Seat No.: __________ Enrolment No.____________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA Semester –III Examination Dec. - 2011

Subject code: 830201 **Date: 13/12/2011**

Subject Name: Corporate Taxation & Financial Planning

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) Assessment Year & Previous Year (2) Person (3) Gross Total Income (4) Industrial Company (5) Agricultural Income (6) Surcharge (7) Foreign Income **07**

(b) X, a foreign national, furnishes the following particulars of his income relevant for the previous year 2010-11: **07**

Profit on sale of plant at London (one-half received in India) – Rs. 1,46,000
Profit on sale of plant at Delhi (one-half received in London) – Rs. 1,02,000
Salary from an Indian company received in London (one-half paid for rendering services in India) – Rs .60,000
Interest on U. K. Development Bonds (entire amount received in London) – Rs.40,000
Income from property in London received there – Rs. 30,000
Income from agriculture in London received there – Rs. 25,000
Dividend received in London on May 6, 2010 from a company registered in India but mainly operating in U. K. – Rs. 17,000
Profit from a business in Delhi managed from India – Rs. 49,000
Rental income from a property in Nepal – Rs. 12,000
Gift in foreign currency received on September 20, 2010 from a friend (one-third of which is received in India and remaining amount received outside India – Rs. 3,70,000
Determine gross total income of X for the A.Y. 2011-12 if he is a) Non-resident and b)Resident and ordinarily resident

Q.2 **(a)** How the tax liability of a company will be calculated under Normal Provision and under Minimum Alternate Tax show with imaginary figure? **07**

(b) X and Y form a partnership firm on April 1, 2010 (profit sharing ratio 2:3) by investing Rs. 10,00,000 and Rs. 15,00,000 respectively. The investment has been financed from the following sources: **07**

	X (Rs.)	Y (Rs.)
Gift from Mrs. X	6,60,000	----
Gift from Mrs. Y	----	8,00,000
Past savings from X and Y	3,40,000	7,00,000

For the year ending March 31, 2011, share of profit from the firm is as follows:

	X (Rs.)	Y (Rs.)
Interest on capital @ 12%	1,20,000	1,80,000
Salary as working partner	24,000	24,000
Share of Profit	1,08,000	1,62,000

Find out the income chargeable to tax in the hands of X and Mrs. X.

OR

(b) X, an employee of PQR Ltd., draws Rs. 2,00,000 as basic pay, Rs. 15,000 as dearness allowance (not being part of salary) and Rs.20,000 as bonus. Besides the company provides a rent-free unfurnished house in Goa. The house is not owned by the company. Determine the taxable value of the perquisite for the A.Y. 2011-12 if lease rent of the house is : a) Rs.20,000 p.a. b) Rs.48,000 p.a. c) Rs.26,000 p.a. **07**

Q.3 **(a)** Discuss the provisions of Income Tax Act for computation of Cost of Acquisition of Original and Bonus Shares as the part of sale considerations. **07**

(b) X submits the following particulars of income/loss for the A.Y. 2011-12: **07**

Profits of Business I carried on in India – Rs. 2,42,000

Loss of Business II carried on in India – Rs. (1,26,000)

Profits of Business III carried on in Germany (though income is earned and received in Germany, business is controlled from Bombay) – Rs. 2,17,000

Loss of Business IV carried on in Germany (though income is earned and received in Germany, business is partly controlled from Germany and partly from Canada) – Rs. (1,56,000)

Unabsorbed depreciation of the A.Y. 2002-03:

Business I – Rs. (1,07,000)
Business III – Rs. (1,08,000)
Business IV – Rs. (2,15,000)

Income from property situated in India – Rs. 1,18,000

Income from property situated in Germany – Rs. 1,20,000

Determine the net income of X for the A.Y. 2011-12 on the assumption that he is (i) resident and ordinarily resident in India (ii) resident but not ordinarily resident in India

OR

Q.3 **(a)** Discuss in detail Sections 80IC and 80ID as the tax incentives under the Income Tax Act for selection of Location of New Business. **07**

(b) Mr. X is an entrepreneur. He provides you the following alternatives to select the best form of organization in regards with the best tax planning. **07**

Particulars	**Alt.-A**	**Alt.-B**	**Alt.-C**
No. of partners	3	4	8
Profit sharing ratio	Equal	Equal	Equal
Capital in equal proportion	10,00,000	15,00,000	80,00,000
Profit P.Y.- 2010-11	6,00.000	12,00,000	60,00,000
Other income of each partner	60,000	50,000	60,000
LIC Prem. of each partner	80,000	50,000	90,000
Salary p.m. of each partner	10,500	14,625	32,437.50

Mr. X has two option either partnership firm as per above mentioned alternatives or proprietary firm. Suggest which form of organization is better for him.

Q.4 **(a)** Discuss provisions of Section 80JJAA-Deduction in respect of employment of new workmen. **07**

(b) X (age : 32 years), posted at Bombay, receives a salary of Rs. 36,000 per month during 2010-11 from A Ltd. His employer contributes Rs. 53,000 towards provident fund. His other allowances are: special allowance Rs. 2,28,000 and medical allowance: Rs. 22,200 and 0.5 per cent commission on sales achieved by him. During the year, turnover achieved by X is Rs. 9,60,000. Employer provides a Maruti-800 car with a chauffer for his private and official purposes w.e.f. April 1, 2010. The amount of interest credited to provident fund on May 10, 2010 @ 11% p.a. comes to Rs. 25,660. **07**

Income of X from other sources is Rs. 7,54,000.
Payments/ Contributions:
Insurance premium paid on own life (sum assured : Rs. 22,500) – Rs. 6,500
Insurance premium paid on the life of Mrs. X (sum assured : Rs. 1,00,000) – Rs. 4,000
Insurance premium paid on the life of major son (sum assured : Rs. 20,000) – Rs. 3,100
Contribution towards PPF – Rs. 1,000
Contribution towards employee's provident fund – Rs. 50,000
Contribution made for participating in ULIP – Rs. 2,000
Repayment of loan taken from LIC for purchase of a house (whose construction is completed on March 10, 1987 and used by him for his residence) – Rs. 22,000
Tuition fee of X's son – Rs. 12,500
Investments in units of a notified Mutual Fund for financing infrastructure facility – Rs. 2,000
Determine the amount of tax liability on the assumption that provident fund is (i) Statutory (ii) Recognised (iii) Unrecognised.

OR

Q.4 **(a)** What do you mean by Tax Planning? Distinguish: Tax Avoidance and Tax Evasion. **07**

(b) X, not being covered by the payment of Gratuity Act, 1972, retires on January 6, 2011 from PQR and receives Rs. 1,24,000 as gratuity after service of 29 years and 11 months. His average monthly salary during March 1, 2010 to December 31, 2010 is Rs. 8,500. Determine the amount of: a) taxable gratuity b) gratuity exempted from tax for the A. Y. 2011-12. **07**

Q.5 **(a)** Discuss with comparison the tax benefits for various forms of organization: Firm, LLP and Company with reference to new business. **07**

(b) XYZ 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	120
Total capitalization	400
Sales	1,200
Less: Total Cost	1,076
EBIT	124
Less: Interest	8
EBT	116
Less: Tax @ 33.2175%	38.53
EAT	74.47

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?

OR

Q.5 **(a)** Explain meaning of Dividend as per Section 2(22)(a) to 2(22)(e). What is tax treatment for them? **07**

(b) Enlist Any Five permissible deductions u/s 80C to 80U. Explain Any Two of them. **07**

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