Seat No.: ________ Enrolment No.______________

GUJARAT TECHNOLOGICAL UNIVERSITY

M.B.A.- SEMESTER – III • EXAMINATION – WINTER 2012

Subject code: 2830009 **Date: 01-01-2013**

Subject Name: Corporate Taxation (CT)

Time: 10:30 pm – 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)** The employer of Anmol gives following two options for his appointment in Mumbai: **07**

Particulars	Option 1	Option 2
Basic Pay	9,60,000	9,60,000
Bonus	3,00,000	3,00,000
Education Allowance for 2 children	30,200	-
Reimbursement of fees for 2 children in a school which is not owned/maintained by employer	-	30,200
Sweeper Allowance	40,000	-
Free Sweeper	-	40,000
Entertainment Allowance	60,000	-
Club Facility	-	60,000
Transport allowance for personal use	30,000	-
Free car (1200cc) facility for personal use (car owned by the employer)	-	30,000
Medical allowance	18,000	-
Medical facility for Anmol and family members	-	18,000
Allowance for gas, electricity, and water supply	4,500	-
Free gas, electricity, and water supply	-	4,500
Holiday home allowance	15,000	-
Holiday home facility	-	15,000

Lunch Allowance	18,000	-
Free Lunch (Rs.70x200days+Rs.80x50days)	-	18,000
Diwali gift allowance	11,000	-
Gift on Diwali	-	11,000
A rent free unfurnished house in Mumbai (Lease Rent)	2,00,000	2,00,000

Which of the two alternatives, Anmol should opt for to minimize the tax bill?

(b) Distinguish between Tax Planning and Tax Management **07**

Q.2 **(a)** Distinguish between Indian Income and Foreign Income **07**

(b) Write a short note on two cases covered under Sec. 80IA, viz., Profits and gains derived from provision of infrastructure facility and telecommunication services. **07**

OR

(b) Explain the procedure of filing application for advance ruling. **07**

Q.3 **(a)** What is Arm's Length Price (ALP)? Discuss in brief the methods of computing ALP. **07**

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

Particulars	A Inc.	B Inc.	C Inc.
Date of agreement	June 10, 1982	June 10, 1992	June 10,2002
Amount paid by ONGC on account services provided by foreign company (in Rs.)	90 Crore	90 Crore	90 Crore
Tax liability borne by ONGC (in Rs.)	Nil	3.8007 Crore	3.94807 Crore

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 44BB.

OR

Q.3 **(a)** Define Company. Explain the company in which public are substantially interested. **07**

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

Q.4 **(a)** Velocity ltd. is engaged in the business of carriage of goods. On April 1, 2011, it owns 10 trucks (6 out of which are heavy goods vehicle). On May 6, 2011, one of the heavy goods vehicles is sold by Velocity Ltd to purchase a light goods vehicle on May 10, 2011, which is put to use only from June 17, 2011. **07**

Find out the net income of Velocity Ltd. For the A.Y 2012-13 taking into consideration the following data:

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	6,70,000

(b) Monster Ltd. company wants to expand its facilities using the following alternatives: **07**

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%).

OR

Q.4 **(a)** Siphon 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: **07**

The component will be manufactured on new machine costing Rs.82,015 (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?

(b) Script Ltd., a paper manufacturing concern, purchases a machine on March 1, 2002 for Rs.6,10,000 for its laboratory with a view to improving the quality of art paper manufactured by the company. **07**

1. What will be the amount of deduction u/s.35 on account of capital expenditure of Rs.6,10,000 for the AY 2002-03.
2. If the research activity for which the aforesaid machine is purchased ceases in 2010 and the machinery is brought into business proper on November 1, 2010 (market vale of the machine : Rs.2,30,000); depreciation is admissible at the rate of 15%; depreciated value of the relevant block of assets on April 1, 2010 is Rs.14,07,860, the scientific research machine is sold for Rs.1,90,000 on April 4, 2011, what will be the amount of depreciation and amount of chargeable profit u/s. 41(3).

Q.5 **(a)** Explain Limited Liability Partnership (LLPs). What are the advantages that LLP enjoys as compared to company form of organization? **07**

(b) Modern Ltd is a manufacturing company. On April 1, 2011 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, 2011 for Rs.60,000. It is put to use on the same day. Find out the tax consequences in the following different situation. **07**

1. Plant B is destroyed by fire on January 25, 2012. Rs.10,000 being the compensation is paid by the insurance company on February 10,2012.
2. Suppose insurance compensation in situation 1 is Rs.3,70,000.

OR

Q.5 **(a)** Alien Ltd. an Indian company for the previous year 2011-12, the following **07**

incomes are noted from the books of account of the taxpayer:

Particulars	Amount (Rs.)
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 Rs.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. Find out the tax liability for the AY 2012-13.

(b) Write short note on deduction under section 80E- Repayment of loan taken for higher education. **07**

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