

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA Semester –III Examination Dec. - 2011

Subject code: 2830009

Date: 10/12/2011

Subject Name: Corporate Taxation

Time: 10.30 am – 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)** Define the terms: (1) Indian Company & Foreign Company (2) Domestic Company (3) Dividend (4) Indian Income & Foreign Income (5) Exemption vs. Deduction **07**
- (b)** Pinal Ltd. provides telecom services which acquires telecom licence on April 10, 2009 for a period of 15 years paying licence fees Rs. 15,00,000 on April 25, 2009. The licence is transferred by the company in favor of Kinal Ltd. on December 20, 2011 for: (a) Rs. 6,92,000 (b) Rs. 13,70,000 (c) Rs. 15,60,000. Compute the amount chargeable to tax in all above circumstances in accordance with Section 35ABB. **07**

- Q.2 (a)** Enlist Any Seven heads of income that is exempted from tax as per Income Tax Act. **07**
- (b)** Marin Ltd. operates one qualifying ship i.e. Marina throughout the previous year 2010-11. The ship has net tonnage 11,000 tons for 365 days. Calculate notional annual profit from the ships on the basis of daily tonnage income scheme as per Section 115VG. **07**

OR

- (b)** “Residential Status of an assessee is the key feature for tax incidence.” Justify in light of conditions for all types of residential status of an assessee. **07**
- Q.3 (a)** Discuss the tax provisions for Sections 33AB-Tea/Coffee/Rubber Development Account and 44AE-Transport Operators. **07**
- (b)** Synergy Ltd. is a widely-held company. It is currently considering a major expansion of its production facilities. It requires Rs. 20,00,00,000 for expansion purpose. It has the following alternatives to source the requirements. **07**

Source of Fund	Alternative-1 Rs.	Alternative-2 Rs.	Alternative-3 Rs.
Share Capital	20,00,00,000	8,00,00,000	4,00,00,000
14% Debentures		8,00,00,000	6,00,00,000
18% Bank Loan		4,00,00,000	10,00,00,000

Expected rate of return before tax is 25%. The company declares dividend on June 30 every year which is not less than 20% since 1987.

OR

- Q.3 (a)** “Tax Avoidance means Tax Planning” Do you agree with the statement? Explain with suitable example. **07**

- (b) Marrrie Ltd. 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: **07**

	Rs.(in Crore)
10% Debt	80
Equity share capital(Rs. 10 per share)	200
Reserves and Surplus	<u>120</u>
Total capitalization	<u>400</u>
Sales	1,200
Less: Total Cost	<u>1,076</u>
EBIT	124
Less: Interest	<u>8</u>
EBT	116
Less: Tax @ 33.2175%	<u>38.53</u>
EAT	<u>74.47</u>

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 P/E 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 P/E Ratio will be 7 times. The expansion will generate additional sales of Rs. 600 crore with return of 10% on sales before interest and tax. Suggest which form of financing should it choose?

- Q.4 (a)** Discuss Sections 10A, 10B and 10BA as the tax incentives under the Income Tax Act for Location of New Business. **07**
- (b)** X Ltd. is an Indian company. It commences a new venture on May 1, 2010. It appoints 6 managerial personnels in Category-A. Besides on the same date, it appoints the following workers salary being Rs. 2,100 per month per person. **07**
- Situation-1 – 95 workmen coming under Category-D
 Situation-2 – 400 workmen coming under Category-D
 Situation-3 – 97 workmen coming under category-B
 Situation-4 – 370 workmen coming under category-B
 Situation-5 – 235 workmen coming under category-B, 36 workmen coming under category-D (w.e.f. June 1, 2010) and 47 workmen coming under category-C (w.e.f. August 1, 2010)
- You are required to compute amount of deduction available u/s 80JJAA.

OR

- Q.4 (a)** What does it mean by Arm's Length Price (ALP)? Discuss methods for computation of ALP specified in Section 92C. **07**

- Q.4 (b)** Mr. Damodaran has been offered an employment on monthly salary of Rs. 90,000. You are required to suggest from the following two options, which option is better for him. **07**

Particulars	Option - I	Option - II
Basic Salary/ Salary	4,00,000	10,80,000
Employer's contribution for PPF	48,000	
Transport allowance between office and residence	9,600	
Education allowance for two children	2,400	
Academic research allowance	5,000	
Uniform allowance	6,000	
Rent-free house in Bombay(rent paid by employer)	3,45,000	
Free car with driver for office and private use (cc of engine-1.3 litres)	1,90,000	
Free telephone and mobile phone	40,000	
LTC (not deductible u/s 80GG)	34,000	
Total Expenditure/Gross Salary (90,000 * 12)	10,80,000	10,80,000

- Q.5 (a)** What does it mean by Double Taxation Relief? Discuss Income Tax Act provision of Section 90A-DTR in case of specified association. **07**
- (b)** National Ltd. is an Indian company, manufactures transformers and switchgears, negotiates for the purchase or acquiring on hire a machine from a concern in Japan. If it purchases the machine, the total cost will be Rs. 60,00,000 payable in 5 annual interest-free installments payable on July 1 each year beginning with the year 2010. The rate of depreciation will be 15% and the cost of capital is 10%. If it acquires machine on hire, it has to pay an annual rent of Rs. 8,00,000 payable on July 1 each year starting from the year 2010. The working life of the machine will be 10 years. The company's income exceeds one crore so, tax rate is 33.2175%. As a consultant, you are required to suggest the company whether the machine should be purchased or should acquire on hire basis. **07**

OR

- Q.5 (a)** Discuss tax benefits for various forms of organization: Firm, LLP and Company with reference to new business. **07**
- (b)** Discuss Income Tax Act provision u/s 45(1A)-Receipt of Insurance Compensation. **07**
