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SUGGESTED SOLUTION

IPCC MAY 2017 EXAM

TAXATION

Test Code - I M J 7 1 3 4

BRANCH - (MULTIPLE) (Date : 01.01.2017)

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Answer-1(a) :

Sl. No.	Tariff value on the date of removal	Rate of duty on the date of removal	Amount of duty payable
1.	1,60,000	6%	9,600
2.	2,20,000	12.5%	27,500
3.	4,00,000	12.5%	50,000
4.	3,80,000	6%	22,800 ¹
5.	3,10,000	12.5%	Nil ²
6.	4,00,000	12.5%	50,000 ³

1. Good were excisable on the date of manufacture but rate of duty at that time was nil which has been increased to 6% on the date of removal.
2. Not liable to duty as rate of duty was of left blank on the date of manufacture.
3. As exemption notification on the date of removal is withdrawn.

(3 Marks)**Answer-1(b) :**

Assessable value	51,00,000.00
Add: Basic custom duty @ 10% on Rs.51,00,000	<u>5,10,000.00</u>
Total	56,10,000.00
Add: CVD @ 12.5%	7,01,250.00
Add: Education cess @ 2% on Rs.1211250	24,225.00
Add: SHEC @ 1 % Rs. Rs.1211250	<u>12,113.00</u>
	63,47,588.00
Special CVD @ 4% on ^6347588	2,53,904.00
Total duty payable (Rs.5,10,000 + Rs.7,01,250 + 24225 + 12113 + 2,53,904)	15,01,492

Note: The rate of duty shall be:

- (i) the rate in force on the date of presentation of bill of entry, or
- (ii) the rate in force on the date of entry inward whichever is later.

(3 Marks)**Answer-2(a) :**

Gross turnover		63,83,390
Less : Trade discount	1,10,000	
Freight Insurance (separately charged)	90,000	
Installation charges (separately charged)	1,20,000	
Goods returned within six months (Rs.60,000 + 6,000 + 1,320)	<u>67,320</u>	<u>3,87,320</u>
		<u>59,96,070</u>

Turnover exclusive of central sales tax

$$59,96,070 \times \frac{00}{102} = 58,78,500$$

Turnover chargeable to tax @ 2%

$$(58,78,500 - 44,000) = 58,34,500$$

Tax payable @ 2% 1,16,690

Turnover chargeable to tax @ 12% as Form C not received 44,000

Tax payable 5,280**Total Tax Payable** **1,21,970****(5 Marks)****Answer-2(b) :****Computation of assessable value of the machine and excise duty payable thereon**

Particulars	Rs.
Total invoice price (inclusive of VAT and excise duty)	7,50,000
Less: Cash discount @ 2% of invoice price [Rs. 7,50,000 × 2%]	15,000

Erection charges [Note 1]	50,000
Insurance charges [Note 2]	8,000
Outward freight charges [Note 2]	<u>17,000</u>
Price-cum-duty	6,60,000
Less : State VAT @ 12.5% [Rs. 6,60,000 x 12.5/112.5]	<u>73,333</u>
Price cum duty deemed to be inclusive of duty payable on such goods	5,86,667
Less: Excise duty @ 12.5% [Rs. 5,86,667 x 12.5/112.5] rounded off	65,185
Assessable value	5,21,482

Notes:

1. Erection charges have not been included in the assessable value as the same results in permanent affixation of the machinery to earth, thereby resulting in an immovable property.
2. Insurance charges and outward freight charges are allowed as deduction as the same are incurred after the place of removal.
3. Packing charges and designing charges are includible in the assessable value and thus, not deducted from the invoice price.
4. Cash discount has been allowed as deduction as it has been passed on to the buyer.

(5 Marks)

Answer-3(a) :

The exchange rate in the given case will be the rate of exchange notified by CBEC on the date of presentation of shipping bill, i.e. 18.06.20XX. Hence, the rate of exchange for the purpose of computation of export duty will be Rs. 89 per UK pound.

(2 Marks)

Answer-3(b) :

Computation of CENVAT credit that can be availed by BC Pvt. Ltd. during the month of April of next year

Particulars	Rs.
Input 'A' [Note-1]	-
Input 'B' [Note-1]	1,35,000
Input 'C' [Note-2]	-
Input service 'X' [Note-3]	45,340
Input service 'Y' [Note-3]	-
Machinery [50% of ' 3,54,670] [Note-4]	1,77,335
GTA service for bringing raw materials to the factory [Note 5]	<u>9,270</u>
Total CENVAT credit that can be availed during the month of April of next year	3,66,945

Notes:

1. A manufacturer can take CENVAT credit of inputs only upto one year from the date of issue of invoice [Rule 4(1) of CCR].
2. CENVAT credit cannot be availed without a valid invoice [Rule 9 of CCR].
3. A manufacturer can take CENVAT credit of input services only upto one year from the date of issue of invoice [Rule 4(7) of CCR].
4. Since BC Pvt. Ltd. is not a SSI unit, CENVAT credit of only upto 50% of the excise duty paid is available in respect of the eligible capital goods, in the year of purchase [Rule 4 of CCR]. Further, time limit of one year for availment of CENVAT credit does not apply to capital goods.
5. GTA service used for bringing the raw material to the factory is an eligible input service and service tax is payable thereon under reverse charge [Rule 2(l) of CCR]. Since BC Pvt. Ltd. has paid such service tax, it can avail credit of such tax paid even though the payment has not been made to GTA [Rule 4 of CCR].

(5 Marks)

Answer-4(a) :

Computation of CENVAT credit available to ABC Co. Ltd.

Particulars	Rs.
Electrical transformers falling under Chapter 85 of Excise Tariff (Note-1)	22,000

Moulds and dies (Note-1)	1,30,000
Pollution control equipment (Note-1)	20,000
Trucks used for the transport of raw material falling under tariff heading 8704 (Note-2)	Nil
Capital goods used outside the factory for generation of electricity for captive use within the factory (Note-1)	20,000
Refractories (Note-1)	<u>5,000</u>
Total excise duty paid on the eligible capital goods	<u>1,97,000</u>
CENVAT credit available = 50% of excise duty paid on capital goods (Note-3)	98,500

(3 Marks)

Notes:

1. As per the definition of capital goods following goods are, inter alia, eligible capital goods for the purposes of claiming CENVAT credit:-
 - (a) all goods falling under Chapter 85,
 - (b) moulds and dies,
 - (c) pollution control equipment,
 - (d) refractories
 - (e) capital goods used outside the factory of the manufacturer of the final products for generation of electricity for captive use within the factory.
2. Motor vehicles used in the factory of the manufacturer are eligible as capital goods provided they do not fall under tariff headings 8702, 8703, 8704 and 8711. Therefore, the trucks used for the transport of raw material falling under tariff heading 8704 are not eligible capital goods.
3. CENVAT credit of only upto 50% of the excise duty paid is available in respect of the eligible capital goods in the year of purchase.

(2 Marks)

Answer-4(b) :

Computation of VAT payable and input tax credit for February, 2016

Particulars	Rs.
Output VAT payable (Note-1)	Nil
Less: Input tax credit $\left[1,00,00,000 \times \frac{(12.5-2)}{100} \right]$ (Note-2)	<u>10,50,000</u>
Net VAT payable	Nil
Balance input tax credit carried forward to next month	10,50,000

(2 Marks)

Notes:

1. Inter-State stock transfers do not involve sale and, therefore they are not subject to VAT. Further, CST is not payable as there was no pre-existing agreement for the sale of the goods so transferred.
2. In case of stock transfer of finished goods, input tax paid (on inputs used in manufacture of such finished goods) in excess of 2% is available as input tax credit.

Answer-5 (a) :

As per rule 6 of the Service Tax Rules, 1994, in case of individuals and partnership firms **HUF or One Person Company** whose aggregate value of taxable services provided from one or more premises is Rs. 50 lakh or less in the previous financial year, the service provider has the option to pay tax on taxable services provided or agreed to be provided by him upto a total of Rs. 50 lakh in the current financial year on receipt basis. Since in the present case, aggregate value of services provided by Mr. Rohan in the preceding financial year was Rs. 80 lakh, he cannot exercise the said option.

(2 Marks)

Resultantly, he is required to pay service tax in accordance with Point of Taxation Rules, 2011 (POTR). As per rule 3 of the POTR, if the invoice is issued within 30 days of the completion of the provision of the service, point of taxation is:-

- (i) date of issue of invoice (01.07.2015), or
- (ii) date of receipt of payment (20.08.2015), whichever is earlier.

(1 Marks)

Thus, point of taxation, in the given case, is date of invoice, i.e., 01.07.2015.

However, if the aggregate value of services provided by Mr. Rohan in the preceding financial year was Rs. 40 lakh, he has the option to pay tax on taxable services provided or agreed to be provided by him upto a total of Rs. 50 lakh in the current financial year on receipt basis. In that case, point of taxation will be 20.08.2015.

(2 Marks)

Answer-5 (b) :

Computation of service tax liability of XYZ Ltd. for January, 2016:

Particulars	Rs.
Basic fare in case of domestic bookings	1,15,400
Service tax @ 0.7% [A] Refer Note 1	807.80
Basic fare in case of international bookings	4,00,200
Service tax @ 1.4% [B] Refer Note 1	5,602.8
Total service tax [A] + [B] (rounded off)	6,411
Add: Swachh Bharat Cess and Krishi Kalyan Cess (Rs.6,411 × 1/14) [rounded off]	458
Total Service tax payable	<u>6,869</u>

(3 Marks)

Notes:

1. Rule 6(7) of Service Tax Rules, 1994 provides an option to an air travel agent to pay service tax at special rates of 0.7% and 1.4% of 'basic fare' in case of domestic and international bookings for air travel respectively.
2. Since the given basic fare is in terms of rule 6(7) of Service Tax rules, 1994, service tax has been computed as a percentage of such basic fare only and other charges, fee and taxes have been ignored.

The option once exercised, applies uniformly in respect of all the bookings for air travel made by the air travel agent and cannot be changed during a financial year under any circumstances. Therefore, XYZ Ltd. cannot pay service tax @ 14.5% for the month of February, 2016 and will have to discharge its service tax liability for the said month by paying service tax at the special rates mentioned above. However, it can change the option and pay service tax at the general rate from the next financial year.

(2 Marks)

Answer-6 (a) :

As per rule 4 of Service Tax Rules, 1994, where a person, liable for paying service tax on a taxable service provides such service from more than one premises or offices and has centralized billing/accounting system in respect of such service, and such centralized billing/accounting systems are located in one or more premises, he may, at his option, register such premises or offices from where centralized billing/accounting systems are located.

(2 Marks)

However, if such assessee does not have any centralized billing/accounting systems, he shall make separate applications for registration in respect of each of such premises or offices to the jurisdictional Superintendent of Central Excise. It may be noted that registration for a single premises is applied by making an online application at ACES website of CBEC.

(1.5 Marks)

Therefore, since ABC Designers Ltd. provides architectural services from different branches spread across the country, it can opt for centralized registration if it has centralized billing/accounting system located at one or

more of its centres. However, if it does not have any centralized billing/accounting systems, it shall have to obtain separate registration for each of its centres.

(1.5 Marks)

Answer-6 (b) :

Computation of value of taxable service and service tax payable by Chirag Ltd. For January, 2016

Particulars	Rs.
Amounts collected from clients for pre-recruitment screening	1,00,000
Domestic helps arranged for friends & relative for free [Note-1]	Nil
Amount collected from a warehouse of agricultural produce for labour provided for loading and unloading [Note-2]	10,00,000
Advances received from prospective employers for conducting campus interviews in colleges to be held in February, 2016 [Note-3]	<u>3,00,000</u>
Value of taxable service including service tax	14,00,000
Value of taxable service (Rs. 14,00,000 × 100/115) [rounded off]	12,17,391
Service tax (Rs. 12,17391 × 15/100) [rounded off]	1,82,609

(3 Marks)

Notes:

1. Free services are not liable to service tax as there is no consideration involved.
2. Since labour supplied to a warehouse for loading and unloading of agricultural produce can neither be considered as supply of farm labour nor loading, unloading of agricultural produce, such service is not covered in the negative list of services and hence, is taxable [Section 66D of the Finance Act, 1994].
3. Since services agreed to be provided are also chargeable to service tax, advance received will also be liable to service tax. Such advance received from prospective employers will be taxable at the time when it is received irrespective of the fact that no campus interviews were subsequently conducted and advances received were returned to employers.

(2 Marks)