

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER-III • EXAMINATION – SUMMER • 2015

Subject Code: 2830009

Date: 27-05-2015

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)** Define Company. Explain the different types of company as under Indian Income Tax Act. **07**
- (b)** Enlist any 14 heads of income that is exempted from tax. **07**
- Q.2 (a)** Explain the residential status of an individual. **07**
- (b)** XYZ Ltd. is a widely held company. It is currently considering a major expansion of its production facilities. It requires Rs. 500, 00,000 for expansion purpose. It has the following alternatives to source the requirements. **07**

Particulars	Alternative I	Alternative II	Alternative III
Share Capital	500,00,000	200,00,000	1,00,00,000
14% Debentures	-	2,00,00,000	1,50,00,000
Loan from Financial Institution (18%)	-	1,00,00,000	2,50,00,000
Total	500,00,000	500,00,000	500,00,000

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. (Assume that the tax rate applicable to firm is 30%, Surcharge 5% and EC 2% and HSEC 1%).

OR

- (b)** Distinguish between Tax Planning and Tax Management. **07**
- Q.3 (a)** ABC company is a firm engaged in business of paper trading (turnover of 2012-13 being Rs. 37, 80,000) it wants to claim following deduction. **07**

Particulars	Amount (Rs.)
Salary & Interest paid to Partners (as permitted by Sec. 40 (b))	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of material used	25,90,000
Other expenses	3,45,000
Total	37,55,000
Net Profit	25,000

Determine the Net Income of ABC for the assessment year 2013-14 assuming that **a)** taxable income from other business is Rs. 1, 90,000 **b)** long term capital gain is Rs. 40,000. **c)** The firm eligible for a deduction of Rs. 5000 u/s 80 G.

- (b)** When is Minimum Alternate Tax applicable? How is Minimum Alternate Tax calculated? **07**

OR

- Q.3 (a)** Velocity Ltd. is engaged in the business of carriage goods. On April 1, 2012, it owns 10 trucks (6 out of which are heavy goods vehicle). On May, 6, 2012, one of the heavy goods vehicles is sold by Velocity Ltd to purchase a light goods vehicle on May 10, 2012, which is put to use only from June 17, 2012. Find out the net income of Velocity Ltd. for the A.Y 2013-14 taking into consideration the following data: **07**

Particulars	Amount (Rs.)
Freight collected	8,90,000
Less:	
Operational expenses	6,40,000
Depreciation as per Sec. 32	1,90,000
Other office expenses	15,000
Net Profit	45,000
Other Business Income	70,000

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

- Q.4 (a)** X 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	80
Equity share capital(Rs 10 per share)	200
Reserves and surplus	120
Total capitalization	400
Sales	1200
Less: Total costs	1076
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 PE 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 PE ratio will be 7 times. The expansion will generate additional sales of Rs 600 crore with a return of 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?

- (b)** Explain the procedure of filling application for advance ruling **07**

OR

- Q.4 (a)** A ltd is a manufacturing company. On April 1, 2013 it owns Plant A and Plant B (depreciation rate: 15%, depreciated value of the block being Rs. 2, 40,000). Plant C (depreciation rate 15 %) is purchased by the company on June 10, 2013 for Rs. 60,000.It is put to use on the same day. Find out the tax consequences in the following different situation. **07**

- Plant B is destroyed by fire on January 25, 2014. Rs. 10,000 being the compensation is paid by the insurance company on February 10, 2014.
- Suppose insurance compensation in situation 1 is Rs. 3,70,000.

- (b)** Explain tax planning with reference to sale of scientific research assets. **07**

Q.5 (a) Mr. X is offered an employment by PQR Ltd. at a basic salary of Rs. 1, 24,000 per month. Other allowances according to rules of the company are: Dearness allowance: 18 % of basic pay(not forming part of salary for calculating retirement benefits), Bonus: 1 month basic pay; Project allowance: 6 % of basic pay. The company gives Mr. X an option either to take a rent-free unfurnished accommodation at Indore for which the company would directly bear rent of Rs. 45,000 per month, or to accept a house rent allowance of Rs. 45,000 per month and find out own accommodation. If Mr. X opts for house rent allowance, she will have to pay Rs. 45,000 per month for an unfurnished house. His income from other sources is Rs. 1, 70,000. You are required to suggest from the two options which option is better for him. **07**

(b) Discuss double taxation relief in detail. **07**

OR

Q.5 (a) Discuss Income Tax Act provision u/s 45(1A) Receipt of Insurance Compensation, when it is applicable and not applicable. **07**

(b) What is Arm's Length Price (ALP) and discuss methods for computation of ALP specified in Sec 92C. **07**
