

2008**M B A****4th Semester Examination****CORPORATE TAXATION****PAPER—F401 & M405***Full Marks : 100**Time : 3 Hours**The figures in the right-hand margin indicate full marks.**Candidates are required to give their answers in their own words as far as practicable.**Illustrate the answers wherever necessary.***Write the answers to Questions of each Half in separate books****(First Half)****(Markas : 50)***Answer all questions.*

1. Answer any four questions : 5×4
- (a) Discuss the cases where previous year is the same as assessment year.
- (b) Total income computed in accordance with the provisions of IT Act and Book Profit of RNRL Ltd, a domestic company for the AY 2007-08 and 2008-09 are given below :

Assessment Year	Total Income	Book Profit
2007-08	3,70,400	24,10,900
2008-09	(-)2,68,640	7,14,600

You are required to calculate the tax liability for the AY 2008-09.

(c) State the exemption of Service Tax u/s 95 of the Finance Act, 1994.

(d) Matrix Ltd gives you the following information for the quarter April 07 to June 07

Particulars	April	May	June
Input Tax credit brought forward from March 07	6,000	—	—
Output Tax	24,000	39,000	67,000
Input Tax	20,000	33,000	46,000
VAT at Source	1,600	7,900	10,000

You are required to calculate the VAT payable for the quarter April 07 to June 07.

(e) What are the provision of quantum and mode of availing CENVAT Credit as per CENVAT Credit Rules, 2002 and what is the time limit for taking CENVAT Credit ?

(f) State in brief the features of "Special Economic Zone" with reference to the Customs Act, 1962.

2. Answer any *two* of the following : 2×10

(a) HFCL Ltd. gives you the following information for the month of January 2008

09.01.08 : A bill of Rs. 5,00,000 debited to B Ltd. along with Service Tax @ 12.36%

16.01.08 : A bill of Rs. 33,000 excluding Service Tax @ 12.36% raised and realized on the same day from Z Ltd.

19.01.08 : Telephone bill of Rs. 6,000 with Service Tax Rs. 742 paid by cheque.

21.01.08 : Amount realized from Mr. B Rs. 5,49,070 after deduction of TDS @ 2.244% on Gross bill amount.

- 22.01.08 : A bill towards a works contract job in Delhi in favour of J P Morgan Ltd. raised in the following manner
- | | |
|----------------------------|--------------|
| Value of Works Contract | Rs. 5,50,000 |
| Add : Service Tax @ 12.36% | |
| (Service Content 33%) | Rs. 22,433 |
| Net Bill Amount | Rs. 5,72,433 |
- 23.01.08 : Amount paid to input service provider, M/S D P Sarkar & Co. Rs. 21,000 including Service Tax @ 12.36%
- 30.01.08 : Amount realised from J P Ltd. in the following manner
- | | |
|---------------------|--------------|
| Bill Certified | Rs. 5,42,395 |
| Less TDS @ 2.244% | Rs. 12,171 |
| Net Amount Realised | Rs. 5,30,224 |

You are required to calculate the amount of Service Tax payable for the month of Jan 08. 10

- (b) An importer imported some goods for subsequent sale in India at \$ 12,000 on CIF basis. Relevant exchange rate as notified by Central Government and RBI was Rs. 45 and Rs. 45.50 respectively. The item imported attracts basic Excise Duty at 12.5% and Education Cess of 3%. If similar goods were manufactured in India, Excise Duty payable as per Tariff is 16% plus Education Cess of 3%. Special CVD is payable at applicable rates.

Arrive at the Assessable value and the total duty payable thereon. State eligibility of CENVAT Credit to buyer. 10

- (c) When is a dealer entitled to pay VAT at the compound rate? Discuss the provisions of the West Bengal VAT Act regarding payment of Tax on MRP. 3+7

[Internal Assessment : 10 Marks]

(Second Half)

(Marks : 50)

3. Answer any *four* of the following : 4×5

- (a) "Tax avoidance is illegal" — Do you agree ?
- (b) State the factors needed to be considered for a successful tax planning.

(c) T R Ltd. furnished the following information :

A Dr of Plant & Machinery on 01.04.05 Rs. 5,00,000.
A machine purchased during 2000–2001 for Rs. 2,00,000 for the purchase of scientific research and tax benefit was enjoyed in the relevant assessment year. During 2005–2006, the management faced with two alternative proposals :

- (i) Sell the machine used for scientific research during 2006–2007 after using the same for business purpose during 2005–2006.
- (ii) Sell the machine during 2006–2007 with out using the same for business purpose.

In the both above cases, the sale value of machine will be Rs. 6,00,000. Rate of depreciation is 15%.

As a Tax Consultant you are requested to advice the company about the best alternative (Workings should form part of your advice)

[Cost inflation index for 2000–2001 : 406; 2006–2007 : 519].

(d) HL Ltd. is paying dividend to its preference and equity shareholders for the last five years. During the previous year 2006–07, the Board has two alternatives :

Alternative 1 : Pay dividend to both preference and equity shareholders.

Alternative 2 : Issue bonus shares to both preference and equity shareholders.

Which alternative would you suggest to HL Ltd. ?

- (e) NE Ltd. decides to start a new business. The company is currently operating in the state of Maharashtra. However, the company is willing to start the new business in any state of India. You are requested to advise the company (preferably in comparative form) in choosing the state of its operation in order to enjoy maximum tax benefits under Income Tax Act.
- (f) FF Ltd., a resident Indian Company is doing business in India and Algeria. The Government of India does not have double taxation avoidance agreement with Algeria. Income from business in Algeria Rs. 60,000. (FF Ltd. paid tax Rs. 12,000 in Algeria) and income from business in India Rs. 1,50,000. Rate of Corporate tax in India is 33.66%.
You are required to compute any double taxation relief which is available to FF Ltd. under IT Act.

4. Answer any *two* of the following : 2×10

- (a) Milkyway Ltd. is currently considering expansion of its production facilities which requires an investment of Rs. 10,00,000. The following alternatives are available :

	Alternatives		
	A ₁	A ₂	A ₃
Share Capital (Rs. 10 each)	10,00,000	5,00,000	3,00,000
12% Debentures	—	4,00,000	3,00,000
Loan from ICICI Bank @ 15%	—	1,00,000	4,00,000

- (i) Expected rate of return (before tax) is 20%.
 (ii) Rate of tax 33.66%.
 (iii) Rate of dividend tax 14.025%.

Which alternative is the best for the company? Show detailed workings.

- (b) Sunshine Ltd. furnished the following information :
- (i) Cost of machine Rs. 1,00,000;
 - (ii) Salvage value at the end of 5th year Rs. 10,000;
 - (iii) Rate of Tax 33.66%;
 - (iv) Rate of depreciation (Income tax) 15%;
 - (v) Annual lease rent Rs. 35,000 for 5 years;
 - (vi) Cost of Capital 14%.

You are asked to decide which one is the better alternatives - lease or buy? You can assume that there are no assets in the block.

[Present Value of Re.1 discounted @ 14% :
Year 1 - 0.877; Year 2 - 0.769; Year 3 - 0.675; Year 4 - 0.592; Year 5 - 0.519]

- (c) MA Ltd. and NI Ltd. agreed to amalgamate and form MANI Ltd. fulfilling the conditions u/s 2(1B) of the Income Tax Act. The companies want to know about the tax implications / benefits of the amalgamation required to be considered for tax planning. They have approached you to make a report to the management of both the companies. You are asked to prepare the report for the above. (Make suitable assumptions).

[Internal Assessment : 10 Marks]
