



PJ – 534

III Semester M.Com. Degree Examination, January 2019

(CBCS)

COMMERCE

Paper – 3.5 (AT) : Direct Taxes and Planning

Time : 3 Hours

Max. Marks : 70

**Instruction :** Answer all Sections.

SECTION – A

1. Answer any seven of the following. Each question carries two marks : (7×2=14)

- a) Define Domestic Company.
- b) Distinguish between Tax Planning and Tax Evasion.
- c) State the provisions of Residential Status of the Company.
- d) ABC (P) Ltd. made a provision of 30 lacs for doubtful debts by debiting to profit and loss account. The Assessing Officer, while computing book profit under Section 115JB, wants to add back the provision. Is the Assessing Officer justified in making such addition for computing book profit ? Just answer in 2 sentences.
- e) What is Advance Tax Ruling ?
- f) What do you mean by Arm's Length Price under Transfer Pricing ?
- g) Mention the due date for TDS payment and TDS return filing.
- h) Give conditions for claiming additional depreciation under Income Tax.
- i) Provide tax rate (Basic tax rate, Surcharge and Cess) applicable to domestic and foreign companies for the AY 2018-19.
- j) Provide Appellate Authorities under Income tax Law in proper order.

SECTION – B

Answer any four of the following. Each question carries five marks : (4×5=20)

2. Write a short note on Structure or basic frame work of direct taxes.
3. Write a short note on sec. 1941 (TDS on rent) and 194 A (TDS on Interest other than securities) of Income Tax Act of 1961.

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4. X Ltd., a pharmaceutical company having accumulated losses and unabsorbed depreciation to be set off in future for Rs. 130 lacs and Rs. 250 lacs as on 31-03-2017 was demerged on 16-5-2017 and 30% of its total assets were transferred to resulting company, XY Ltd., How accumulated losses and unabsorbed depreciation of the demerged company shall be dealt with in the return for the Assessment Year 2018-19 of the resulting company.
- When the same are not directly related to undertakings transferred.
  - When the same are directly related to the undertakings transferred.
5. G. V. Ltd., has furnished the following particulars relating to payments made towards scientific research for the year ended 31-3-2018. Calculate the amount of deduction allowable under Section 35 of IT Act of 1961 :
- | Particulars  | (in Crores) |
|--|-------------|
| • Payments made to Chanakya Research Ltd.  | 20          |
| • Payment made to G. M. College for social research                                  | 15          |
| • Payment made to Mean Median Mode College for Statistical research (M Qube College) | 10          |
| • Payment made to National Laboratory  | 8           |
| • Machinery purchased for in-house scientific research                               | 25          |
| • Salaries to research staff engaged in in-house scientific research                 | 12          |
6. X Ltd. set up a manufacturing unit in Warangal in the state of Telangana on 1-06-2017. It invested Rs. 30 Crore in new plant and machinery on 1-6-2017. Further, it invested Rs. 25 Crore in the plant and machinery on 01-11-2017, out of which 5 crore was second hand plant and machinery. Compute the depreciation allowable under Section 32. Is X Ltd. entitled for any other benefit in respect of such investment ? If So, what is the benefit available ?
7. What are the condition to get the deduction under Sec. 37 ? Can amount paid to Doctor as referring fee be allowed as deduction for pharmacy and diagnostic company under Sec. 37. Examine.

#### SECTION – C

Answer **any three** of the following. **Each** question carries **twelve** marks : **(3×12=36)**

8. Specify with reason, whether the following acts can be considered as :
- Tax planning : or
  - Tax management : or
  - Tax evasion.
- Mr. P deposits 1,00,000 in PPF Account so as to reduce his total income from Rs. 3,40,000 to Rs. 2,40,000.



- ii) SQL Ltd., maintains register of tax deduction at source effected by it to enable timely compliance.
  - iii) An individual tax payer making tax saver deposit of Rs. 1,00,000 in a nationalized bank.
  - iv) A partnership firm obtaining declaration from lenders/depositors in Form No. 15G/15H and forwarding the same to income-tax authorities.
  - v) A company installed an air-conditioner costing Rs. 75,000 at the residence of a director as per terms of his appointment but treats it as fitted in quality control section in the factors. This is with the objective to treat it as plant to the purpose of computing depreciation.
  - vi) RR Ltd. issued a credit note for Rs. 80,000 as brokerage payable to Mr. Ramana who is the son of the managing director of the company. The purpose is to increase the total income of Mr. Ramana from Rs. 4,00,000 to Rs. 4,80,000 and reduce the income of RR Ltd., correspondingly.
  - vii) A company remitted provident fund contribution of both its own contribution and employees' contribution on monthly basis before due date.
9. The net profit as per the Profit and Loss Account of XYZ Ltd., a resident company, for the year ended 31-3-2017 is 190 lacs arrived at after making the following adjustments.

| Particulars                                   | (in lacs) |
|---|-----------|
| i) Depreciation on assets                     | 100       |
| ii) Reserve for currency exchange fluctuation | 50        |
| iii) Provision for tax                        | 40        |
| iv) Proposed dividend                         | 120       |

Following further information are also provided by company

- a) Net profit includes 10 lacs, being dividend received from an Indian subsidiary company.
- b) Provision for tax includes 16 lacs of tax payable on distribution of profit and of 2 lacs of interest payable on Income-Tax.
- c) Depreciation includes 40 lacs towards revaluation of assets.
- d) Amount of 50 lacs credited to P and L account was drawn from revaluation reserve.
- e) Balance of profit and Loss Account shown in balance sheet at the asset side as at 31.3.2016 was 30 lacs which includes unabsorbed depreciation of 10 lacs.

Compute the income of the company for the year ended 31-3-2018 liable to tax under MAT.



10. M/s Chatrapathi Shivaji Ltd. a manufacturing company provided the following details of the assets as on 01-04-2017. Calculate depreciation allowable under IT Act, 1961.

| Particulars                                     | WDV on<br>1-4-2017 | Additions<br>More than<br>180 days | Additions<br>less than<br>180 days | Scrap<br>value | Rate of<br>Depreciation |
|---|--------------------|------------------------------------|------------------------------------|----------------|-------------------------|
| Plant and Machinery                             | 42,20,000          | 6,90,000                           | –                                  | 2,10,000       | 15%                     |
| Aircraft  | 34,50,000          | 5,00,000                           | –                                  | –              | 40%                     |
| Motor Buses and<br>Lorries (used for<br>hiring) | 6,40,000           | –                                  | 2,80,000                           | 4,15,000       | 30%                     |
| Imported cars                                   | –                  | –                                  | 3,60,000                           | –              | 15%                     |
| Patent Rights                                   | –                  | 8,00,000                           | –                                  | –              | 25%                     |
| Technical know how                              | –                  | 6,00,000                           | –                                  | –              | 25%                     |

11. Answer both the questions below :

A) Explain the best judgement assessment u/s 144 of IT Act, 1961.

And

B) Enumerate the provisions of Advance tax and its installment for companies.

12. X Ltd., wants to acquire an equipment for which the following two alternatives are available.

Alternative I. To lease the equipment for 7 years, which is the machine's expected useful life. The annual lease payments would be Rs. 14,700 and would include service and maintenance. Lease payments would be due at the end of the year.

Alternative II. To purchase the equipment through 100 per cent loan. The cost of the machine is Rs. 50,000. It would make seven annual payments of Rs. 9,935 each to repay the loan of Rs. 50,000. Payments would be made at the end of each year.

The marginal tax rate is 44%. It has estimated that the equipment has an expected salvage value of Rs. 1,000. The Company plans to depreciate the equipment by using straight-line method. The service and maintenance would cost Rs. 3,700 annually.

You are required to advise on the desirability of the acquisition mode using the following PV factor.

| Year | 0    | 1     | 2     | 3     | 4     | 5     | 6     | 7     |
|------|------|-------|-------|-------|-------|-------|-------|-------|
| PVF  | 1.00 | 0.952 | 0.907 | 0.864 | 0.823 | 0.784 | 0.746 | 0.711 |

PVF for salvage value 0.452.