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

**M.Com – IV SEMESTER**

**SEMESTER EXAMINATION: MAY 2023**

**MCODEA0320: DIRECT TAX PLANNING**

**Time: 2 ½ Hours Max Marks: 70**

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

**Section A**

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

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

**Section B**

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

1. Dexter Labs Limited purchased an asset for scientific research for Rs. 15,00,000 in the year 2016-17.During the previous year 2021-22, 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 01-04-2021 (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 2016-17 is 264 and for 2021-22 is 317.

1. 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.
2. 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. 20,00,000 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. Compare and contrast the old and new regime of taxation applicable to individuals
2. Briefly explain various methods of double taxation relief available under DTAA

**Section C**

 **Answer any two of the following** (**2 x 10 = 20 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%.

A Ltd. seeks your advice whether it 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.

1. The written down value of the block of assets as on 01-04-2015 was Rs. 5,00,000. An asset of the same block was acquired on 11-05-2015 for Rs. 3,00,000. There was a fire on 18-09-2015 because of which 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. Compare and contrast tax planning, tax avoidance and tax management

**Section D**

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

1. Kiran is just out of MBA college and got the following offer through campus placement:

Basic salary Rs 3,00,000

Special allowance Rs 1,00,000

HRA Rs 80,000

Medical insurance Rs 5,000

PF (12% of basic) Rs 36,000

Performance bonus Rs 75,000

Total CTC Rs 5,96,000

 Show how the salary slip will look like and also suggest to him as to how he can minimise his tax liability for the A.Y.2022-23.