



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

**M.Com – III SEMESTER
END SEMESTER EXAMINATION, NOV 2019
MCO 9118: DIRECT TAX PLANNING**

Register Number:

Date:

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 = 20marks)

1. A sold a machine to B (Associated enterprise) and in turn B sold the same machinery to C (an independent party) at sale margin of 30% for Rs. 2,10,000 but without making any additional expenses and change. Calculate arm's length price.
2. What is tax management?
3. Identify the tax benefits in case of leasing over owning an asset
4. Mention the steps for calculating taxable gratuity
5. Expand (1) DTAA (2) NPS
6. Diagrammatically represent areas of tax planning
7. What are the methods of double taxation relief?
8. Give the meaning of dividend policy
9. Differentiate tax planning and tax evasion
10. From view point of tax which is a better form of organisation (a) Sole proprietor or (b) Partnership
11. What is the difference between provident fund and pension?
12. What is black money?

Section B

Answer any three of the following

(3 x 5 = 15 marks)

13. A domestic company possesses huge accumulated reserves. It wants to distribute dividends of Rs. 100 crores to its equity. For this purpose, it may issue 3-year 10% redeemable preference shares or 3 year 10% redeemable debentures. Keeping in view the following information suggest to the company whether it should issue bonus shares or bonus debentures so that the tax liability of the company and its shareholders is reduced: Assume Rate of tax on income of company and shareholder is 30% and Dividend Distribution Tax is 15%. Ignore cess and surcharge.
14. Roxy Limited purchased an asset for scientific research for Rs. 15,00,000 in the previous year 2008-09. During the previous year 2015-16, the said asset ceased to be used for scientific research. The following information is also submitted to you:
 - Profit from business before depreciation Rs. 5,00,000
 - WDV of BOA as on 01-04-2015 (15%) Rs. 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 2016-17, if the scientific research asset is sold for Rs. 28,00,000 assuming:
 - a. It is sold without using for business; and
 - b. It is sold after using for business.Assume CII for 2008-09 is 582 and for 2015-16 is 1081.
15. State with reason whether following transaction are an act of (i) Tax evasion (ii) Tax avoidance (iii) Tax management.
 - a) A Ltd. maintains a register for tax deducted at source for timely compliance
 - b) Rakesh deposit Rs. 7000/- in P.P.F. account to avail deduction v/s 80C

- c) R. Ltd. purchases an expensive car for the use of the son of a director which is shown as business assets.
- d) A transfer some debenture to his friend without any consideration to save tax on interest.
- e) X Ltd. deducts at source tax from the payments but does not deposit the same in the government treasury.

16. Mr. Ramesh, a resident Indian, has derived the following incomes for the previous year relevant to the A.Y. 2019-20:

- a. Income from profession in India Rs. 2,44,000
- b. Income from profession in country A (Tax paid in foreign country @ 5%) Rs. 4,50,000.

Compute Indian tax liability of the assessee assuming that as per treaty between India and Country A, Rs. 4,50,000 is taxable in India. However foreign tax can be set off against Indian tax liability.

17. Brain Inc. London has 35% equity in Salem Ltd. The company Salem Ltd. is engaged in development of software and maintenance of customers across the globe, which includes Brain Inc. During the year 2017-18, Salem Ltd. spent 2000-man hours for developing and maintaining a software for Brain Inc. and billed at Rs. 1,000 per hour. The cost incurred for executing maintenance work to Brain Inc. for Salem Ltd. amountto Rs. 15,00,000. Similar such work was done for unrelated party Try Ltd. in which the profit was at 50%. Brain Inc. gives technical support to Salem Ltd. which can be valued at 8% of gross profit. There is no such functional relationship with try Ltd. Salem Ltd. gives credit period of 90 days the cost of which is 3% of the normal billing rate which is not given to other parties. Compute arm's length price under cost plus method in the hands of Salem Ltd. and the impact of the same on the total income.

Section C

III Answer any two of the following

(2 x 10 = 20 marks)

18. Y Ltd. wants to raise Rs. 2,00,000 which is required to meet the expansion of the business. It has three options I-issue of share capital only II-Rs. 1,60,000 though issue of share capital on Rs. 40,000 loan from bank at 10% interest III-Rs. 40,000 by issue of share capital and Rs. 160000 through loan from bank 10% interest. You are required to advise the management regarding the best option in following cases. Case I-Rate of Returns 25% Case II. Rate of Return - 10%, Case III - Rate of return-8% and Rate of tax 30%. Ignore cess and surcharge.

19. From the following information determine whether the assessee should purchase the machine by instalment or hire it.

- Cost five annual instalments of Rs. 2,00,000 each payable in the beginning of each year.
- Hire charges Rs. 1,50,000 p.a. for eight years payable in the beginning of each year.
- Residual value Rs. 50,000 after eighth year.
- Rate of depreciation 15%
- Rate of tax 30%
- The present value factors @ 10%is as under.

Years:	1	2	3	4	5
PV Factor:	0.909	0.826	0.751	0.683	0.621

20. 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.

Section D

IV Compulsory Question

(1 X 15 = 15 marks)

21. Naresh, who is neither a director nor he has substantial interest in any company, is offered an employment by Freewheel Ltd., Mumbai with the following two alternatives:

Particulars	Option 1	Option 2
Basic pay	66,000	66,000
Bonus	9,000	9,000
Education allowance for 2 children	30,200	-
Education facility for 2 children in school maintained by employer	-	30,200
Sweeper allowance	10,000	-
Sweeper facility	-	10,000
Entertainment allowance	6,000	-
Club facility	-	6,000
Transport allowance for personal use	1,800 pm	-
Free car (1200 cc) facility for performing journey between office to home and vice versa (car owned by employer)	-	12,000
Medical allowance	18,000	-
Medical bills reimbursement facility	-	18,000
Allowance for gas, electricity and water supply	4,500	-
Free gas, electricity and water supply (bills will be in the name of the employer)	-	4,500
Holiday home allowance	8,000	-
Holiday home facility	-	8,000
Lunch allowance	18,000	-
Free lunch (Rs. 70 x 200 days + Rs. 80 x 50 days)	-	18,000
Diwali gift allowance	7,500	-
Gift on Diwali	-	7,500
A rent-free unfurnished home – lease rent	14,000	14,000

Which of the two alternatives Naresh should opt for on the assumption that both employer and employee will contribute 10% of salary towards unrecognized provident fund? Interest free loan of Rs. 20,000 will be given to him for purchasing household items.