

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

**NOV 2014**

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.

Attempt any five questions from the remaining six questions.

Working notes should form part of your answer.

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

All questions pertaining to the Income Tax relate to Assessment Year 2014-15, unless stated otherwise in the question.

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1. (a) Mr. Devansh an Indian Resident aged 38 years carries on his own business. He has prepared following Profit & Loss A/c for the year ending 31-03-2014 : **10**

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| Particulars                                                        | ₹               | Particulars                                                               | ₹               |
|--------------------------------------------------------------------|-----------------|---------------------------------------------------------------------------|-----------------|
| Salary                                                             | 48,000          | Gross Profit                                                              | 4,30,400        |
| Advertisement                                                      | 24,000          | Cash Gift (on the occasion of Marriage)                                   | 1,20,000        |
| Sundry Expenses                                                    | 54,500          | Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes | 3,600           |
| Fire Insurance (₹10,000 relates to House Property)                 | 30,000          |                                                                           |                 |
| Income Tax and Wealth Tax                                          | 27,000          |                                                                           |                 |
| Household expenses                                                 | 42,500          |                                                                           |                 |
| Depreciation (Allowable)                                           | 23,800          |                                                                           |                 |
| Contribution to an University approved and notified U/s. 35(1)(ii) | 1,00,000        |                                                                           |                 |
| Municipal taxes paid for House property                            | 36,000          |                                                                           |                 |
| Printing & Stationary                                              | 12,000          |                                                                           |                 |
| Repairs & Maintenance                                              | 24,000          |                                                                           |                 |
| Net Profit                                                         | 1,32,200        |                                                                           |                 |
|                                                                    | <b>5,54,000</b> |                                                                           | <b>5,54,000</b> |

**Other information :**

- (i) Mr. Devansh owns a House Property which is being used by him for the following purposes :
- 25% of the property for own business
  - 25% of the property for self-residence
  - 50% let out for Residential purpose

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- (ii) Rent received from 50% let out portion during the year was ₹ 1,65,000.
- (iii) On 1-12-2013 he acquired a vacant site from his friend for ₹ 1,05,000. The State Stamp Valuation Authority fixed the value of the site at ₹ 2,80,000 for stamp duty purpose.
- (iv) He received interest on Post office Savings bank Account amounting to ₹ 500.
- (v) Cash gift on the occasion of marriage includes gift of ₹ 20,000 from Non-relatives.
- (vi) LIC premium paid (Policy value ₹ 3,00,000 taken on 01-06-2013) ₹ 60,000 for his handicapped son. (Section 80U disability)
- (vii) He purchased 10000 shares of X Company Ltd on 01-01-2010 for ₹ 1,00,000 and received a 1 : 1 bonus on 01-01-2011. He sold 5000 bonus shares in September 2013 for ₹ 2,20,000. (Shares are not listed and STT not paid).

Compute Total Income and Net Tax payable by Mr. Devansh for the Assessment Year 2014-15.

- (b) Compute the Service Tax liability of Mr. Saksham, an Air Travel Agent for the quarter ended 30-09-2013 using the following details :

|       | <b>Particulars</b>                                                      | <b>₹</b>  |
|-------|-------------------------------------------------------------------------|-----------|
| (i)   | Basic Air fare collected for Domestic booking of tickets                | 45,00,000 |
| (ii)  | Basic Air fare collected for International booking of tickets           | 90,00,000 |
| (iii) | Commission received from the airlines towards the sale of above tickets | 12,00,000 |

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In the above case, would the Service Tax liability of Mr. Saksham be reduced if he opts for special provision for payment of Service Tax as provided under Rule 6 of the Service Tax Rules, 1994 instead of paying Service Tax @12%.

Mr. Saksham is not eligible for Small Service Providers exemption, also Service Tax has been charged separately.

- (c) The following data relating to an importer for the previous year 2013-14 is available : **4**

- (i) Customs Value (Assessable Value of imported goods) is 4,00,000
- (ii) Basic Customs Duty payable 10 %
- (iii) If the goods were produced in India, Central Excise Duty would have been 16%

Education Cess and Secondary Higher Education Cess are as applicable.

Special CVD at appropriate rate is applicable

Find the customs duty payable.

How much Cenvat credit can be availed by importer if the importer is a manufacturer ?

2. (a) Mrs. Geetha and Mrs. Leena are sisters and they earned the following income during the Financial Year 2013-14. Mrs. Geetha is settled in Malaysia since 1984 and visits India for a month every year. Mrs. Leena is settled in Indore since her marriage in 1992. Compute the total income of Mrs. Geetha and Mrs. Leena for the assessment year 2014-15 : **8**

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| Sl. No. | Particulars                                                                                                                              | Mrs. Geetha<br>₹ | Mrs. Leena<br>₹ |
|---------|------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------|
| i       | Income from Profession in Malaysia, (set up in India) received there                                                                     | 15,000           | —               |
| ii      | Profit from business in Delhi, but managed directly from Malaysia                                                                        | 40,000           | —               |
| iii     | Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels. | 1,20,000         | —               |
| iv      | Dividend from PQR Ltd. an Indian Company                                                                                                 | 5,000            | 9,000           |
| v       | Dividend from a Malaysian company received in Malaysia                                                                                   | 15,000           | 8,000           |
| vi      | Cash gift received from a friend on Mrs. Leena's 50 <sup>th</sup> birthday                                                               | —                | 51,000          |
| vii     | Agricultural income from land in Maharashtra                                                                                             | 7,500            | 4,000           |
| viii    | Past foreign untaxed income brought to India                                                                                             | 5,000            | —               |
| ix      | Fees for technical services rendered in India received in Malaysia                                                                       | 25,000           | —               |
| x       | Income from a business in Pune (Mrs. Geetha receives 50% of the income in India)                                                         | 12,000           | 15,000          |
| xi      | Interest on debentures in an Indian company (Mrs. Geetha received the same in Malaysia)                                                  | 18,500           | 14,000          |
| xii     | Short-term capital gain on sale of shares of an Indian company                                                                           | 15,000           | 25,500          |
| xiii    | Interest on savings account with SBI                                                                                                     | 12,000           | 8,000           |
| xiv     | Life insurance premium paid to LIC                                                                                                       | —                | 30,000          |

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- (b) ABC private Ltd. is engaged in providing taxable Services. The aggregate value of taxable services provided and invoiced during January 2014 are ₹ 18,00,000. The invoices of ₹ 18,00,000 include the following :

₹ 1,00,000 relating to betting.

₹ 1,25,000 for services rendered within the Indian territorial waters.

₹ 1,75,000 for services rendered to its associated enterprise.

₹ 1,50,000 for services rendered in state of Jammu & Kashmir.

Note : All the invoices are inclusive of service tax.

In the Financial year 2012-13 ABC Private Ltd. had paid ₹ 2,06,000 as service tax @12.36%. Compute the Service Tax payable for the month of January 2014.

- (c) Mr. Mani reported Interstate sales of ₹ 45,00,000 for the Financial Year 2013-14. In this regard following additional information is available :

(i) Freight – ₹ 2,30,000

(₹ 80,000 is not shown separately on Invoices)

(ii) Goods Sold to Mr. X for ₹ 45,000 on 15-05-2013 were returned on 18-10-2013

(iii) Mr. Z a buyer to whom goods worth ₹ 30,000 were dispatched on 17-04-2013 rejected such goods. The said goods were received back on 18-11-2013.

Determine the taxable turnover and CST payable, assuming that all the transactions were covered by valid "C" forms and Sales Tax rate within the state is 5%.

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3. (a) (i) The following are the particulars in respect of a scheduled bank incorporated in India : 4

|     | Particulars                                                                                                                             | ₹ in lakhs |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------|------------|
| (A) | Provision for bad and doubtful debts under section 36(1)(viia) up to Assessment Year 2013-14                                            | 100        |
| (B) | Gross Total Income of Assessment Year 2014-15<br>[before deduction under section 36(1)(viia)]                                           | 800        |
| (C) | Aggregate average advances made by rural branches of the bank                                                                           | 300        |
| (D) | Bad debts written off (for the first time) in the books of account (in respect of urban advances only) during the previous year 2013-14 | 210        |

Compute the deduction allowable under section 36(1)(vii) for the Assessment Year 2014-15.

- (ii) During the previous year 2013-14 a Charitable Trust has the following income : 4

|                                                                                                    |           |
|----------------------------------------------------------------------------------------------------|-----------|
| Voluntary contribution with specific direction<br>that they shall form part of corpus of the Trust | 13,00,000 |
| Voluntary contribution without any specific<br>direction                                           | 19,20,000 |
| Income from Property held in Trust                                                                 | 8,16,000  |

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During the Previous Year 2013-14, the Trust spends ₹ 8,50,000 for charitable purposes in India. Besides it gives donation of ₹ 84,560 to Public Charitable Trusts. It sets apart ₹ 14,00,000 for the purpose of construction of Charitable Hospital to be completed by 31<sup>st</sup> March, 2019.

Determine the Taxable Income of the Trust for the Assessment Year 2014-15.

- (b) Mr. Shiven is providing service of Construction of Buildings. He purchased the following items in May, 2013 :

| Items                                                                                        | Excise Duty paid in ₹ (including Education cesses) |
|----------------------------------------------------------------------------------------------|----------------------------------------------------|
| Dumpers                                                                                      | 1,06,000                                           |
| Electric transformer falling under chapter 85 of Excise Tariff                               | 40,000                                             |
| Refrigerator fitted in office                                                                | 15,000                                             |
| Diesel for use in Dumper                                                                     | 25,000                                             |
| Car for use of Employees for coming to site and going back                                   | 1,50,000                                           |
| Trucks used for the transport of construction material falling under tariff sub-heading 8704 | 15,000                                             |

You are required to determine the amount of CENVAT Credit available with Mr. Shiven.

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- (c) Calculate the Assessable Value and the Excise Duty payable from the following particulars : 4

|                                                 | ₹      |
|-------------------------------------------------|--------|
| Total Invoice price (inclusive of taxes)        | 55,000 |
| State VAT                                       | 5,500  |
| Insurance charges for dispatch of final product | 275    |
| Packing charges                                 | 1,200  |
| Outward Freight beyond the place of removal     | 2,100  |

Excise duty rate is 12% and Education Cesses as applicable.

An Exemption Notification grants Exemption of 50% of the duty payable on this product.

4. (a) Mr. Anand an employee of XYZ Co. Ltd. at Mumbai and covered by Payment of Gratuity Act, retires at the age of 64 years on 31-12-2013 after completing 33 years and 7 months of service. At the time of retirement, his employer pays ₹ 20,51,640 as Gratuity and ₹ 6,00,000 as accumulated balance of Recognised Provident fund. He is also entitled for monthly pension of ₹ 8,000. He gets 75% of pension Commuted for ₹ 4,50,000 on 1<sup>st</sup> February, 2014. 8

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Determine the salary chargeable to tax for Mr. Anand for the Assessment Year 2014-15 with the help of following information :

|                                                         | ₹        |
|---------------------------------------------------------|----------|
| Basic Salary ( $₹ 80,000 \times 9$ )                    | 7,20,000 |
| Bonus                                                   | 36,000   |
| House Rent Allowance ( $₹ 15,000 \times 9$ )            | 1,35,000 |
| Rent paid by Mr. Anand ( $₹ 10,000 \times 12$ )         | 1,20,000 |
| Employer contribution towards Recognized Provident Fund | 1,10,000 |
| Professional Tax paid by Mr. Anand                      | 2,000    |

Note : Salary and Pension falls due on the last day of each month.

- (b) Mr. Vineet a Service Provider received an advance of ₹ 1,00,000 from Mr. X on 05-04-2013 as part payment for a service. The Service was completed on 10-04-2013 and the date of invoice was 16-05-2013. He received the remaining amount of ₹ 1,50,000 on 14-06-2013. 4

Determine the Point of Taxation in the above case.

Would your answer be different if the above Service becomes taxable for the first time with effect from 01-06-2013 ?

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- (c) Vivitha & Co., a registered dealer in Ludhiana, furnishes the following details of purchases and sales pertaining to the month of March, 2014 : **4**

(₹ in lakhs)

Opening balance in VAT Input Credit brought forward 0.20

Purchases of raw materials within the State (final invoice value) :

From registered dealers 26.00

From dealers opting for Composition Scheme 5.20

Purchases from outside the State (final invoice value) 10.20

Sales within State of finished goods, excluding VAT 40.00

The Input VAT rate for raw materials is 4%;

Output rate is 10%.

Determine the VAT liability of the dealer.

5. (a) (i) Mr. Gopi carrying on business as proprietor converted the same into a limited company by name Gopi Pipes (P) Ltd. from 01-07-2013. The details of the assets are given below : **4**

₹

Block – I WDV of plant & machinery (rate of depreciation @ 15%) 12,00,000

Block - II WDV of building (rate of depreciation @ 10%) 25,00,000

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The company Gopi Pipes (P) Ltd. acquired plant and machinery in December 2013 for ₹ 10,00,000. It has been doing the business from 01-07-2013.

Compute the quantum of depreciation to be claimed by Mr. Gopi and successor Gopi Pipes (P) Ltd. for the assessment year 2014-15.

Note : Ignore additional depreciation.

- (ii) Name any four specified businesses covered under section 35AD and state the fiscal incentives available to such businesses.
- (b) (i) "Not All the Services provided by an Employee to the Employers are outside the ambit of Service". Explain the statement with reference to Service Tax law. 2+ =
- (ii) Discuss whether the following services are liable to Tax :
  - (1) Services provided on contract basis by a person to another
  - (2) Services provided by a casual worker to Employer who gives wages on daily basis to the workers.
- (c) Discuss the validity of the following statement with reference to computation of liability- under CST Act :
  - (i) Cost of freight, separately charged in the invoice, shall be deducted from sale price
  - (ii) Subsidy given by Government to manufacturers (selling the product at controlled price) to compensate cost of production will form part of sale price.
  - (iii) Charity or dharmada collected by dealer will not form part of sale price.
  - (iv) Free of cost material supplied by the customer will be added to the sale price.

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6. (a) (i) Determine the eligibility and quantum of deduction under Chapter VI-A in the following cases : 4

- (1) Subscription to notified long-term infrastructure bonds ₹ 30,000 paid by Mr. A, he also paid life insurance premium of ₹ 70,000 during the year. (Sum Assured ₹ 3,50,000 policy issued on 31-03-2011)
- (2) Contribution to notified pension scheme (referred to in section 80 CCD) by the employer ₹ 40,000 for an employee whose basic salary plus dearness allowance is ₹ 3,00,000 for the year.

- (ii) Mr. Mittal has four minor children consisting of three daughters and one son. The annual income of all the children for the Assessment Year 2014-15 were as follows : 4

|                                                              |        |
|--------------------------------------------------------------|--------|
| First daughter (Including Scholarship received ₹ 5,000)      | 10,000 |
| Second Daughter                                              | 8,500  |
| Third Daughter (Suffering from disability specified U/s 80U) | 4,500  |
| Son                                                          | 40,000 |

Mr. Mittal gifted ₹ 2,00,000 to his minor Son who invested the same in the business and derived income of ₹ 20,000 which is included above.

Compute the amount of Income earned by Minor Children to be clubbed in the hands of Mr. Mittal.

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- (b) Gupta Associates, a firm of lawyers rendered legal Advice to Mr. Das, an Architect and Surya Ltd. an Advertising agency during December, 2013. Both Mr. Das and Surya Ltd. are not entitled for Small Service Provider exemption in the year 2013-14. 5

Who is Liable to pay Service Tax in this Case ? Will your answer be different if Mr. Das and Surya Ltd. sought Legal Advice from Mr. Dev a Lawyer.

- (c) Mittal Brothers are the manufacturers of certain Non-Excisable Goods. They Manufactured goods worth ₹ 2,00,000 on 25-06-2013. These goods were removed from the factory on 20-09-2013. On 01-09-2013 these goods were brought within the purview of the Tariff and chargeable to duty @12%. 3

Discuss the leviability of Excise Duty in the hands of Mittal Brothers.

7. (a) Answer any two of the following three sub divisions :

- (i) State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2013-14 : 4

- (1) Payment of ₹ 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2013 for contribution of articles in relation to the sport of cricket.

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- (2) Rent of ₹ 1,70,000 paid by a partnership firm for use of plant and machinery.
- (3) Winning from horse race ₹ 1,50,000.
- (4) ₹ 2,00,000 paid to Mr. A, a resident individual on 22-02-2014 by the State of Uttar Pradesh on compulsory acquisition of his urban land.
- (ii) "Filing of Return of Income on or before due date is necessary for carry forward of losses." Discuss the correctness of this statement. 4
- (iii) Is a Political party required to file return of Income ? State the provisions applicable under the Income Tax Act. 4
- (b) Compute the interest payable on delayed payment of Service Tax by Service provider in following cases : 4

| Name of the service provider    | PQR Ltd.   | Mr. Manik  |
|---------------------------------|------------|------------|
| Service Tax Liability           | ₹ 1,23,600 | ₹ 2,16,000 |
| Delay in payment of Service Tax | 20 Days    | 25 Days    |

Aggregate value of taxable services rendered in previous financial year 2012-13 by PQR Ltd. was ₹ 40,00,000 and by Mr. Manik was ₹ 62,00,000.

Assume that Service Tax liability and delay given above relates to Financial Year 2013-14.

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- (c) R. R Pharma Ltd. manufactures a particular drug, which is not covered by MRP. On 12-3-2014, 2000 units of this drug were cleared from the factory for distribution as free samples to physicians. The MRP of a unit is ₹ 202, inclusive of VAT at 1% and excise duty at 12.36%. Cost of production per unit is ₹ 160 per unit.

The company has approached you with the following views :

- (i) Free samples given to the doctors cannot be sold by any one, as per the Drug Control Act; hence they are not marketable. As a logical corollary, Excise Duty is not leviable;
- (ii) If this has to be valued, the company makes no profit and hence should be valued at cost.

Advise the company suitably, as regards the value to be adopted for the free samples.

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