4214 Your Roll No. ....

MBA (FT)

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Paper F-3108— CORPORATE TAXATION
(Admissions of 1998 and onwards)

Time : 3 hours *Maximum Marks* : 70

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt all questions. All questions carry equal marks.
Make suitable assumptions wherever necessary.

Q.1 Should perquisites be preferred over allowances while devising the remuneration structure of employees? Discuss the tax treatment with respect to the following perquisites for the assessment year 2011-12.

a. Rent free furnished house
b. Free domestic servants
c. Free education facility
d. Leave Travel Concession
e. Interest free/ concessional loan
f. Sale of movable assets
g. Motor car
h. Gift
i. Credit card
j. Club
k. Lunch/refreshments
l. Hotel/ guest house accommodation [14]

Q.2 Answer the following:

I. From the information given below, determine the net income of X Ltd. for the assessment year 2011-12. Business of X Ltd. is controlled from outside India. All shareholders are non-resident and foreign citizens. Find out the net income in the following two different situations –

I. Situation A - X Ltd. is an Indian company.

II. Situation B - X Ltd. is a foreign company.

	Rs.
1. Interest of debentures of an Indian company (received in Mauritius)	2,95,000
2. Profits on transfer of unquoted shares in an Indian company (1/3 is received in India and 2/3 are received in Mauritius)	9,00,000
3. Interest on a deposit with an Australian company (1/3 is received in India and 2/3 are received in Mauritius)	6,30,000
4. Interest on German Development Bonds (50% is received in Germany and 50% is received in Mauritius)	2,00,000
5. Dividend from a foreign company (received in Mauritius)	3,80,000

6. Profits on sale of a property situated in UK (10% of profit is received in India and 90% received in Mauritius, amount received in Mauritius is utilized for purchasing gold in India) (value of gold on March 31, 2011 is Rs. 17,00,000)	10,00,000
7. Income earned from business in New Zealand which is controlled from Kolkata (20 per cent is received in Kolkata, 70 per cent is received in New Zealand and 10 per cent is received in Mauritius)	4,00,000
8. Profits from a business in Chennai (but entirely controlled and managed from Mauritius, 70% is received in India and 30 per cent is received in Bhutan)	7,00,000
9. Rent of a commercial property situated in Mauritius (deposited in State Bank of India, Mauritius branch)	6,10,000
10. Royalty received in Mauritius for a patent right made available to a non-resident (the non-resident has utilized patent rights for development of a product in India) (50 per cent royalty is received in India and 50 per cent outside India)	2,80,000
11. Interest received in Mauritius on money lent to Y Ltd., an Indian company (money is lent in UK, Y Ltd. has used borrowed capital for setting up a factory in UK)	19,00,000
12. Fees for technical services rendered from a profession set up in India (the project is completed by technical executives of X Ltd. in Spain, amount is paid in Spain and later on 50 per cent is remitted to India and 50 per cent to Mauritius)	18,00,000

[10]

II. When is advance tax payable under section 211. Discuss the mechanism of depositing advance tax as is applicable under Indian law. [4]

Q.3 Answer the following:

I. X joins AB & Co., a limited liability partnership, as a partner on January 11, 2011. At the time of joining, X gives a plot of commercial land and a plant by way of capital contribution. In respect of these assets, the following information is available–

	Commercial land Rs.	*Plant Rs.*
Amount recorded in books of account of the firm	50,00,000	6,00,000
Fair market value on January 11, 2011	65,00,000	7,00,000
Stamp duty value on January 11, 2011	62,50,000	*NA*
Date of acquisition by X	September 6, 1970	December 10, 2005
Cost of acquisition	2,00,000	10,00,000
Written down value of plant and machinery on April 1, 2010	—	60,000
Fair market value on April 1, 1981	3,00,000	—

To avail exemption under section 54F, X purchases a residential house property on September 30, 2011 for Rs. 30,00,000. However, he has paid stamp duty at the rate of 15 per cent on Rs. 40,00,000. Nothing is deposited in capital gain deposit account scheme. The new house property is transferred by X on April 1, 2012 for Rs. 49,00,000 (purchaser will pay stamp duty on Rs. 56,00,000).

Determine the amount of capital gain chargeable to tax. Annual turnover of AB & Co. is above Rs. 2,00,00,000. [Cost Inflation Index for financial year 2010-2011: 711; Cost Inflation Index for financial year 1981-1982: 100 and Cost Inflation Index for financial year 2005-2006: 497] [7]

II. Explain and illustrate the meaning and difference between tax planning, tax avoidance and tax evasion. [4]

III. XY & Co., a partnership firm, owns a house property which is utilized by partners for their residence. On June 30, 2010, the firm sells the property at a long-term capital gains of Rs. 1,20,000. Can the firm or partners claim exemption under section 54? [3]

Q.4 Profit and loss account of X Ltd. for the year ending March 31, 2011 is given below–

	Rs.		*Rs.*
Office expenses	16,56,000	Gross profit	95,00,000
Salary to employees	28,90,000	Other receipts	3,50,000
Employer's contribution to recognized provident fund	2,10,000		
Interest	9,55,000		
Taxes	11,27,000		
Road construction expenses	90,000		
Entertainment expenditure	1,92,000		
Reserve for bad debts	1,55,000		
Penalty levied by excise department	90,000		
Depreciation	10,80,000		
Miscellaneous expenditure	3,67,000		
Net profit	10,38,000		
	98,50,000		98,50,000

Additional information –

1. Office expenses include payment of Rs. 45,000 to a relative of managing director. Market value of services provided by him is Rs. 48,000. Payment is, however, made by an account payee cheque.

2. Office expenses also include a bogus bill of Rs. 10,000.

3. Salary to employees includes commission of Rs. 70,000 payable on purchases to the employees of purchase department. The payment is, however. made on November 20, 2011. Return of income for the assessment year 2011-12 will be submitted in December 2011.

4. Salary to employees also includes employees' contribution towards recognized provident fund. Contribution for March 2011 of Rs. 40,000 is paid after the due date of making payment under provident fund regulations but before the due date of submission of return of income (*i.e.*, September 30, 2011).

5. Out of the employer's contribution to provident fund, a payment of Rs. 44,000 (pertaining to March 2011) is paid after the due date of making payment under provident fund regulations but before the due date of submission of return of income (*i.e.*, September 30, 2011).

6. Interest includes the following –

a. Rs. 30,000 for late payment of sales tax;

b. Rs. 40,000 for late payment of income-tax;

c. Rs. 10,000 on loan taken to purchase shares in Indian companies;

d. Rs. 15,000 on loan taken to purchase share of foreign companies;

e. Rs. 8,000 on loan taken to pay income-tax.

7. Taxes debited to profit and loss account include income-tax of Rs. 50,000 for the assessment year 2009-10.

8. Entertainment expenditure includes expenditure of Rs. 10,000 for arranging new year party for employees.

*9.*Other receipts credited to profit and loss account include - (*a*) dividend from foreign companies: Rs. 80,000, (*b*) dividend from Indian companies : Rs. 6,000, (*c*) UTI interest : Rs. 14,000, (*d*) sales tax refund (earlier not allowed as deduction) : Rs. 20,000, (*e*) income tax refund : Rs. 24,000 and (*f*) interest of Rs. 11,500 received from Government on refund of income tax.

10. Road construction expenditure is incurred during January 2011 for repairing the road connecting office and canteen in the factory of the company. The entire amount is paid by an account payee cheque to the contractor and tax is deducted at source.

11. Depreciation given in profit and loss account is depreciation of building and machinery. It is calculated as per section 32. However, depreciation on road newly constructed between office and canteen is not included as the entire amount is debited to profit and loss account.

12. X Ltd. gives a contribution of Rs. 11,500 to a political party. But is not debited to profit and loss account.

Determine the net income and tax liability of X Ltd. for the assessment year 2011-12.

[14]

Q.5 Answer the following:

I. Discuss five profit linked tax incentives available to the corporate sector in India. [10]

II. Write a short note on unilateral relief under section 91. [4]