Model Answers

M.Com III Semester

Subject –Corporate Tax Planning and Management

Paper code-AS-2374

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(Note-These models answers are only depiction of important points, in order to secure high marks examinees are require to explain all the points and give proper notes to the practical question. The length of answer may vary as per interpretation and presentation of subject matter.)

No 1. (i) The statement 'Tax avoidance is illegal and punishable' is wrong. Tax avoidance means an attempt to reduce tax liability by taking advantage of loopholes of law, some provision or lack of provisions in the relevant Act .Tax evasion is illegal and punishable while tax avoidance is socially undesirable but not punishable as it follows the law by the word.

(ii) TCS means Tax collected at source. Every seller shall, at the time of debiting the account of buyer by the amount payable by him or at the time of receiving such amount from buyer ,whichever is earlier ,should collect from buyer of goods of nature (as specified in the act) a sum equal to percentage (rate as prescribed) of such amount as income tax.

Examples of specified goods and rate

1) Scrap	1%
2) Tendu leaves	5%

iii) Two deductions available to newly set up business

a) U/S 80 IB –Any undertaking with a business of operating maintaining a hospital located anywhere in India other than excluded area shall eligible to get deduction of 100% of profit or gains for five A.Y.

b) U/S 80ID:-Any hotel business (two, three, four star categories) located in specified area is eligible for deduction 0f 100% of profit or gain for five consecutive A.Y.

iv) The income of the company U/S 44AE for the A.Y-2013-14 will be

For two heavy vehicles:

2*4*5000 = Rs.40, 000

For 1 other vehicle:

1*4*4500=RS.18, 000

Total income=Rs.58000

Note- As per Sec 44AE profit and gains from each heavy vehicle shall be Rs.5000 and for other vehicle Rs.4500 per month and part of month.

v) Deemed income in case of shipping company u/s 115VA to 115VZC

Tonnage of qualifying ship	Amount of daily tonnage income
Up to 1000 ton	Rs.70 for each 100 ton
exceeding 1000 but not more than 10000	Rs.700+ Rs.53 for each 100 ton exceeds 1000 ton
exceeding 10000 but not more than 10000	Rs.5470+ Rs.42 for each 100 ton exceeds 10000 ton
Exceeds 25000	Rs.11770+ Rs.29 for each 100 ton exceeds 25000 ton

vi) Interim Dividend

Dividend means distribution of company's profit among the shareholders, generally company pays dividend after preparation of final financial statement. But when company pay dividend before AGM and final financial statement it is called interim dividend. Here dividend payment is made before a company's AGM & final financial statement. A company can pay interim dividend only if the AOA permits and by the amount as specified by BOD.

Vii) Tax provisions for tea industry:

60% of the income from sale of tea grown and manufactured by the seller in India is deemed to be agricultural income and 40% is taken as business income

Tax provisions for coffee industry:

75% of the income from sale of coffee grown, cured by seller India is deemed to be agricultural income and 40% is taken as business income.

60% of the income from sale of coffee grown, cured, roasted and grounded with or without mixing of choicory or other flavoring ingredients is deemed to be agricultural income and 40% is taken as business income

Viii) Rules for residential status of a company:

A company is said to be resident in India in any previous year if,

(a) It is an Indian company

(b) During the previous year, the control and management of its affairs is situated wholly in India

Ix) Two Tax planning in relation to dividend income

(a) A domestic company may issue bonus shares to its equity share holder in lieu of dividend in cash to avoid dividend distribution tax U/S 115-O

(b) In case of closely held company Deemed dividend is not exempted U/S 10(34). So shareholder should not take loan from such company or should reduce the shareholding before taking loan.

X) Four examples of excluded area U/S-80IB

Arunachal Pradesh

Goa

Assam

Pondicherry

No.2. In this the examinees are required write the meaning of tax planning, tax evasion and tax avoidance along with two examples of each along with two features of each. Also they need to explain which one is legal and socially desirable and which one is illegal, like as follows:

Tax planning is essential and socially desirable. It legally takes benefit of all deductions, exemptions etc. Tax evasion is illegal and punishable, but tax avoidance is not punishable.

No.3. In this answer students have to write the meaning and applicability of MAT. Then they have given the format for computation of Book profit. Examinees are also required to take a small example i.e. Net Profit for a company and few items which have been debited and credited. Then make all adjustments which are required to net profit to convert it into book profit. After this they have to write the provisions of tax credit in case MAT and calculate the Tax credit to be carried forward either in previous example or in new example.

No.4. No, because tax liability is depend upon various conditions which are applicable for the concern. It cannot be said Firm always better from tax point of view. In the following case we can see Company is more economical in tax point of view as compared to Firm.

Example
Mr X and Y want to start a business.
They have the following details

Estimated total income of company	2500000
Book Profit	4000000
Income of firm after deducting Rs.3200000 U/S 10AA	2800000
in this case if they will form Company then tax will be	
tax liability of company	
Tax on total income Rs.2500000@30%	750000
Add:EC@3%	22500
	(A) 772500
Tax on Book profit Rs.4000000@18.5%	740000
Add:EC@3%	22200
	(B) 762200
Tax payable is higher of A or B	772500
Tax on Dividend distribution @16.995% on Rs.2500000-772500=1727500, Rs.1727500*16.995/116.995=250941	
total tax liability	772500+250941=1023441
Tax liability of firm	
Tax on total incomeRs.2800000@30%	840000
Add:EC@3%	25200
	(A)865200
Total income	2800000
Add:ded u/s10AA	3200000
Adjusted total income	6000000
Tax @18.5%	1110000

Add:EC@3%		33300
		(B)1143300
Tax Payable A OR B whichever is higher		1143300

Conclusion: In this case Mr X and Y should form a company as tax liability is less

No.5. Computation of Tax payable and tax credit to be carried forward

Computation of book profit:

Net Profit as per P&L A/c		40,00,000
Add: Provision for Income tax	5,50,000	
Dividend distribution tax	50000	
Dividend declared	2,00,000	
Depreciation	3,50,000	11,50,000
		51,50,000
Less: Transfer from special reserve	3,00,000	
Agricultural income(exempt)	5,00,000	
Depreciation(Rs.3,50,000-2,00,000)	1,50,000	9,50,000
		42,00,000
Less: B/F business loss or depreciation		
whichever less		7,00,000
Book profit		35,00,000

Computation of Tax payable

(a) Tax on book profit Rs.35,00,000 @18.5%	647500
Add: Education cess @3%	19425
	666925

(b) Tax on total income Rs.30,00,000@30.9%	927000
Tax Payable is higher of (a) and (b)	927000

Tax credit is nil as MAT is less than the actual tax payable.

*proper note is required.

No.6

Computation of tax liability of firm and partners

(i) when firm pays interest and remuneration to partners:

Profit of the business			400000
add: remuneration to partners			500000
	book profit		900000
less: remuneration to partners:			
90% of Rs.300000	270000		
60% of Rs.600000	360000		
	630000		
	or remuneration	Rs.500000	
	whichever is less		500000
	Gross total income		400000
less: deduction @100% of Rs.400000 u/s 80IB			400000
	Total income		nil
	Tax	(a)	nil
	computation of AMT		
	firm has claimed deduction u/s 80IB		
Total income			nil
add: deduction u/s 80IB			400000
Adjusted total income			400000
tax on adjusted total income @18.5%			74000
add:ec@3%			2220
Tax		(b)	76220
tax payable (a) or (b) whichever is more Rs.76220			
Income of partners:		A	B
interest		80000	100000
remuneration		26000	240000

		0 34000	
	Business income	0	340000
Tax including EC		12360	12360

Total tax liabilities of firm and partners= 76220+12360+12360=100940

(ii) when firm does not pay interest and remunerations to partners

Business income(400000+80000+100000+260000+240000)= 1080000

less: deduction u/c 80IB		1080000
Total income		nil
tax liability of firm	c	nil

Computation of AMT

Total income		nil
add: deduction u/s 80IB		1080000
Adjusted total income		1080000
tax on adjusted total income @18.5%		199800
add: EC @3%		5994
Tax payable c or d whichever is more Rs.205794	(d)	205794
Tax liability of A and B		nil

Conclusion: The Company should pay interest and remuneration as tax liability will be less.

No.7. (a) Total Advance tax for the year is Rs.5800000 .By 15th December the company has to pay up to 75% of the advance tax i.e. Rs.5800000*75/100=4350000

By 15 Sep X ltd has already paid Rs.2700000, so by 15 Dec Company has to pay Rs.4350000-270000=Rs.1650000

Note- Examinees are required to mention the provisions of advance tax for a company and also give proper note to the answer.

(b) Profit of the unit is Rs.3500000 being 20% of the turnover so

Turnover will be 3500000*100/20=Rs.17500000

Deduction u/s 10AA for A.Y.2013-14 shall be profit of the business unit in SEZ*Export sales of the unit/total sales

=3500000*12500000/17500000 =Rs.2500000

Note- Examinees are required to mention the provisions and also give proper note to the answer.

No.8 (a) Here tax payable by the company will nil as the company will get a deduction of 100% of the profit. In this answer students are required to briefly explain the provision for taxation and deduction.

(b) Here the sum paid for the advertisement is exceeding Rs.30000 so Tax shall be deducted at source @ 2 %(as the assessee is a company)

TDS=Rs.66000*2/100=Rs.1330

Yes the company can avoid paying TDS if it would have make payment separately for different advertisement. Then the aggregate amount will not exceed Rs.75000, so company need not to pay any TDS. (Sec.194C)

Note- in this students are required to explain the provisions of TDS u/s 194C and give proper note.