Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–III • EXAMINATION – SUMMER • 2014

Subject Code: 2830009 **Date: 27-05-2014**

Subject Name: Corporate Taxation (CT)

Time: 14:30 pm – 17:30 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)** Explain the following terms: - **07**

(1) Assessment Year (2) Previous Year (3) Person (4) Income
(5) Agricultural Income (6) Company (7) Indian Company

(b) X Ltd. is engaged in the business of carriage of goods. On April 1, 2012, it owns 10 truck (6 out of which are heavy goods vehicle). On May 6, 2012, one of the heavy goods vehicles is sold by X ltd. to purchase a light goods vehicle on May 10, 2012 which is put to use only from June 17, 2012. **07**

Find out the net income of X ltd. for the assessment year 2013-14 taking into consideration the following data –

Fright collected	Rs. 8,90,000
Less: Operational Exp	6,40,000
Depreciation as per sec. 32	1,90,000
Other office Exp	15,000
Net profit	45,000
Other Income	6,70,000

Q.2 **(a)** State the method of computation of Book Profit (115 JB) for the company. **07**

(b) Determine gross total income of X for the assessment year 2013-14, if he is (a) Non-resident (b) Resident and ordinary resident (c) Resident but not ordinary resident. **07**

1) Profit on sale of plant at London (one-half is received in India) - 1,46,000.
2) Profit on sale of plant at Delhi (one-half is received in London) -1,02,000.
3) Income earned from Mumbai received in US – 50,000.
4) Income from property in London received there – 30,000.
5) Income from agriculture in Bangladesh, received there. (Business controlled from India) – 1,81,000.
6) Pension from a former employer in India, received in US – 1,00,000.
7) Past untaxed profit brought to India – 45,000.

OR

(b) Enumerate the difference between Tax avoidance & Tax evasion. **07**

Q.3 **(a)** From the following details find which is the better option for the assess from the two options Firm or Private company? **07**

<table>
<tr><th>Firm</th><th>Private company</th></tr>
<tr><td>1) No. of partners : 4</td><td>1) No. of directors : 4</td></tr>
<tr><td>2) Taxable income before interest/ remuneration :Rs.14,00,000.</td><td>2) Taxable income before payment of salary/perquisites to directors : Rs. 14,00,000.</td></tr>
<tr><td>3) Interest on capital to partners on total capital Rs. 15,00,000@12%.</td><td rowspan="2">3) Remuneration payable to directors:
Rs.12,00,000 salary to each, being Rs. 3,00,000 payable in cash & kind as follows:</td></tr>
<tr><td rowspan="2">4) Remuneration payable to partners at the Maximum level : Rs.8,22,000 (salary to each partner being Rs. 2,05,500.</td></tr>
<tr><td>Basic Pay : 1,20,000</td></tr>
<tr><td></td><td>Education allowance : 2,400</td></tr>
<tr><td></td><td>Free residential house at Delhi(rent paid by employer is Rs. 1,68,000) : 1,68,000</td></tr>
<tr><td></td><td>Transport allowance : 9,600</td></tr>
</table>

(b) Explain the provision regarding Tea/coffee/rubber business (Sec. 33AB) **07**

OR

Q.3 **(a)** "When tax rates are falling, it is better to increase the financial leverage." Explain the truth of this statement using the following model which has three alternatives: **07**

Equity (20% dividend): 60% or 50% or 40% & Cost of debt: 12%.

Tax rates likely to be 35%, 30% and 25% in the next three years.

(b) What does mean by Arm's Length Price (ALP)? Discuss methods for computation of ALP specified in section 92C. **07**

Q.4 **(a)** Explain the procedure of filing application of advance ruling. **07**

(b) XYZ Ltd. is contemplating an expansion programme. It has to make a choice between debt issue and equity issue for the expansion programme. Its current position is as under: **07**

Particulars	Rs. in crore
10% Debt	80
Equity Share capital (Rs. 10 per share)	200
Reserve & Surplus	120
Total Capitalization	**400**
Sales	1200
Less: Cost	1076
EBIT	**124**
Less: Interest	8
EBT	**116**
Less: tax @ 32.445%	37.64
EAT	**78.36**

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 10% on sales before interest and taxes.

If the company is to follow a policy of maximizing the market value of its shares, which form of financing should it choose??

OR

Q.4 ABC Ltd. needs a component in an assembly operation. It is contemplating the proposal to either make or buy the aforesaid component. **14**

If the company decides to make the product itself, then it would need to buy a machine for Rs. 8 lakh which would be used for 5 years. Manufacturing costs in each of the five years would be Rs. 12 lakh, Rs. 14 lakh, Rs. 16 lakh, Rs. 20 lakh and Rs. 25 lakh respectively. The relevant depreciation rate is 15 per cent. The machine will be sold for Rs. 1 lakh at the beginning of the sixth year.

If the company decides to buy the components from supplier the component would cost Rs. 18 lakh, Rs. 20 lakh, Rs. 22 lakh, Rs. 28 lakh and Rs. 34 lakh respectively in each of the five year.

The relevant discounting rate and tax rate are 14% & 33.99% respectively. Additional depreciation is not available. Should ABC Ltd. make the component or buy from outside?

Q.5 **(a)** Explain the tax planning with reference to sale of scientific research assets. **07**

(b) X Ltd. Is a manufacturing company. On April 1, 2012, it owns Plant A and Plant B (depreciation rate: 15 per cent; depreciated value of block being Rs. 2,40,000). Plant C (depreciation rate 15 per cent) is purchased by the company on June 10, 2012 for Rs. 60,000. It is use on the same day. Find out the tax consequences in the following different situations – **07**

1) Plant B is destroyed by fire on January 25, 2013. Rs. 10,000, being the compensation is paid by the insurance company on February 10, 2013.
2) Suppose insurance compensation in situation (1) is Rs. 3,70,000.
3) Plants A, B and C are destroyed by fire on January 25, 2013. Compensation paid by insurance company on February 10, 2013 is Rs. 20,000.
4) Suppose in situation (3) insurance compensation is Rs. 4 lakh.

OR

Q.5 **(a)** What does it mean by Double Taxation Relief? Discuss the provision of Section 90A-DTR in case of specified association. **07**

(b) Discuss the tax provision u/s 45(1A)- Receipt of Insurance Compensation **07**

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