



ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27
M.Com – III SEMESTER
END SEMESTER EXAMINATION, NOV 2020
MCO 9118: DIRECT TAX PLANNING

Register Number:

Date: 17-11-2020

Time: 2 ½ Hours

Max Marks: 70

This paper contains two printed pages and four parts

Section A

Answer any ten of the following

(10 X 2 = 20marks)

1. Enlist a few objectives of tax planning
2. What is the difference between economic double taxation and juridical double taxation?
3. Differentiate allowances and perquisites
4. How double taxation avoidance agreements work?
5. Enlist statutory deductions allowed from salary income of an employee
6. Define arm's length price
7. Discuss the allowability of interest on capital and remuneration paid to members of HUF while calculation business income.
8. Define dividend policy
9. Give the meaning of associated enterprise
10. Diagrammatically represent areas of tax planning
11. Identify the tax benefits in case of leasing over owning an asset
12. What is deemed dividend u/s 2(22)(d)?

Section B

Answer any three of the following

(3 x 5 = 15 marks)

13. A company wants to raise capital of Rs. 40,00,000 for a project wherefrom earnings before tax would be 30% of the capital employed. The company can raise debt finance @ 12% p.a. The following three alternatives for raising capital are available for the company:

- (i) Rs. 40,00,000 by equity capital
- (ii) Rs. 20,00,000 by equity capital and Rs. 20,00,000 by loans
- (iii) Rs. 8,00,000 by equity capital and Rs. 32,00,000 by loans.

Assume that the company would distribute the entire amount of profits as dividend. The tax rate applicable to the company is 30%. (Ignore surcharge and cess). Work out which one of the above three alternatives should the company opt to minimise its tax liability?

14. Roxy Limited purchased an asset for scientific research for Rs. 15,00,000 in the previous year 2012-13. During the previous year 2019-20, the said asset ceased to be used for scientific research. The following information is also submitted to you:

- Profit from business before depreciation 5,00,000
- WDV of BOA as on 01-04-2019 (15%) 10,00,000
- The scientific research asset if used for business shall be eligible for depreciation @ 15%.
- Compute the total income for the assessment year 2020-21, if the scientific research asset is sold for Rs. 28,00,000 assuming:

- a. It is sold without using for business; and
- b. It is sold after using for business.

Assume CII for 2012-13 is 200 and for 2019-20 is 289.

15. What is the purpose of retirement benefits? Summarize various retirements benefits forming part of salary.
16. From the following information determine the Arm's length price and taxable income of S Ltd., Indian subsidiary company of a foreign Company K Ltd.:
- K Ltd. sold 1,000 mobile phones to S Ltd. @ \$ 40 per unit.
 - K Ltd. sold 2,000 mobile phones to other Indian companies @ \$ 50 per unit.
 - Total income of S Ltd. for assessment year 2020-21 is Rs. 15,00,000.
 - Assume the rate of a dollar = Rs. 75.
17. Briefly explain various methods of double taxation relief available under DTAA

Section C

III Answer any two of the following

(2 x 10 = 20 marks)

18. Compare and contrast tax planning, tax avoidance and tax management
19. Discuss tax planning and incentives based on forms of business organisations
20. The written down value of the block of assets as on 01-04-2015 was Rs. 5,00,000. An asset of the same block was acquired on 11-05-2015 for Rs. 3,00,000. There was a fire on 18-09-2015 because of which assets were destroyed and the assessee received a sum of Rs. 11,00,000 from the insurance company. Compute the capital gain assuming: (a) All the assets were destroyed by fire. (b) Part of the block was destroyed by fire. What will be the answer if assessee received Rs. 6,00,000 from insurance company and assume that (a) All the assets were destroyed by fire. (b) Part of the block was destroyed by fire.

Section D

IV Compulsory Question

(1 X 15 = 15 marks)

21. A Ltd. wants to acquire a machine on 1st April, 2018. It will cost Rs. 60 lakh. It is expected to have a useful life of 5 years. Scrap value will be Rs. 10,000. If the machine is purchased through borrowed funds, rate of interest is 11.5% per annum. Loan is repayable at the end of 5 years. If machine is acquired through lease, lease rent would be Rs. 16 lakh per annum. Profit before depreciation and tax is expected to be Rs. 4.50 crore every year. Depreciation is charged @ 15% on written down value (Ignore additional depreciation and investment allowance). Average rate of tax may be taken at 32.445%.

A Ltd. seeks your advice whether it should —

- Acquire the machine through own funds or
- Acquire the machine through borrowed funds or
- Take it on lease.

Present value factor shall be taken @ 10%. At this rate present values of rupee, one is — year 1: 0.9091; year 2: 0.8264; year 3: 0.7513; year 4: 0.6830; and year 5: 0.6209.

MCO 9118_A_20