QP Code: 22/PT/9/XVI (Old)

POST-GRADUATE COURSE

Term End Examination — June, 2022/December, 2022

COMMERCE (Old Syllabus)

Paper-XVI : CORPORATE TAX PLANNING AND MANAGEMENT

(Up to January 2021 Enrolment Session)

Time : 2 hours] [Full Marks : 50

Weightage of Marks : 80%

Special credit will be given for accuracy and relevance in the answer. Marks will be deducted for incorrect spelling, untidy work and illegible handwriting. The weightage for each question has been indicated in the margin.

Use of scientific calculator is strictly prohibited.

Module - I

Answer any *two* of the following questions : $12\frac{1}{2} \times 2 = 25$

1. (a) Define tax planning. How does it differ from tax avoidance ?

   (b) What are the objectives of Corporate Tax planning ?

   (c) State the different methods of tax planning. $4 + 4\frac{1}{2} + 4$

2. (a) Give an outline for tax planning in regard to research and development expenses with special reference to expenditure on scientific research.

   (b) Joyti Ltd. engaged in manufacturing business gives the following particulars for the ended 31.03.2021 :

      (i) Amount of Rs. 3,00,000 contributed to IIT Kharagpur;

      (ii) Amount of Rs. 2,00,000 paid to a company registered in India with the main object of carrying out scientific research and is duly approved by the prescribed authority;

(iii) A sum of Rs. 80,000 paid to National Laboratory for carrying out duly approved programmes of scientific research;

(iv) Expenditure incurred on in-house research and development facility approved by the prescribed authority :

- Revenue expenditure — Rs. 1,60,000 and
- Capital expenditure — Rs. 8,00,000 (including cost of land and building of Rs. 3,80,000).

You are required to compute the deduction allowable under section 35 of the Income Tax Act for the A.Y 2021-22. 8 + 4½

3. (a) State the significance of capital structure decision in the light of Corporate Tax planning.

(b) Sun India Ltd. a domestic company in India, is considering to raise finance of Rs. 20,00,000 for a project investment from which annual earning before tax is estimated at 25% of capital employed. The company has three alternative proposals for raising finance for the project investment :

(i) Proposal *A* : To raise the entire finance of Rs. 20,00,000 by issue of equity shares;

(ii) Proposal *B* : To raise 75% of the finance by issue of equity shares and balance by issue of debt finance at 12% interest p.a.

(iii) Proposal *C* : To raise 20% of the project finance by issue of equity shares and 80% of the project finance by issue of debt finance at 12% interest p.a.

It is the practice of the company to transfer 10% of profit after tax into reserve fund. Assume Corporate Tax rate 30%. Health and Education is as applicable. Ignore Surcharge.

Advise the company as to best financing proposal on the basis of the above. 4 + 8½

4. (a) What are the tax concessions available on amalgamation/ demerger of companies with reference to corporate restructuring ?

(b) Discuss the tax implications of business discontinuance due to corporate failure and contraction. 8½ + 4

Module - II

Answer any *two* of the following questions : $12\frac{1}{2} \times 2 = 25$

5. (a) Discuss the tax planning considerations for 'make or buy' decision.

   (b) Titas Ltd. is planning to manufacture a component for which a new machine costing Rs. 1,30,000 is required (effective life of the machine is 10 years).

   It is reported that material costing Rs. 4 per kg. and labour cost of Rs. 2.50 per hour are required to manufacture the component. The salary of the production manager is Rs. 1,500 per month. Other variable cost of Rs. 25,000 is to be incurred for manufacturing 20,000 units of the component per year. Total material requirement is 20,000 kgs and total labour hours requirement are 50,000 hours for manufacture of 20,000 units of the component. Amount of cost saving on account of depreciation (tax benefit) of the machine is Rs. 30,000 over the life of the machine. The component is available in the market at Rs. 11 per unit.

   Advise the company whether it should make or buy the component on the basis of the above information. $2 + 10\frac{1}{2}$

6. Zigzag Ltd. wants to acquire an asset costing Rs.2,00,000. Two alternative proposals are available :

   (i) To acquire the asset out of own fund;

   (ii) To buy the asset out of borrowed fund.

   For borrowing the asset, interest is payable @ 12% p.a. on the yearly balances left. The borrowed fund is to be repaid by five equal annual amount at the end of each year plus agreed interest obligation. The asset is depreciable @ 12% p.a. under the diminishing balance method with no scrap value at the end of the effective life of the asset of 5 years. Assume the market rate of return at 10% and corporate tax rate at 31% including health and education cess. Ignore surcharge and additional depreciation on new asset.

The present value factors at 10% over the 5 year period are as follows:

Year	Present Value Factors
1	0·909
2	0·826
3	0·751
4	0·683
5	0·621

Should Zigzag Ltd. acquire the asset out of own fund or borrowed fund ? Comment with full workings in support of your answer. 12½

7. Write short notes on the following :

   (a) Appeals to Commissioner (Appeal);

   (b) Best Judgement Assessment;

   (c) Interest for failure to furnish the return of income under section 234A. 4 + 4 + 4½

8. (a) What is advance tax liability ? How is advance tax liability estimated ?

   (b) The following are the computed tax liability including health and education cess, tax deducted or collected at source of different assessees for the *A.Y.* 2020-21 :

	Computed Tax incl. cess (Rs.)	Tax deducted at source (Rs.)
(i) Mr. J. Das	12,800	3,600
(ii) Mrs. P. Sinha	16,500	4,100
(iii) M/s Agarwal & Co. (a firm)	72,100	16,200
(iv) T. S. Ltd.	4,80,000	56,600

   Determine the advance tax liability and the installment of advance tax payable by the different assesses. (3 + 3) + 6½