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GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER III – EXAMINATION – WINTER 2019

Subject Code:2830009 **Date:02/12/2019**

Subject Name: Corporate Taxation

Time:10.30AM TO 01.30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q. 1(a) Multiple Choice Questions **6**

1. Extra tax which a company has to pay because of minimum alternate tax, can be carried forward for
   - A. 5 years
   - B. 7 Years
   - C. 10 years
   - D. No Carry forward
2. A person getting bonus shares will have to pay tax at the time of allotment of bonus shares.
   - A. On the market value of bonus shares
   - B. On the face value of bonus shares
   - C. On the value determined by the board
   - D On Nothing
3. An Indian company is said to be resident in India if -
   - A. Control and management of the affairs of a company is situated wholly in India
   - B. Control and management of the affairs of a company is situated outside India
   - C. Control and management of the affairs of a company is situated partly in India and partly outside India
   - D. All of the above
4. A company will pay dividend tax if-
   - A. Bonus shares are allotted to equity shareholders
   - B. Bonus shares are allotted to preference shareholders
   - C. Shares are allotted to debenture-holders free of cost
   - D. Shares are allotted to employees as ESOP shares free of cost
5. Deduction under section 80JJAA is available in the following cases
   - A. Indian Company
   - B. Foreign Company
   - C. Limited Liability Partnership
   - D. All of the above
6. Avoidance of double taxation agreement
   - A. Can increase tax liability
   - B. Can reduce tax liability
   - C. Does not have any impact on tax liability
   - D. Can impose tax liability in respect of income which is otherwise exempt under Income Tax Act

Q.1 (b) Define the following **04**

a. Tax avoidance
b. Tax evasion
c. Non-resident
d. Double taxation relief

Q.1 (c) a. Explain any four differences of tax planning and tax management **04**

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Q.2 (a) XYZ (P) Ltd. is a company which was started on April 1, 1999 and in which there are only equity shares. The shares are held throughout by X, Y and Z equally. The company has made losses/profits in the past as under and the same have been accepted in the income-tax assessments. **07**

Assessment Year	**Business Loss**	**Unabsorbed Depreciation**	**Total (`)**
2006-07	NIL	30,00,000	30,00,000
2007-08	NIL	18,00,000	18,00,000
2008-09	9,50,000	8,70,000	18,20,000
Total	**9,50,000**	**56,70,000**	**66,20,000**

During the year previous year ended March 31,2009, X transferred his shares to P and during the previous year ended March 31,2010, Y transferred his shares to Q. during the previous year ended March 31,2009, the company made a profit of ` 12,00,000 (before debiting ` 6,00,000 for depreciation) and during the previous year ended March 31,2010, the company made a profit of ` 80,00,000 (before debiting ` 5,00,000 for depreciation). Compute the taxable income of the company for the assessment year 2010-11. Workings should form part of your answer.

(b) X & company, a firm is engaged in the business of Civil construction (Turnover of 2018- 2019) being ` 37,80,000. It wants to claim the following deduction. **07**

Particulars	**Amount (`)**
Salary & interest to partners (as permitted by sec. 40(b)	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of material used	25,90,000
Others Expenses	3,45,000
Total	37,55,000
Net Profit	25,000

Determine the net income of X & company for the current assessment year. Assuming taxable income from other business is ` 1,90,000, long term capital gain is ` 40,000 & the firm is eligible for deduction of ` 5,000 under sec 80G.

OR

(b) List out different areas of Tax Planning and explain any two in detailed. **07**

Q.3 **(a)** X Purchases 1,100 equity shares in A ltd. on June 11, 1979 @ ` 30 per share (brokerage: 1%) on May 23, 1984, he gets 550 bonus shares. Fair market value of shares in A ltd. on April `, 1981 is ` 46. He sells 1,100 original shares on March 10,2010 @ ` 116 per share (brokerage: 1%). Further on March 29,2010, he sells 550 bonus shares @ 131 per share (brokerage: 2%). Find out the amount of capital gains on the assumption that securities transaction tax is not applicable. **07**

(b) X Ltd. manufactures electric pumping sets. The company has the option to either make or buy from the market component Y used in manufacture of the sets. **07**

The following details are available.

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The component will be manufactured on new machine costing ` 1,00,000 with a life of 10 yea` Material required cost ` 2 per kg and wages ` 0.30 per hour. The salary of the foreman employed is ` 1,500 per month and other variable overheads include ` 20,000 for manufacturing 25,000 components per year. material requirement is 25,000 kgs. And requires 50,000 labor hou` The component is available in the market at ` 4.30 per piece.

Will it be profitable to make or to buy the component? Does it make any difference if the component can be manufactured on an existing machine?

OR

Q.3 XYZ Ltd. needs a component in an assembly operation. It is contemplating the proposal to either make or buy the aforesaid component. **14**

1. If the company decides to make the product itself, then it would need to buy a machine for ` 8,00,000 which would be used for 5 yea` Manufacturing costs in each of the 5 years would be ` 12,00,000, ` 14,00,000, ` 16,00,000, ` 20,00,000 and ` 25,00,000 respectively. The relevant depreciation rate is 15%. The machine will be sold for ` 1,00,000 at the beginning of the 6^{th} year.
2. If the company decides to buy the component from a supplier the component would cost ` 18 lakh, ` 20 lakh, ` 22 lakh, ` 28 lakh and ` 34 lakh respectively in each of the five year.

The relevant discounting rate and tax rate are 14% and 33.2175 % respectively. Additional depreciation is not available. Should XYZ Ltd. make the component or buy from outside?

Q.4 **(a)** ONGC has agreements (approved by the Government) with the following three foreign companies which provide services and facilities to ONGC in connection with prospecting for (or extraction/production of) mineral oils in India- **07**

Particulars	A INC	B INC	C INC
Date of Agreement	June 10,1982	June 10,1992	June 10,2002
Amount paid by ONGC on account services provided by foreign companies (in `)	90 crores	90 crores	90 crores
Tax Liability borne by ONGC (in `)	NIL	3.8007 crore	3.96828 crore

Find out the taxable income and tax liability of the foreign companies. Discuss whether tax liability borne by ONGC would be perquisite arising to B Inc. and C Inc. under section 28(iv) and would be taxable separately in addition to income computed under section 44BB.

(b) X (28 years) is a musician deriving income from concerts performed outside India of ` 9,50,000. Tax of ` 1,90,000 was deducted at source in the country where the concerts were given and remaining ` 7,60,000 is remitted to India. India does not have any agreement with that country for avoidance of double taxation. If the Indian income of X is ` 2,00,000, what is the relief due to him under section 91 for assessment **07**

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year 2010-11, assuming that X is ` 2,00,000, what is the relief due to him under section 91 for assessment year 2010-11, if X has deposited ` 22,000 in the public provident fund account.

OR

Q.4 **(a)** Discuss in brief arm's length price computation method. **07**

(b) Find out the net income in the cases of Guruji (32 years) and Ganesh (28 years) (both are retail traders at Mahadev Peth) from the following data for the assessment year 2010-11: **07**

Particulars	Guruji (`)	Ganesh (`)
Sales turnover	20,00,000	30,00,000
Less: Expenses		
Cost of Goods sold	18,00,000	27,00,000
Depreciation	5,000	7,500
Other expenses	1,60,000	2,40,000
Business Income	35,000	52,500
Other Income	1,07,500	1,15,000
Public Provident Contribution	15,000	30,000

Q.5 Mr. Sartaj Singh is interested in starting a new business but is confused whether a partnership firm is a better option or a private limited company for taxation working. He approaches the tax consultant and provides him with the following details: **14**

If a partnership firm is started:

1. There are two partners Mr. Singh and Mr. Parulkar with an equal share of profit.
2. They want to draw the maximum permissible amount as salary. Both the partners will draw equal salary.
3. Income is from business (not from profession).
4. They are entitled to simple interest at the rate of 12% on the capital contribution of ` 10,00,000. 5. They do not have any other income.

If a private limited company is incorporated:

1. Mr. Singh and Mr. Parulkar will be the two shareholders and directors of the company.
2. They will draw salary. As there is no maximum ceilings under the Income tax Act, they will draw salary @ 90% of profit up to ` 3,00,000 of profit and 60% of balance. It is assumed that provisions of section 40A(2) are not attracted.

Assume taxable income before deduction of salary and interest to partners in case of firm and taxable income before payment of salary to the directors is either i) ` 10,00,000 or ii) ` 20 ,00,000 As a tax consultant you are required to analyze the tax incidence under each level of income for firm and company and advise accordingly.

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Q.5 Trivedi Ltd. is contemplating an expansion program. It has to make a choice between debt issue and equity issue for its expansion program. Its current position is as under: **14**

Particulars	Amount (` in crores)
10% Debt	80
Equity share capital(` 10 per Share)	200
Reserves and Surplus	120
Total capitalization	400
Sales	1,200
Less: Total Cost	1,076
EBIT	124
Less: Interest	8
EBT	116
Less: Tax @ 33.99%	39.43
EAT	76.77

The expansion program is estimated to cost ` 200 crore. If this is financed through debt, the new rate of debt will be 10% and the P/E Ratio will be 6 times. If the expansion program is financed through equity, new shares can be sold getting ` 25 per share and the P/E Ratio will be 7 times. The expansion will generate additional sales of ` 600 crore with return of 10% on sales before interest and tax. Suggest which form of financing should it choose?

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