2011

M B A

4th Semester Examination

CORPORATE TAXATION

(Specialization : Financial Management)

PAPER—F 401

Full Marks : 100

Time : 3 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

rite the answers to Questions of each Half in separate books

(First Half)

(Marks : 50)

. Answer any *four* questions from the following. 4×5

(a) Discuss the provisions relating to carry forward and set off of losses as per the Income Tax Act. 5

(b) Discuss the provisions relating to mitigating the cascading effect of dividend distribution tax (DDT). 5

(c) Total income computed in accordance with the provisions of Income Tax Act and Book Profit of JD Power Ltd, a domestic company, for the Assessment Years 2010-11 and 2011-12 are given below :

(Turn Over)

Assessment Year	*Total Income* (₹)	*Book Profit* (₹
2010-11	2,35,200	12,05,70
2011-12	(–) 1,38,230	5,12,50

Compute tax liability of the Company for th Assessment Years 2010-11 & 2011-12. 5

(d) What are the different types of Excise Duty? 5

(e) Briefly explain the term Warehouses with reference t the provisions of the Customs Act. 5

(f) Susmita Ltd. gives you the following information fo the year ended 31.03.2011 :

Inter State Sale	*Amount* (₹)
Sale of steel (excluding tax)	5,00,000 (without C Form)
Sale of Infosys Ltd. Shares	2,50,000
Sale of Stationary items against Form C	8,00,000 (Excluding Tax)
Sale of Ceramic Tiles against Form C	10,40,000 (Including Tax)
Sale of Roof Tiles	2,20,000 (Including Tax)
Sale of Milk Products	1,10,000 (Excluding Tax)
Sale of Milk	1,75,000

Rate of tax under the Govt. of West Bengal Vat Act :

Steel : 4% Declared goods, Stationary items : 4%, Ceramic tiles : 12.5%, Roof tiles : 4%, Milk products : 4% goods, Milk : Nil.

You are required to calculate the taxable turnover under West Bengal Value Added Tax Act, 2003 and the amount of VAT Payable for the year ended 31.03.2011. 5

Answer any *two* of the following : 10×2

(a) SAHARA Ltd. furnishes the following particulars in respect of the financial years 2009-10 and 2010-11 and requests you to work out its liability U/S 115 JB in respect of the assessment year 2011-12 and the unabsorbed loss and depreciation to be carried forward : 10

	As per books	*For the purpose of assessment to income tax*
For the financial year 2009-10		
Loss for the year	8,00,000	8,00,000
Depreciation	2,00,000	4,00,000
For the financial year 2010-11		
Depreciation	2,00,000	10,00,000

Profit and Loss Appropriation A/c

Reserve for taxation	5,00,000	Profit as per P/L A/c	10,00,000
Reserve for doubtful debts	1,00,000	Reserve written back	50,000
Provision for contingencies	50,000		
Proposed Dividend	50,000		
Surplus carried to Balance Sheet	3,50,000		
	10,50,000		10,50,000

(b) From the following information of Burnpur Cement Ltd., compute the tax credit available U/S 115 JAA and tax payable by it for various assessment years. MAT rate prior to AY – 2010-11 was 10%. It was 15% for the Assessment Year 2010-11 : 10

Assessment year	*Book profit computed U/S 115JB* (₹)	*Total income as per normal provisions of Income Tax Act* (₹)
2010-11	60,00,000	10,00,000
2011-12	80,00,000	12,00,000
2012-13	1,20,00,000	24,00,000
2013-14	1,00,00,000	90,00,000
2014-15	30,00,000	15,00,000
2015-16	60,00,000	1,10,00,000

(c) An importer has imported a Machine from New York at invoice price of 15,000 dollars. Other details are as follows : 10

(i) Freight from USA to Indian Port was 800 $.

(ii) Insurance was paid to insures in India Rs. 12,000.

(iii) Design and development charges of 2,500 $ were paid to a consultancy firm in USA.

(iv) The importer also spent an amount of Rs. 90,000 in India for development work connected with the machinery.

(v) Rs. 20,000 were spent in transporting the machine from Indian port to the factory of importer.

(vi) Rate of exchange as announced by RBI was Rs. 42 = one dollar.

(vii) Rate of exchange as announced by Central Government by notification under Section 14(3)(a)(i) Rs. 41.70 = one dollar.

viii) Rate charged by Bank who recovered the amount from importer Rs. 41.50 = one dollar.

(ix) Foreign exporter has an agent in India. Commission is payable to the agent in India Rupees @ 5% of invoice price.

(x) Custom duty payable was 25%. If similar goods were produced in India, excise duty payable as per tariff is 24%. There is an excise exemption notification which exempts the duty as is in excess of 16%.

Find out Customs duty payable if importer is manufacture and using the goods himself.

[*Internal Assessment : 10*]

(Second Half)

(Marks : 50)

swer any *four* of the following : 4×5

PUNJ LOYD LTD. is an Indian Company. For the previous year 2010-11, the following incomes are noted from the books of account of the tax prayer :

	₹
Income from a business in India	3,80,000
Income from a business in a foreign country with whom India has ADT agreement	2,16,000

According to the ADT agreement ₹ 2,16,000 is taxable in India. However, it can also be taxed in the foreign country @ 17.5% which can be set off against Indian tax liability.

You are required to calculate the Indian tax liability. 5

(b) What are the tax issues in respect of Joint Ventures? 5

(c) What are the tax consideration one has to keep in mind while taking 'make or by' decision? 5

(d) What do you mean by tax planning? 3

Match the followings : 2

A	*B*
(i) Starting of a new business in a SEZ in order to avail benefit U/S 10AA.	(i) Tax avoidance (ii) Tax planning
(ii) Starting of a new unit in Jammu & Kashmir for availing deduction U/S 801B while the actual production is done in Nagpur only.	(iii) Tax evasion

(e) "While making tax planning for amalgamation, there are certain benefits that can be enjoyed by an amalgamated company under the Income Tax Act" — Discuss in brief any five of them after considering that the amalgamation fulfils conditions U/S 2(1B) of the Income Tax Act. 5

(f) Write a short note on Tax Planning through issue of Bonus Shares. 5

4. Answer any *two* of the following : 2×10

(a) An asset costing ₹ 1,00,000 is to be acquired. There are two alternatives available to the entrepreneur. First one is buying the asset by taking a loan of ₹ 1,00,000 repayable in five equal installments of ₹ 20,000 each along with interest @ 14% p.a.

assuming that interest as well as the principal amounts are payable at the year end. The second one is leasing the asset for which annual lease rental is ₹ 30,000 upto five years. The lessor charge 1% as processing fees in the first year. Assume that lease rental and processing fees are payable at the end of the year.

The internal rate of return is 10% and the present value factor at 10% is :

Years	1	2	3	4	5
P. V. Factor	0.909	0.826	0.751	0.683	0.621

Suggest which alternative is better in the above case. Assume the tax rate to be 30.9% and rate of depreciation 15% p.a. 10

(b) Which is more tax-effective to an employee in each of the alternative situations given below? Give reasons in brief : 10

(i) To take medical allowance of ₹ 750 per month or reimbursement of medical expenses upto ₹ 15,000 p.a.

(ii) To take house rent allowances of ₹ 8,000 per month to meet the rent expenditure of ₹ 6,000 per month or a rent free unfurnished accommodation valued at ₹ 63,000. Basic pay ₹ 30,000 per month.

(iii) To take transport allowance of ₹ 3,000 per month or the facility of a small car which will be used for official and personal work.

(iv) To take ₹ 16,300 per month as consolidated pay or ₹ 15,000 per month as basic pay plus ₹ 800 per month as transport allowance plus ₹ 500 per month as uniform allowance.

(v) To accumulate leave or encash it.

(vi) To take children education allowance or re imbursement of children school fees.

(c) Diamond Engineering Company Ltd. has 10 lak equity shares outstanding at the start of th accounting year 2010. The ruling market price pe share is Rs. 150. The Board of Directors of th Company contemplate declaring Rs. 8 per share a dividend. The rate of capitalization appropriate to th risk class to which the company belongs is 12% Corporate Tax Rate 30.90%, Dividend Distributio Tax 16.995% :

(i) Based on the Miller-Modigliani approach, calculat the market price per share of the company whe the contemplated dividend is : (a) declared, an (b) not declared.

(ii) How many new shares are to be issued by th company at the end of the accounting year on th assumption that the net income for the year i Rs. 2 crore, investment budget is Rs. 4 crore, an (a) the above dividends are distributed, an (b) they are not declared?

(iii) Show that the market value of the shares at th end of the accounting year will remain the sam irrespective of whether dividends are eithe distributed or not declared?

[***Internal Assessment : 10***]