use as residence.

(iv) Services for funeral, burial, crematorium or mortuary and transportation of the deceased.

(v) Services relating to education as a part of an approved vocational education course.

(vi) Service of transportation of passengers with or without accompanied belongings, by Railways in an air conditioned coach.

(vii) Services by way of transportation of goods by road by a goods transportation agency.

(viii) Selling of space or time slots for advertisement broadcast by FM Radio.

(c) Define the term "Transaction value" as per Central Excise Act, 1944. **4**

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6. (a) (i) Compute the eligible deduction under Chapter VI-A for the Assessment year 2015-16 of Ms. Roma, who has a gross total income of ₹15,00,000 for the assessment year 2015-16 and provide the following informations about his investments/payments during the year 2014-15 : 4

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 01-01-2012 and sum assured is ₹ 1,50,000)	35,000
2.	Public Provident Fund contribution.	90,000
3.	Repayment of Housing loan to Bhartiya Mahila Bank, Banglore.	20,000
4.	Payment to L.I.C. Pension Fund	25,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid	20,000
6.	Medical Insurance premium paid for parents (Senior Citizen)	25,000

(ii) Mr. Ramesh gifted a sum of ₹ 5 lacs to his brother's minor son on 16-4-2014. On 18-4-2014, his brother gifted debentures worth ₹ 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh' brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Ramesh received interest of ₹ 45,000 on debentures received by her. 4

Discuss the implications under the provisions of the Income-tax Act, 1961.

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(b) Ms. Vasundhara, a service provider, who pays service tax regularly, was of the opinion that a particular service rendered by her was not liable to service tax. She therefore, did not charge service tax in her bill. She received the payment for the bill amount without service tax. However, it was later confirmed that service tax is payable on said service. How will service tax liability of Ms. Vasundhara be determined in such a case ? 4

(c) Explain the term "Price cum Duty" as per Central Excise Act, 1944. 4

7. (a) Briefly explain any **two** of the following three sub-divisions :

(i) Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required ? 4

(ii) Mr. Madan sold his house property in Surat as well as his rural agricultural land for a consideration of ₹ 65 lakhs and ₹ 20 lakhs respectively, to Mr. Raman on 01-10-2014. He has purchased the house property for ₹ 40 lakhs and the land for ₹ 15 lakhs, in the year 2011. There was no difference in the stamp valuation. You are required to determine TDS implications, if any, assuming both persons are resident Indians. 4

(iii) What is the difference between TDS and TCS under the Income-tax Act, 1961 ? 4

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(b) Ashok, a taxable service provider outsourced a part of work by engaging Suresh, a subcontractor. Service tax is charged and paid by Ashok for the total work. Whether Suresh, the sub contractor is liable to charge and pay any service tax ? **4**

(c) RSL Pvt. Ltd. purchased a pollution control equipment on 20-6-2010 for ₹ 15,00,000 (including excise duty of ₹ 1,85,400); and took the CENVAT credit of 50% of the excise duty paid in the financial year 2010-11 and balance credit of 50% in the financial year 2011-12. **4**

After using such equipment, sold it as scrap for ₹ 50,000 excluding excise duty, on 31st Dec., 2014. Examine whether :

(i) RSL Pvt. Ltd. was correct in availing the CENVAT credit on the said equipment in financial years 2010-11 and 2011-12 ?

(ii) On selling of above equipment in the financial year 2014-15, it needs to pay the amount of excise duty earlier availed as CENVAT Credit ?

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