Roll No. ____________________

(Do not write anything on question paper except Roll No.)
[This paper consists of THREE Pages]

Jagan Institute of Management Studies

End-Term Examination, September, 2016
Trimester IV – PGDM (IB)/PGDM (RM) 2015-17

Corporate Tax Planning
ET_IB_RM_CTP_3009

Time: 3 Hrs. *M. Marks: 70*

INSTRUCTIONS: Attempt any FIVE questions including Q1 & Q8 which are compulsory.

Q 1 **a)** What is 'tax planning'? How does it differ from 'tax evasion'? **6**

b) State with reasons whether the following companies are those in which public are substantially interested:

i) X Ltd. is a public company with a share capital of Rs. 3,00,000. It consists of 20,000 equity shares of Rs. 10 each and 1,000 - 8% Preference Shares of Rs. 100 each. Of this 5,000 equity shares and 900 preference shares are held by Govt. of India.

ii) A Ltd., a private company, has issued 15,000 equity shares of which 4,000 are held by 2 directors, 500 by another director, 2,500 by two public men and balance 8,000 by forty persons equally.

iii) B & Co. Ltd., whose shares are listed on Mumbai Stock Exchange.

iv) Z & Co. Ltd. is registered u/s 25 of the Indian Companies Act, 1956 for promotion of commerce. It has been detected that it distributes a part of its profits to its members. **10**

Q 2 **a)** Discuss the tax considerations in dividend policy and issue of bonus shares. **6**

b) Discuss the factors to be considered while deciding upon the optimum capital structure of a company from the point of view of tax planning. **6**

Q 3 The management of X Ltd. wants to acquire a new machine. The cash price of the machine is Rs. 2,00,000. The company has enough cash reserves to finance the purchase. However, it seeks your advice, whether from the point of view of tax planning, it should buy the machine or get it on lease. On the basis of the following particulars, explain the suitability of each alternative.

i) Expected life of the machine: 9 years.

ii) Lease rent: Rs. 62,000 per annum for the first five years and Rs. 600 per year afterwards.

iii) Present value of Re. 1 discounted at 14%; Year One-0.877; Year Two-0.769; Year Three-0.675; Year Four-0.592; Year **12**

Five0.519; Year Six-0.456; Year Seven-0.400; Year Eighth-0.351 and Year Nine-0.308.

Q 4 Mrs. X is offered employment by ABC Ltd. at a basic salary of Rs. 48,000 p.m. Other allowances according to rules of the company are:
Dearness allowance: 18% of basic pay (not forming part of the salary), bonus one month's basic pay, project allowance: 6% of basic pay.
The company gives Mrs. X an option either to take a rent free unfurnished accommodation at Bhopal for which the company would directly bear the rent of Rs. 30,000 p.m. or to accept a house rent allowance of Rs. 30,000 p.m. and find out own accommodation. If Mrs. X opts for H.R.A., she will have to pay Rs.30,000 p.m. as rent.
Which one of the two options should be opted by Mrs. X in order to minimize her tax bill? Her income from other sources is Rs. 3,40,000. **12**

Q 5 a) State the tax incentives available to 'Amalgamated Company' in case of amalgamation under Income Tax Act, 1961. **5**

b) Mr. X, a resident Indian, has derived the following incomes for the previous year relevant to the assessment year 2016-17:

- i) Income from profession Rs. 7,00,000
- ii) Income from a business in U.K (tax paid in U.K for this income in equivalent Indian rupees Rs. 32,000) Rs. 1,60,000
- iii) Commission income from concern in U.S. (tax paid in U.S.Aat20%) converted in Indian rupees Rs.1,20,000
- iv) Interest from scheduled banks Rs. 40,000

X wishes to know whether he is eligible to any double taxation relief and if so, its quantum. India does not have any double taxation avoidance agreement with both the countries. **7**

Q 6 a) Mr. X wants to start a retail business. Keeping in view the provisions of *section* 44AF and the following information suggest him whether he should run the business as a sole proprietary concern or a partnership firm:

- i) Estimated sales for the year 2015-16 Rs. 35,00,000.
- ii) Estimated profits u/s 44AF Rs. 1,75,000.
- iii) If he runs the business as a sole proprietary concern, he will pay Rs. 5,000 p.m. as salary to his son.
- iv) If he runs the business as partnerships firm both the partners (X and his son) will receive salary Rs. 5,000 p.m. each.
- v) Capital of the business will be Rs. 2,00,000 but the son does not have any fund. So for capital contribution in the firm he will borrow Rs. 1,00,000 from his father @ 15% p.a.
- vi) The firm will pay interest @ 12% p.a. to the partners. **12**

Q 7 a) Discuss the provisions of the Income Tax Act regarding penalties to be imposed in the following cases:

i) For failure to furnish the return of his total income within the prescribed time

ii) For failure to comply with notice to produce books of account or evidence in support of his return.

iii) For failure to get his accounts audited as directed under section 142(2A).

iv) For concealment of income. **4**

b) What are the provisions of income tax act regarding taxation of non-residents? **8**

Q 8 The Profit and Loss Account of X Ltd., a domestic company, for the year ending 31st March, 2016 is given below:

Profit and Loss Account

Expenses related to goods manufactured	10,00,000	Sale of goods manufactured by the company	16,00,000
Expenses related to sale of other goods	8,20,000	Sale of other goods	14,50,000
Proposed dividend	8,05,000	Long term capital gain	5,70,000
Provision for unascertained liabilities	40,000	Amount withdrawn from general reserve	20,000
General Reserve	60,000		
Income Tax Paid	30,000		
Wealth Tax paid	30,000		
Fringe Benefits Tax	15,000		
Net Profit	8,40,000		
	36,40,000		36,40,000

Other relevant information are as follows:

i) An outstanding liability related to sales tax for 2011-12 paid during 2015-16 Rs.50,000 that was not charged to above P&L A/C.

ii) Brought forward loss as per books of account is Rs.60,000 while the brought forward depreciation as per books of account is Rs. 80,000

iii) Brought forward unabsorbed depreciation is Rs. 4,60,000.

iv) Brought forward loss under the head capital gain Rs. 3,50,000.

Compute the tax liability of X Ltd. for the assessment year 2016-17. **18**

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