Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 3 – EXAMINATION – WINTER 2016

Subject Code: 2830009 **Date: 02/01/2017**

Subject Name: Corporate Taxation (CT)

Time: 02:30 pm to 05:30 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) Multiple Choice Questions (1x6 = 6 Marks)

1. Income tax in India is charged at the rate prescribed by:

   a. The Finance Act
   b. The Income Tax Act
   c. The Central Board of Direct Tax
   d. The Ministry of Finance

2. Avoidance of Double taxation agreement:

   a. Can Increase Tax Liability
   b. Can Reduce Tax Liability
   c. Does not have any impact on tax liability
   d. Can impose tax liability in respect of income which is otherwise exempt under income tax Act.

3. Deduction under section 80JJAA is available in the following cases:

   a. Indian Company
   b. Foreign Company
   c. LLP
   d. All of the above

4. A person getting bonus shares will have to pay tax at the time of allotment of bonus shares_____

   a. On the market value of bonus shares
   b. On the face value of bonus shares
   c. On the value of determined by the board
   d. On nothing.

5. The following is not a venture capital undertaking for the purposes of section 10(23F), if engaged in business of :

   a. Generation of power;
   b. Telecommunications;
   c. Providing infrastructural facility;
   d. Dairy farming whose shares are not listed in a recognised stock exchange.

6. Tonnage tax scheme is applicable in the following cases_____

   a. Foreign shipping company
   b. Indian shipping company
   c. LLP in shipping company
   d. None of the above

Q. 1. (b). Define the Following. (1x4 = 4 Marks).

1. Write a note on Residence of Company.
2. Define LLP.
3. Assessment Year & Previous Year
4. Tax Liability.

Q. 1. (c). Enlist Any Eight heads of income that is exempted from tax as per Income Tax Act. **04**

Q. 2. (a). Discuss the tax provisions for Sections 33AB-Tea/Coffee/Rubber Development Account and 44AE-Transport Operators. **07**

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

OR

(b). ABC Ltd. a firm engaged in the business of paper trading (turnover of 2014-15 being Rs.57, 80,000). It wants to claim the following deduction-

Particular	Rs.
Salary and interest to partners (as permitted by section 40(b)	60,000
Salary to employee	4,90,000
Depreciation	2,70,000
Cost of material used	45,90,000
Other expense	3,45,000
Total	57,55,000
Net profit(Rs.57,80,000 minus Rs. 57,55,000)	25,000

Determining the net income of ABC Ltd. for the assessment year 2015-16 assuming that (a) long term capital gain is RS. 40,000 and (b) the firm is eligible for a deduction Rs. 5,000 under section 80G. **07**

Q. 3. (a). Explain giving suitable example - tax planning & tax avoidance. **07**

(b). "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:
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. **07**

OR

Q.3.(a). When is Minimum Alternate Tax applicable? How is Minimum Alternate Tax Calculated? **07**

(b). Relience Ltd., manufactures electric pumping sets. The company has the option to either make or buy from the market component Y used in manufacture of the sets. The following details are available:

The component will be manufactured on new machine costing Rs.81,157 (Net of taxes i.e. tax savings on account of depreciation) (original cost of the machine is Rs.1,00,000) with a life of 10 years. Material required cost Rs.2 per kg and wages Re. 0.30 per hour. The salary of the foreman employed is Rs.1,500 per month and other variable overheads include Rs.20,000 for manufacturing 25,000 components per year. Material requirement is 25,000kgs and requires 50,000 labour hours. The component is available in the market at Rs.4.30 per piece. Will it be profitable to make or buy the component? Does it make any difference if the component can be manufactured on an existing machine? **07**

Q.4. (a). Explain Capital Gain Tax Exemption under section 54 to 54GB **07**

(b). Ram purchases 1,000 equity shares A Ltd. At the rate of Rs.16 per share (brokerage: 1%) on December 10,1979. He gets 500 bonus shares (by virtue of his holding of 1,000 shares) on January 10, 1984. Fair market value of shares A Ltd. On April 1,1981 is Rs. 24. On March 13, 2015, the transfer 1,000 original shares @ Rs.81 per share (brokerage: 1.5%).

On March 15, 2015 he transfer 500 bonus share @ 87Rs. per share (brokerage: 1.5%) find out the amount of capital gains on the assumptions the securities transaction tax is not applicable. **07**

OR

Q.4. (a). Discuss Arm's Length Price and explain in detail the methods of computing ALP. **07**

(b). Shree Ltd. company wants to expand its facilities using the following alternatives:

Particulars	**Alternative I**	**Alternative II**	**Alternative III**
Share Capital	5,00,00,000	2,00,00,000	1,00,00,000
Debentures (14%)	-	2,00,00,000	1,50,00,000
Loan from Financial Institution (12%)	-	1,00,00,000	2,50,00,000

Expected rate of return before tax is 25%. Rate of dividend is 20%. As a tax consultant advise the company that which alternative it should adopt and Why? (Assume that the tax rate applicable to the firm is 30%, Surcharge 5% and EC 2% and HSEC 1%). **07**

Q. 5. Raj 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:

	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 @ 33.99%	39.43

EAT	76.77

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? **[14]**

OR

Q.5. XYZ Ltd. needs a component in an assembly operation. It is contemplating the proposal to either make or buy the aforesaid component.

(1) 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.

(2) 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 XYZ Ltd. make the component or buy from outside? **[14]**

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