Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–III • EXAMINATION – WINTER 2013

Subject Code: 2830009 **Date: 18-12-2013**

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)** List out at least 14 income that are exempted from tax. **07**

(b) Mr.Jain is employed as a resident engineer in Copper India Ltd on a basic salary of Rs 81,400 per month.Mr. Jain had no shares in the company and he was not related to any directors. Discuss the tax treatment that may be accorded to each of the below items in the hands of Mr.Jain. **07**

i) He is required to stay with his family in a rent-free unfurnished bungalow provided by his employer in the factory compounded.

ii) A sweeper and a watchman look after his bungalow. They are employees of the company on a salary of Rs 5000 per month each.

Q.2 **(a)** Mr. Trivedi receives the following emoluments during the previous year 2011-12. **07**

Basic Salary Rs 92,000; Dearness Allowances: Rs 8000 (48 % forms part of salary for computing retirement benefits).Income tax paid on behalf of Mr. Trivedi Rs 7000 and education allowances of Rs 4800.(Total allowance paid for 3 children). During the previous year he is paid Rs 20,000 by way of a special allowance.

Mr.Trivedi is a retired Government employee. Pension received from the Government is Rs 3,070 per month.

He has been provided a rent-free unfurnished house by the employer from 1st September 2011.Find out the taxable value of the perquisites for the assessment year 2012-13 under the following situation:

i) The house is owned by the employer and in Belapur (Population: 9.50 lakh)

ii) The house is owned by the employer and it is situated in Ajmer (Population: 30 lakhs)

iii) The house is taken on lease by the employer
(lease rent being Rs 1,000 per month)

iv) The house is taken on lease by the employer
(lease rent being Rs 20,000 per month)

(b) Explain giving suitable example-tax planning & tax avoidance. **07**

OR

(b) Explain capital gain exemption under sections 54 to 54 GA. **07**

Q.3 **(a)** Find out the tax consequences in the following cases- **07**

i) Business profit of ABC Ltd, a coffee growing and manufacturing company is Rs 90 lakh for the assessment year 2012-2013.It deposits Rs 25 lakh in the "special account" for claiming deduction under section 33 AB.It wants to claim set-off of brought forward business loss of Rs 15 lakh.

ii) By withdrawing Rs 20 lakh on January 20, 2013 from the "special account", ABC Ltd. purchases a non-depreciable asset for Rs 18 lakh according to the scheme framed by the Tea & coffee Board. The remaining amount of Rs 2 lakh is not utilized up to March 31, 2013.

(b) The aforesaid proposition is examined in the following case: **07**

I] Firm

Number of partners:3 Taxable income before interest/remuneration Rs 15,00,000 ; Interest on capital to partners on total capital contribution of Rs 15,00,000 @ 12 % Rs 1,80,000; Remuneration payable to partners at the maximum level: Rs 9,00,000 (salary to each partner being Rs 3,00,000 payable in cash or in cash/kind.

II] Private Company

Number of partners:3 Taxable income before interest/remuneration Rs 14,00,000 ; Remuneration payable to directors: Rs 12,00,000 (salary to each partner being Rs 4,00,000 payable in cash or in cash/kind.

Basic Pay: 1,20,000 Education allowance :2,400

Free residential house at Delhi (rent paid by employer is Rs 1,68,000) 1,68,000 Transport allowance : 9,600

OR

Q.3 **(a)** Beta Company Ltd produces most of its own parts and components. The standard wage rate in the parts department is Rs 3 per hour. Variable manufacturing overheads is applied at a standard rate of Rs 2 per labour-hour and fixed manufacturing overheads are charged at a standard rate of Rs 2.50 per hour. **14**

For its current year's output, the company will required a new part. This part can be made in the parts department without any expansion of existing facilities. Nevertheless, it would be necessary to increase the cost of product testing and inspection by Rs 5,000 per month. Estimated labour time for the new part is half an hour per unit. Raw materials cost has been estimated at Rs 6 per unit.

The alternative choice before the company is to purchase part from an outside supplier at Rs 9 per unit.The company has estimated that it will need 2,00,000 new parts during the current years.

Advise the company whether it would be more economical to buy or make the new parts. Would your answer be different if the requirement of new parts was only 1,00,000 parts?

Q.4 **(a)** Explain residential status of an individual. **07**

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

Particular	A Inc	B Inc	C Inc
Date of agreement	10/06/1985	10/06/1995	10/06/2005
Amt paid by ONGC on account service provided by foreign companies	90 crore	90 crore	90 crore
Tax liability	NIL	3.8007 crore	3.96828 crore

borne by ONGC (Rs)			
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 44 BB.			

OR

Q.4 **(a)** Give appropriate illustration to explain double taxation relief. **07**

Q.4 **(b)** Alpha 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 put to use on the same day. Find out the tax consequences in the following different situations- **07**

i) 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.

ii) Plant A, B, and C are destroyed by fire on January 25,2013.Compensation paid by the insurance company on February 10,2013 is Rs 20,000

Q.5 **(a)** Solar Ltd.is a wholly owned subsidiary of Moon Ltd.(both are Indian companies and maintain book of account on the basis of financial year).On April 10,1987 (relevant to the assessment year 1988-89),Solar Ltd, transfers a capital asset (i.e shares) to Moon Ltd,.(acquires on April 6, 1984 for Rs 50,000) for Rs 1,50,000.Moon Ltd, sells the asset on May 10,12 for Rs. 3,40,000. Determine the assessable profits of Moon Ltd. and Solar Ltd under the following situations: **07**

i) Before the sale of asset, Moon Ltd has not converted it into stock-in-trade and it does not cease to hold entire share capital of Solar Ltd.

ii) Moon Ltd.has converted the capital asset into stock-in-trade before its sale on May 10,2012 (date of conversion: June 10,1990,fair market value : Rs 3,10,000).

Note: Consider the CII No. (Cost Inflation Index) for 1984-1985 as 125, for 1987-1988 as 150, 1990-1991 as 182 and for 2012-2013 as 852.

(b) Apex 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**

Particulars	Rs in crore
10 % Debt	100
Equity share capital (Rs 10 per share)	300
Reserves and surplus	100
Total capitalization	500
Sales	1500
Less: Total costs	1320
EBIT	180
Less: Interest	10
EBT	170
Less: Tax @ 33.2175%	56.46
EAT	113.54

The expansion programme is estimated to cost Rs 200 crore.If this is financed through debt, the new rate of debt will be 10 per cent and the price-earning 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 –earning ratio will be 7 times. The expansion will generate additional sales of Rs 600 crore with a return of 10 per cent 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.5	**(a)**	Discuss arm's length price in detail.	**07**
	(b)	Explain, tax planning with reference to sale of scientific research assets	**07**

****