

Register Number:

Date:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**M.Com – IV SEMESTER**

**SEMESTER EXAMINATION: April 2022**

**(Examination conducted in July-August 2022)**

**MCO DEA 0320: Direct Tax Planning**

**Time: 2 ½ Hours Max Marks: 70**

**This paper contains two printed pages and four parts**

**Section A**

**I Answer any ten of the following (10 X 2 = 20 marks)**

1. What are the consequences of tax evasion?
2. Differentiate economic double taxation and juridical double taxation
3. Enlist the deductions available to a salaried employee under section 16
4. Define tax management
5. Define arm's length price
6. Which is more beneficial purchasing the asset on instalment or hire purchase?
7. Give the meaning of associated enterprise
8. Give the areas of tax planning with reference to financial management decisions
9. Identify the tax benefits in case of leasing over owning an asset
10. Who is a specified employee?
11. How double taxation avoidance agreements work?
12. Differentiate allowances and perquisites

**Section B**

**Answer any three of the following (3 x 5 = 15 marks)**

1. 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. 20,000,000 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 and dividend. The tax rate is 30% and dividend distribution tax rate is 20%. (Ignore surcharge and cess). Work out which one of the above three alternatives should the company opt to minimise its tax liability?

1. Roxy Limited purchased an asset for scientific research for Rs. 15,00,000 in the previous year 2013-14. During the previous year 2020-21, 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 01-04-2020 (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 2021-22, if the scientific research asset is sold for Rs. 28,00,000 assuming:
  1. It is sold without using for business; and
  2. It is sold after using for business.

Assume CII for 2013-14 is 220 and for 2020-21 is 301.

1. Briefly explain various tax-free and taxable perquisites as part of employee remuneration.
2. Megabyte Inc. of France and R Ltd. of India are associated enterprises. R Ltd. imports 3,000 compressors for Air Conditioners from Megabyte Inc. at Rs. 7,500 per unit and these are sold to Pleasure Cooling Solutions Ltd at a price of Rs. 11,000 per unit. R Ltd. had also imported similar products from Cold Inc. Poland and sold outside at a Gross Profit of 20% on Sales. Megabyte Inc. offered a quantity discount of Rs. 1,500 per unit. Cold Inc. could offer only Rs. 500 per unit as Quantity Discount. The freight and customs duty paid for imports from Cold Inc. Poland had cost R Ltd. Rs. 1,200 per piece. In respect of purchase from Cold Inc., R Ltd. had to pay Rs. 200 only as freight charges. Determine the Arm’s Length Price and the amount of increase in Total Income of R Ltd.
3. 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)**

1. The written down value of the block of assets on 01-04-2020 was Rs. 5,00,000. An asset of the same block was acquired on 11-05-2020 for Rs. 3,00,000. There was a fire on 18-09-2020 and 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.
2. Mr. Xavier has received offers from companies of Chennai for service as under:

|  |  |  |
| --- | --- | --- |
| Particulars | OFFER A | OFFER B |
| Basic salary | 9,00,000 | 6,52,000 |
| Transport allowance |  | 48,000 |
| Contribution to approved superannuation fund by employer |  | 1,70,000 |
| Mobile phone |  | 30,000 |
| Total | 9,00,000 | 9,00,000 |

Additional information:

1. His qualifying savings under section 80C will be Rs. 1,20,000.
2. He spends Rs.60,000 for travelling to office.
3. He needs a mobile phone for private purposes.
4. He is staying in his own house.

Which offer should he accept and why?

1. Compare and contrast tax planning, tax avoidance and tax management.

**Section D**

**IV** **Compulsory Question (1 X 15 = 15 marks)**

1. 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. Besides, additional depreciation is available in the first year. Investment allowance is, however, not available. Average rate of tax may be taken at 32.445%. Advise whether A Ltd. Should-

(i) Acquire the machine through own funds or borrowed funds; or

(ii) 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.

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