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Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : 1. Answer **ALL** Questions.

2. All the references to sections mentioned in Part-A of the Question Paper relate to the Income-tax Act, 1961 and relevant Assessment Year 2016-17, unless stated otherwise.

PART — A

1. (a) Global Ltd. is a widely-held company engaged in power generation in Assam. At present, the company is having a capital of ₹10 crore in fully paid equity shares. The company is considering a proposal to increase its power generation capacity which will require ₹5 crore. The additional capital required can be raised either by issue of fully paid equity shares or by issue of 10% debentures. Directors of the company want to raise the funds through equity shares as the company can have fully owned capital. Will you accept the proposal at 20% rate of return (pre-tax) and 30% rate of tax ? Give reasons in support of your answer.

(5 marks)

(b) Karan purchased a plot in 1987-88 for ₹2,10,000. He sold the plot on 7th February, 2016 for ₹24,00,000 (stamp duty value ₹25,40,000). He paid a brokerage of 5% on selling price to a person who arranged for the sale. Out of the sale proceeds of the plot, he invested ₹5,00,000 in NHAI Bonds on 31st March, 2016 and ₹3,00,000 in bonds of Rural Electrification Corporation Ltd. on 1st September, 2016.

Compute the taxable capital gains of Karan, if the cost inflation index (CII) for 1987-88 was 150 and for 2015-16 is 1081.

(5 marks)

(c) Brisk Ltd. incurred ₹52.75 lakh during the period April, 2015 to June, 2015 on advertisement, professional fees, administration cost, etc. for the purpose of public issue of ₹555 crore in July, 2015 and had, therefore, accounted all such expenses under the head 'share issue expenses'. However, the clearance for the public issue was not given

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by SEBI. The company in its return of income filed for the year ended 31st March, 2016 had claimed such expenses as revenue expenses which were disallowed by the Assessing Officer.

The company seeks your opinion. Advise.

(5 marks)

Attempt all parts of either Q.No. 2 or Q.No. 2A

2. (a) Explain in brief the treatment as to the taxability and/or allowability, in the context of provisions contained under the Income-tax Act, 1961 for the assessment year 2016-17, in the following cases :

- (i) Aroma Ltd., an investment company, received dividend of ₹3,00,000 on equity shares from listed domestic companies. It paid interest of ₹2,00,000 on the borrowed funds utilised for making investment in such shares of these companies.
- (ii) Chetan Ltd. did not have any active business carried on by it during the previous year ended on 31st March, 2016 and had incurred capital expenditure on scientific research amounting to ₹2,00,000 related to its subsidiary company.

(5 marks)

(b) Distinguish between 'tax planning' and 'tax avoidance'.

(5 marks)

(c) When can uncontrolled transactions be taken as comparable to international transactions ? Which data can be used for the comparability of an uncontrolled transaction with an international transaction ?

(5 marks)

OR (Alternate question to Q.No. 2)

2A. (i) Mohan owns a house located in Varanasi. The construction of the house was completed in July, 2011. One-fourth floor area of the house is utilised by him for his own residence. He is running his own clinic in another one-fourth floor area of the house. The remaining floor area is let-out for residential purposes on a monthly rent of ₹8,000.

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The let-out portion of the house remained vacant for two months during the previous year 2015-16. Other details of the entire house are as under :

	₹
Standard rent	1,60,000
Municipal valuation	1,40,000
Municipal tax paid by Mohan	20,000
Interest payable on loan taken for construction of the house	60,000
Repairs and maintenance	8,000
Insurance	4,000

Compute income from house property of Mohan for the assessment year 2016-17.

(5 marks)

- (ii) Arvind, a textile merchant and resident Indian is doing business in India and abroad. During the previous year 2015-16, he disclosed the following information :

	₹
Income from business in India	27,00,000
Income from business in Country-A with which India does not have agreement for avoidance of double taxation	15,00,000
Income-tax levied by government in Country-A	5,00,000
Loss from business in Country-B with which also India does not have agreement for avoidance of double taxation	(4,00,000)
Contribution to public provident fund	1,50,000
Payment of life insurance premium on the life of his father and mother	20,000

Compute the tax liability of Arvind for the assessment year 2016-17.

(5 marks)

- (iii) Nandita Traders, engaged in manufacturing activity, was in receipt of sales-tax subsidy of ₹5 lakh from State Government as its manufacturing unit was located in a backward area. The subsidy is related to the sales of its products and was payable only after the commencement of production. Nandita Traders claimed that the subsidy so received is in the nature of capital receipt and hence, cannot be taken as chargeable to tax for the assessment year 2016-17. How will you deal with the situation in the context of provisions of the Income-tax Act, 1961 ?

(5 marks)

PART — B

3. (a) Zebra Ltd. is engaged in the manufacture of various types of machines. It had supplied one machine to Tiger & Co. at a price of ₹17,00,000 (excluding taxes and duties). Following additional amounts were charged from Tiger & Co. :

	₹
Expenses pertaining to installation and erection of the machine at the premises of Tiger & Co. (<i>machine was permanently affixed to earth</i>)	50,000
Packing charges	8,000
Design and engineering charges	6,000
Pre-delivery inspection charges (<i>charged by Zebra Ltd.</i>)	2,000
Bought out accessories supplied with machine	8,000

Tiger & Co. had supplied material worth ₹10,000 free of charge to Zebra Ltd. for being used in manufacturing of this machine.

You are required to work out the total amount of excise duty payable on the machine when the rate of excise duty is 12.5%.

(5 marks)

- (b) Rajan Textiles Ltd., a large scale industry in Mumbai, purchased a machine used for pollution control on 1st October, 2013 for a *cum* duty price of ₹9,00,000. Excise duty was levied at the rate of 12.5%. The machine was used upto 20th August, 2015 on which date it was sold for a transaction value of ₹6,00,000, excluding excise duty. The rate of excise duty on the date of sale was 12%. The machine was received in the factory on the date of purchase itself.

Calculate the CENVAT credit allowable for the financial year 2013-14 and 2014-15 to Rajan Textiles Ltd. Also calculate the amount payable on reversal of credit due to sale of the machine in the financial year 2015-16.

(5 marks)

- (c) Nathan Ltd. gives a works contract to Samy Ltd. for a gross consideration of ₹12,00,000 (excluding all taxes). As per the terms of the contract, all the materials and labour required for the contract are to be supplied by Samy Ltd. and Nathan Ltd. accepted to supply certain other materials. Samy Ltd. provides the following particulars with regard to the works contract :

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	₹
Fair market value of materials supplied by Nathan Ltd.	2,50,000
Actual amount charged by Nathan Ltd. for the materials including VAT	1,50,000
Excise duty paid on inputs used for the contract	16,000
Excise duty paid on capital goods purchased and used for the contract	8,000
Service tax paid on input services	11,000

If the rate of service tax is 14%, compute the service tax liability.

(5 marks)

- (d) Rohan is a trader selling raw materials to manufacturers for using the material to make finished products. He procures the material of his stock-in-trade from other States as well as from the local markets.

Following transactions pertain to a sale made by Rohan to a manufacturer for the month of March, 2016 :

	₹
Cost of materials procured from other States excluding central sales tax	3,00,000
Cost of materials purchased from local market (VAT not included)	6,00,000
Other expenditure including storage, transport, interest, loading, unloading, etc.	94,000

The goods are sold at 10% profit on cost of production. Calculate the invoice value charged by Rohan to the manufacturer by taking VAT rate to be 12.5% and central sales tax rate to be 2%. Also work out the amount of VAT payable by him.

(5 marks)

- (e) Zuhi Ltd. has imported a machine to be used for providing a taxable service. The assessable value of imported machine as approved by customs is ₹5,00,000. Customs duty @ 10% is payable. Further, if the machine is manufactured in India, excise duty @ 12% is leviable on such machine. Education cess and secondary and higher education cess are applicable as per prevailing rates. Special CVD @ 4% is also payable on such machine.

You are required to —

- Calculate the total customs duty payable on such machinery; and
- Examine whether Zuhi Ltd. can avail CENVAT credit and if yes, how much CENVAT credit can be availed.

(5 marks)

Attempt all parts of either Q.No. 4 or Q.No. 4A

4. (a) Neon Ltd. classified one of the products manufactured by it as per the Central Excise Tariff Act, 1985 as a 'nil' rate product. The excise department classified the same product under another heading attracting 11% duty as per Harmonised System of Nomenclature (HSN) for the purpose of classification of the impugned product. But, the entries in the HSN and the Central Excise Tariff Act, 1985 are not aligned. Give your opinion on this matter of classification with the help of a decided case law.

(5 marks)

- (b) While conducting search and seizure in the premises of Alpha Ltd., the officials recovered large quantity of chemicals. It was found that the chemicals were imported into India without any import license. After adjudication, penalty was imposed and the chemicals were confiscated. However, the Department gave an opportunity to the company to get back the goods after paying fine and duty at the prescribed rate. During the period, the Department notified the chemicals as exempted from customs duty. The assessee claimed the benefit of exemption notified.

Give your opinion whether the claim of Alpha Ltd. is tenable ? Discuss in the light of a relevant case law.

(5 marks)

- (c) Raj Sugars Ltd. is a manufacturer of sugar. The sugar manufactured by the company is sold to government for free supply and in the open market. The Government, to meet the market demand fluctuations, directed the sugar companies to maintain buffer stock. Also, the Government is giving subsidy to the sugar companies to meet out the storage, interest and insurance charges. Accordingly, Raj Sugars Ltd. received subsidy of ₹7,00,000. The Department contended that the subsidy earned by the company from the Government is an income earned from the service of storage and warehousing of goods and hence, taxable. Do you accept the contention of the Department ? Support your argument with a suitable case law.

*(5 marks)**OR (Alternate question to Q.No. 4)*

- 4A. (i) Nargis Agro Ltd., having a manufacturing unit situated in Jodhpur, made total clearances in the financial year 2014-15 of the total value of ₹525 lakh. The break-up of clearances so made is as under :

- Clearances worth ₹100 lakh of certain non-excisable goods manufactured by it
- Clearances worth ₹75 lakh exempted under specified job work notification
- Exports worth ₹75 lakh (₹50 lakh to USA and ₹25 lakh to Nepal)
- Clearances worth ₹275 lakh of excisable goods in the normal course

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Explain briefly the treatment to be given for various items and work out whether the unit will be eligible for the benefit of exemption under Notification No. 8/2003-CE dated 1st March, 2003 as amended for the financial year 2015-16.

(5 marks)

- (ii) (a) Examine whether service tax is leviable in the context of provisions of the Finance Act, 1994 when services are provided in a vessel stationed at a distance of 54 nautical miles from the Indian landmass in Exclusive Economic Zone (EEZ) of India for carrying out fishing operations.

(2 marks)

- (b) State, with reason in brief, whether the following are liable to service tax :

- (i) Penal interest charges
(ii) Services by an independent journalist
(iii) Technical testing of new drugs.

(3 marks)

- (iii) What are the demerits of VAT ?

(5 marks)

5. (a) Who can make an application for settlement under the Central Excise Act, 1944 ? Can such an application be withdrawn ?

(3 marks)

- (b) State the relevant dates for determination of the rate of duty and tariff value for imports.

(3 marks)

- (c) Lion Traders, a registered dealer having stock of goods worth ₹60,000 purchased from outside the State, wishes to opt for Composition Scheme under the State VAT Act. Advise whether it is possible.

(3 marks)

- (d) Vakil & Vakil, a firm of lawyers and solicitors rendered legal advice to Bipin, an architect and NPA Ltd., an advertising agency, during the month of October, 2015. Both Bipin and NPA Ltd. are not entitled for small service provider's exemption under the service tax in the financial year.

Who is liable to pay service tax in this case ? Will your answer be different, if Bipin and NPA Ltd. sought legal advice from a lawyer, Ashish ?

(3 marks)

- (e) Explain briefly how the terms 'warehouse', 'warehoused goods' and 'warehousing station' are defined in the Customs Act, 1962.

(3 marks)

6. (a) Which was the first country to introduce Goods and Services Tax (GST) and when ?
What are the functions of the GST Council in India ?

(6 marks)

- (b) Give reason in brief, in the context of provisions of VAT, whether following purchases are eligible for availing input tax credit :

- (i) Rohit purchased goods from a registered dealer. He claims to have paid VAT on the said goods but the invoice pertaining to said purchase has been lost because of negligence in his office.
- (ii) Ankit purchased some capital goods. The final product manufactured by Ankit using these capital goods is exported out of India.
- (iii) Mohit purchased goods from Sohan which are to be used in execution of a works contract.
- (iv) Smile & Co. purchased goods from Manav Enterprises, a registered dealer. Manav Enterprises has opted for composition scheme under the provisions of respective State VAT Act.
- (v) Sahil purchased goods from Ganesh. Ganesh has not shown VAT charged on the purchase value separately in the invoice.

(1 mark each)

- (c) State the allowability or otherwise of the following with respect to the provisions of the Customs Act, 1962 :

- (i) Goods up to ₹10,000 per passenger per visit can be purchased against rupee payment in duty free shop at an International Airport.
- (ii) *Bona fide* baggage is exempt from duty.
- (iii) Total customs duty on baggage is 30%.
- (iv) Gifts through courier from abroad, not being prohibited goods, up to ₹5,000 can be imported duty free.

(1 mark each)