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Name.....................................

Reg. No.................................

THIRD SEMESTER M.B.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, DECEMBER 2016

(CUCSS)

BUS 3EF 02—CORPORATE TAXATION

(2013 Admissions)

Time : Three Hours

Maximum : 36 Weightage

Answer to all the **sections.**

Section A

Answer **all** *the questions.*
Each question carries 1 *weightage.*

1. What is average rate of tax ?
2. What is tax evasion ?
3. What are the components of capital structure ?
4. Define foreign company.
5. What is MAT credit ?
6. What is bonus shares ?

(6 × 1 = 6 weightage)

Section B

Answer any **six** *questions.*
Each question carries 3 *weightage.*

7. Explain the deduction allowed to corporate assessee.
8. Write the implications of avoidance of double taxation agreements.
9. Explain tax planning with reference to inter corporate dividends and transfers.
10. Explain the provisions of maintenance of accounts and compulsory audit under Income Tax Act.
11. X Ltd., is a company engaged in the business of growing, manufacturing and selling of tea. For the accounting year ended 31^{st} March, 2014, its composite business profits, before an adjustment under Section 33 AB of the Income-tax Act, were Rs. 60 lakhs. In the year, it deposited Rs. 25 lakhs with NABARD. The company has a business loss Rs. 10 lakhs brought forward from the previous year. The company withdrew in February, 2014 Rs. 20 lakhs from the deposit account to buy a non-depreciable asset for Rs. 18 lakhs and could not use the balance before the end of the accounting year. The withdrawal and the purchase were under a scheme approved by the Tea Board. The non-depreciable asset was sold in November, 2013 for Rs. 29 lakhs. Indicate clearly the tax consequences of the above transactions and the total income for the relevant years.

Turn over

12. B Ltd. owns a new industrial undertaking, located in industrially backward State. It has been approved 100 % EOU by the Board, constituted by the Central Government. It is engaged in the export of computer software and started functioning from the previous year 2010-2011. During the first three years it earned a profits and claimed deduction under Sec. 10B. During the fourth year it suffered a loss of Rs. 10 lakh. It furnishes the following particulars for the Previous Year 2013-2014 :

		Rs. (Lakh)
(i)	Business profit	... 40
(ii)	Export sales - FOB	... 100
(iii)	Domestic sales	... 50
(iv)	*Receipt of convertible foreign exchange in India :*	
	(a) Receipt upto 30 September 2013	... 70
	(However, foreign exchange of Rs. 10 lakh is on account of sale to a foreign Customer in India and Rs. 5 lakh is on account of reimbursement of freight, Insurance, relating to export, export and expenses incurred in Malaya in Foreign exchange in providing technical services.)	
	(b) Receipt in November 2012 but approved by the competent authority.	... 10
	(c) Receipt in January 2013 but competent authority has not granted its approval	... 10
(v)	Converted foreign exchange kept in Malaya in State Bank of India in a separate account with the approval of RBI	... 10

Compute its total income in the following cases :

(a) It claims deduction under Sec. 10B ;

(b) It revises its option under Sec. 10B (8) and wants not to claim deduction under Sec. 10B. It proposes to claim deduction under Sec. 80 IB.

13. A Ltd., carrying on business in manufacture and sale of textiles, showed a net profit of Rs 10, 50,000 in its Profit and Loss Account for the period ending March 31, 2014. On the basis of the following particulars noted from the company's accounts and ascertained on enquiry, compute, giving reasons, the total income of the company for the assessment year 2014-15. The company maintains books of account on the basis of mercantile system.

(a) The general reserve account shows a credit of Rs. 2,75,000 under the head "Surplus on devaluation". The enquiries show that the company had exported textile to U.S.A. during the year 2005-06. The sale proceeds were placed in a separate bank account in U.S.A. which were utilized for import of cotton from time to time After obtaining permission from the Reserve Bank of India, in January 2012 the company remitted to India a sum of Rs. 2 lakh, being the balance standing to its credit in the said bank account which included the above surplus realized on account of devaluation of the rupee in June 2006. The company claims that the said surplus is not taxable, firstly, on the ground that the said surplus did not relate to the previous year and secondly, the said surplus is not a trading receipt.

(b) The company had imported automatic looms under a special permission granted by the Textile Commissioner under the Cotton Textile (Control) Order, 1948. One of the conditions laid down while granting the permission was that the company should execute a bond in favour of President of India agreeing to export an agreed quantify of cloth and in default pay a sum calculated at the rate of 10 paisa per metre to cover the shortfall. The company fell short of the target during the previous year as a result of which it was required to pay a sum of Rs. 40,000 towards the shortfall. The company has debited the said amount to "General expenses account".

(c) The company has set up a laboratory for conducting research in textile technology. It has incurred a capital expenditure of Rs. 1,00,000 for the said purpose. The amount is shown in the balance sheet us "Laboratory equipment account" but is claimed as deduction in the return of income for the assessment year 2014-15.

(d) The interest account includes payments amounting to Rs. 50,000 on deposits made by non-resident buyers of textile manufactured by the company. The said payments were made outside India without deduction of tax.

(e) The legal charge includes a sum of Rs. 60,000 paid to solicitors for framing a scheme of amalgamation of all other textile mill with the assessee-company. The scheme is approved by the Central Government in public interest.

(f) Travelling expenses include a sum of Rs. 1,25,000 being expenditure incurred by the directors of the company in connection with their tour to USA and UK for the purchase of new machinery for setting up a new plant for manufacture of caustic soda.

(g) Rs. 1,00,000 (debited to profit and loss account) is paid to an approved Notional Laboratory with a specific direction that it shall be used for on approved scientific research programme.

14. Explain the determination of residential status and incidence of tax in case of a corporate assessee.

(6 × 3 = 18 weightage)

Section C

Answer any **two** *questions.*
Each question carries 6 *weightage.*

15. Explain tax planning with reference to specific managerial decisions with suitable examples.

16. Explain tax planning with reference to foreign collaborations and Joint ventures.

17. Z Ltd., a closely-held Indian company, is engaged in the business of manufacture of chemical goods (value of plant and machinery owned by the company is Rs. 55 lakh). The following information's for the financial year 2013-14, are given : Z Ltd. is engaged in the business of manufacture of garments.

Particulars		Rs.
Sale proceeds of goods (domestic sale)	...	25,00,000
Sale proceeds of goods (export sale)	...	7,00,000
Amount withdrawn from general reserve (reserve was created in 2007-08 by debiting Profit and Loss Account)	...	2,00,000
Amount withdrawn from revaluation reserve	...	1,50,000
Total	...	35,50,000
Less : Expenses		
Depreciation (normal)	...	6,16,000
Depreciation (extra depreciation because of revaluation)	...	2,70,000
Salary and wages	...	2,10,000
Wealth tax	...	10,000
Income-tax	...	3,50,000
Outstanding customs duty (not paid as yet)	...	17,500
Proposed dividend	...	60,000
Consultation fees paid to tax expert	...	21,000
Other expenses	...	1,39,000
Net Profit	...	18,56,500
Total		35,50,000

For tax purposes the company wants to claim the following :

— Deduction under Section 80-1B (30 per cent of '14,56,500).

— Depreciation under Section 32 ('5,36,000)

The company wants to set off the following losses/allowances :

		For tax purposes Rs.	*For accounting purposes* Rs.
Brought forward loss of 2008-09	...	14,80,000	4,00,000
Unabsorbed depreciation	...	—	70,000

Compute the net income and tax liability of Z Ltd. for the assessment year 2014-15 assuming that Z Ltd. has a (deemed) long-term capital gain of 60,000 under proviso (i) to Section 54 D ; and (ii) which is not credited in profit and loss account.

(2 × 6 = 12 weightage)