

Jagan Institute of Management Studies
End-Term Examination, December, 2016 – January, 2017
Trimester V – PGDM 2015-17

Corporate Tax Planning
ET_PG_CTP_2912

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 management’? **5**
b) What are the companies in which public are substantially interested? **5**
c) What are the provisions of tax for companies in which public are not substantially interested. **6**
- Q 2** a) Discuss the provisions of MAT under section 115JB of Income tax Act, 1961.
b) What are the provisions of Advance ruling from the point of view of tax planning? **12**
- Q 3** A, B and C have decided to set-up a business. For this purpose A, B and C have contributed Rs.12,00,000, Rs. 6,00,000 and Rs. 6,00,000 respectively.
They wish (i) to charge interest on their capital/loan @ 12% p.a., Salary to A Rs. 30,000 p. m. , to B: Rs. 15,000 p. m., and to C Rs.15,000 p.m. and share profits in the ratio 2 : 1 : 1,
or (ii) B and C to receive half the income as salary nominating A as the sole owner of the business.
They expect the income of Rs. 12,00,000 (before charging interest on capital/ loan) during the relevant year.
As an income tax expert you are approached by A, B and C for considered opinion as to whether they should have a firm or a sole proprietary concern of A, while B and C becoming employees and moneylenders to the concern so that they can reduce their tax liability? What is your advice and what arguments would you give in support of your advice? (Note; Assume Assessment year 2016-17) **12**
- Q 4** An asset costing Rs. 10,00,000 is to be acquired. There are two alternatives available to the entrepreneur. First one is buying the asset by taking a loan of Rs. 10,00,000 repayable in five equal installments of Rs. 2,00,000 each along with interest @ 10 % p.a. Assuming that lease

rentals processing fees, 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 Rs. 3,00,000 up to five years. The lessor charges 1 % as processing fees in the first year. Assume the internal rate of return to be 10% and the present value factor at 10% is:

Years	1	2	3	4	5
PV Factor	.909	.826	.751	.683	.621

Suggest which alternative is better in the above case. (Assessment year 2016-17).

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

b) XY Ltd. (an industrial undertaking) wants to amalgamate with PQ Ltd. (an Indian Company) on June 30, 2016. You are required to find out the tax implications in respect of the following losses/allowances of XY Ltd. in the assessment of PQ Ltd. (*i.e.*, amalgamated company).

Unabsorbed depreciation allowance of the previous year 2013-14 : Rs. 86,000; brought forward business loss of the previous year 2013-14 : Rs. 10,00,000. Expected bad debts: Rs. 15,000; brought forward capital loss: Rs. 40,000 of the previous year 2013-14; brought forward speculative loss: Rs. 50,000 of the previous year 2013-14.

XY Ltd. incurred capital expenses Rs. 2,00,000 in 2013-14 for promoting family planning amongst its employees. The company could not claim deduction in respect of such expenses in previous years 2013-14.

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Q 6 Dr. Jain, an individual and citizen of India, earned the following remuneration during the previous year:

Salary from Delhi university for 8 months	Rs. 12,00,000
Salary from a university of USA	Rs. 12,00,000

He went to USA on leave without pay for four months during the previous year. He returned to India on 1-4-2015 and brought with him Rs. 6,00,000 in convertible foreign exchange. The foreign university deducted tax at source Rs. 1,80,000.

Compute double taxation relief and tax payable for assessment year 2016-17.

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Q 7 You are appointed as a manager of a public limited company. The H R department informed you that the total remuneration is Rs. 12, 00,000 p. a. You can frame your salary structure. You are supposed to submit a detailed salary structure in a way that the tax is minimized in your hand and at the same time the company must be able to deduct the same as its expenses out of its income. Draft an imaginary salary structure.

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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 2011-22 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 as per income tax act is Rs. 4,60,000 and brought forward loss is Rs. 2,50,000
- 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.

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