

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 3 – EXAMINATION – WINTER 2015**Subject Code: 2830009****Date: 02/12/2015****Subject Name: Corporate Taxation****Time: 10.30 am 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) Answer the following multiple choice questions**6**

1. The following are Indian companies:

- A. An institution declared by the Board to be a company under section 2(17) B. A company established under an Act passed by the Parliament

- C. Both of above D. None of above

X Ltd. a foreign company manages its affairs partly from India and partly outside India. X Ltd. is said to be:

2. A. Resident in India B. Non-resident in India
- C. Resident and ordinarily resident. D. Resident but not ordinarily resident

Semi-finished goods are sold by a foreign holding company to an Indian subsidiary company. The most appropriate method in this case is:

3. A. Cost plus method B. Profit split method
- C. Re-sale price method D. None of above

In the case of an Indian company, the following incomes are chargeable to tax:

4. A. Income earned outside India and received outside India B. Income earned in India but received outside India
- C. Income earned outside India and received in India D. All of above

Tonnage tax scheme is applicable in the following cases:

5. A. Foreign shipping company B. Indian shipping company
- C. Limited liability partnership in shipping industry D. All of above

6. Exemption in respect of value of leave travel concession is available in respect of :

- A. Two journeys performed in a block of four years
- B. One journey performed in a block of four years
- C. Three journeys performed in a block of four years
- D. None of the above

Q.1 (b) Define the following: 04

- Company
- Indian Company
- Domestic Company
- Companies in which public are substantially interested.

Q.1 (c) Explain deductions available to the assessee under following sections: 04

- Section 80D - Deduction in respect of Medical Insurance Premium
- Section 80EE-Deduction in respect of Interest on Loan taken for residential house Property.

Q.2 (a) Describe any 14 incomes that are exempted from tax. 07

(b) Mr. Tejas has been offered an employment by Gagan Ltd with two options: 07

Option I: On monthly salary of Rs. 1,80,000 **OR**

Option II: Mr. Tejas can take the same salary in different forms/allowances/perquisites as under:

Particulars	Amount
Basic Salary	800000
Employer's contribution towards recognized provident fund	96000
Transport allowance for commuting between office and residence	9600
Education allowance for two children	2400
Academic research allowance	10000
Uniform allowance	12000
Rent free house in Mumbai (rent paid by the employer)	690000
Free car with driver for official and private purpose (cubic capacity of engine is 1.3 litres)	380000
Free telephone and mobile	80000
Leave Travel concession (twice in a block of 4 years period)	80000
Total Salary	2160000

Which option will be better from taxability point of view for Mr. Tejas?

OR

- (b) Alpha Ltd. (income above Rs. 100 crore) is contemplating an expansion programme. It has to make a choice between debt issue and equity issue for its expansion programme. Its current position is as under:

Particulars	Rs. In crore
10% debt	80
Equity share capital(Rs. 10 per share)	200
Reserves and Surplus	120
Total Capitalisation	400
Sales	1200
Less: Total costs	1076
EBIT	124
Less : Interest	8
EBT	116
Less Tax @ 33.99%	39.4284
EAT	76.5716

The expansion programme is estimated to cost Rs. 200 crore. If this is financed through debt, the new rate of debt will be 10% and the price earnings ratio will be 6 times. If the expansion programme is financed through equity, new shares can be sold getting Rs 25 per share; and the price earnings ratio will be 7 times. The expansion will generate additional sales of Rs. 600 crore with a return of 10 percent on sales before interest and taxes. If the company is to follow a policy of maximising the market value of its shares, which form of financing should it choose?

Q.3 (a) Explain the following terms with suitable example:

07

- i) Tax Planning ii) Tax Avoidance iii) Tax Management iv) Tax Evasion

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

07

The following details are available:

The component will be manufactured on new machine costing Rs. 1 lakh with a life of 10 years. Assume discount rate to be 10% and rate of depreciation for the machine is 15% WDV basis. Material required cost Rs. 2 per kg. and wages Re. 0.30 per hour. The salary of the foreman employed is Rs. 1500 per month and other variable overheads include Rs. 20,000 for manufacturing 25,000 components per year. Material requirement is 25,000 kgs and requires 50,000 labour hours. (**assume tax rate = 33.99%**)

The component is available in the market at Rs. 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?

- Q.3** (a) Explain incidence of tax for company and HUF **07**
 (b) Tata Indicom Ltd. a company into telecommunication services, acquires a telecom license on April 5, 2014 for a period of 15 years which ends on March 31, 2029 (license fees being Rs. 15 lakh paid on May 6, 2014). The license is transferred by the company on December 20, 2016 for:
 (a) Rs. 6, 92,000 (b) Rs. 13, 70,000 or (c) Rs. 15, 60,000. Compute the amount chargeable to tax. **07**
- Q.4** (a) Explain Capital Gain Tax Exemption under section 54 to 54GB **07**
 (b) 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 of services provided by foreign companies (in Rs.)	90crore	90crore	90crore
Tax liability borne by ONGC(in Rs.)	NIL	3.8007 crore	3.94807 crore

Find out the taxable income and tax liability of the foreign companies.

OR

- Q.4** (a) Discuss Arm's Length Price and explain in detail the methods of computing ALP **07**
 (b) Arihant and Co. a firm, is engaged in the business of paper trading (turnover of 2014-15 being Rs. 57,80,000). It wants to claim the following deduction: **07**
- | | |
|---|------------------|
| Particulars | Rs. |
| Salary and interest to partners [as permitted by section 40(b)] | 60,000 |
| Salary to employees | 4,90,000 |
| Depreciation | 2,70,000 |
| Cost of material used | 45,90,000 |
| Other expenses | 3,45,000 |
| Total | <u>57,55,000</u> |
| Net profit (Rs. 57,80,000 minus Rs. 57,55,00) | <u>25,000</u> |

Determine the net income of Arihant and Co. for the assessment year 2015-2016 assuming that a) long term capital gain is Rs. 40,000 and b) the firm is eligible for deduction of Rs. 5,000 under section 80 G.

Q.5

Mr. Mukesh Ambani 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:

If a partnership firm is started:

1. There are two partners Mr. Mukesh and Ms. Nita 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 Rs. 10,00,000.
5. They do not have any other income.

If a private limited company is incorporated:

1. Mr. Mukesh and Ms. Nita 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 Rs. 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) Rs. 10,00,000 or ii) Rs. 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.

OR

Q5

Flipkart online services pvt ltd is looking for a Packaging machine to support growing demand of various products ranging from Electronic goods to Home appliance and is considering various options as under: **14**

- i. The machine can be purchased for Rs. 1,00,000. The depreciation rate is 15% and the corporate tax rate 34.608%. The weighted average cost of capital is 10%. The life of the machine is 10 years.
- ii. A loan of Rs. 75,000 can be had by accepting public deposits at the interest rate of 9% for financing the investment in Packaging machine. It is assumed that the public deposits are repaid after 10 years.
- iii. On the other hand, the same machine can be obtained on lease. The lease rentals are at the rate of Rs. 34,000 per annum for the primary lease period of 5 years. Beyond this peppercorn rentals of Rs. 600 per annum are to be paid. A lease management fee of Rs. 1000 is payable on inception of lease.

Conclude whether Flipkart should Purchase the machine with own funds, Purchase the machine with borrowed funds or should take it on lease.
