

POST-GRADUATE COURSE
Term End Examination :
December, 2014 / June, 2015
COMMERCE

Paper-XVI : Corporate Tax Planning and Management

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.

MODULE – I

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

1. "Tax planning is an honest and valid approach in accordance with the provisions of the Act towards reduction of tax liability". Explain the statement considering the objectives of Tax Planning and emphasizing the area of Tax Planning. Also explain, how an effective tax planning contributes in designing a Corporate planning. $8 + 4 \frac{1}{2}$
2. The activity "Scientific Research and Development" carried out by any company is eligible to several benefits under Income Tax Act. Explain four of such significant tax benefits available in respect of Scientific Research and development, along with the conclusions need to be followed to avail such benefits. How the computation of Minimum Alternative Tax (MAT) is influenced by the planning in Research and Development ? $8 + 4 \frac{1}{2}$

3. a) "Tax planning ensures an effective capital structure." Explain the statement with reference to the different aspects that need to be considered while determining any capital structure.
- b) Total capital requirement of a company is estimated at Rs. 80,00,000 and the company is expecting an estimated return on capital employed at 30% on capital employed. Borrowings could be made from Banks where expected rate of borrowing interest would be 12%. Rate of tax is 30% plus 10% surcharge. Advise the management about the best Capital Structure plan taking the following three alternatives :
 - (i) Rs. 80,00,000 to be raised by issuing equity share of Rs. 10 each
 - (ii) Rs. 70,00,000 by issuing shares and balance by taking bank loan.
 - (iii) Rs. 5,00,000 by issuing shares and balance through taking Bank loan. $4 + 8 \frac{1}{2}$
4. Define 'Demerger' and 'Demerged company' as per the provision of the Income Tax Act. Discuss the Tax concession/incentives available in case of Demerger for both to Demerged company and the shareholders of the demerged company. $6 + 6 \frac{1}{2}$

MODULE – II

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

5. a) Discuss how any managerial decision on "Make or Buy" is influenced by Tax Planning.
- b) X Co. Ltd. is proposing to install a machinery at its production plant. The identified machinery would cost Rs. 50,00,000, if purchased. Two alternatives are available to X Co Ltd.
- (i) Buy the machinery by taking a Bank loan for the total amount, which would be repayable in 10 equal instalments with interest of 12% p.a. Repayment of interest and principal is payable towards end of the year.
- (ii) Take the machinery on lease, where annual lease rental is Rs. 6,00,000 for each year. The lessor charges 1% as processing fees in the first year.

Assume the internal rate of return at 10% and the present value factor at 10% is —

Year	P/V Factor
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621
6	And so on.

Advise the management, whether purchase OR lease would be most beneficial. Consider tax rate at 30%.

$$4 + 8 \frac{1}{2}$$

6. Discuss the important factors in respect of tax planning of amalgamation. What are the conclusion to be satisfied for a merger to qualify as an amalgamation for the purpose of the Income Tax Act ? Explain the provisions of Income Tax Act regarding carry forward and set off of accumulated loss and unabsorbed depreciation allowances in case of amalgamation.

$$8 + 4 \frac{1}{2}$$

7. What do you mean by "Foreign Collaboration Agreement" ? How does Tax Planning influence the designing of any Foreign Collaboration Agreement ? Illustrate with suitable examples. What are the significant reasons for industrial sickness ?

$$3 + 5 + 4 \frac{1}{2}$$

8. What is Permanent Account Number (PAN) and where this number should be quoted ? Explain as to whether every person in India need to submit income tax return. Discuss the time limit prescribed under section 153 of the Act regarding the time limit for Completion of Assessment and Re-assessment.

$$3 + 3 + 6 \frac{1}{2}$$