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| **SESSION** | **JULY-AUG 2024** |
| **PROGRAM** | **MASTER OF COMMERCE (M.COM)** |
| **SEMESTER** | **III** |
| **COURSE CODE & NAME** | **DCM7104 CORPORATE TAX LAWS AND PLANNING** |
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**Set – 1**

**Q 1.**

**(A) Specify with brief reason, whether the following acts can be considered as an act of (i) Tax management; or (ii) Tax planning; or (iii) Tax evasion; or (iv) Tax avoidance:**

**1. To reduce tax payable, Sunil Varma an individual, paid ₹ 55,000 as of life insurance premium on the policy of his minor son.**

**2. A foreign company has an Indian subsidiary that is selling its product to the parent company at a price of**

**₹ 100 per unit while the same product is sold to another foreign company at ₹ 200 per unit.**

**3. A company is claiming depreciation on the motor car which is being used by the director for personal purposes.**

**4. Installation of Air Conditioner costing ₹ 75,000 at the residence of the Director as per terms of appointment but treating it as Plant installed in Quality Control Section in the factory.**

**5. Mr. D is a working partner in a firm, and he is entitled to a salary of ₹ 30,000 per month. He treats this as salary instead of business income.**

**(B) Explain the necessity of tax planning. Also explain the type of Tax Planning.**

**Ans 1.**

**A. Classification of Tax Practices with Justification**

Taxation involves various strategies and practices that businesses and individuals adopt to either minimize tax liability or unlawfully evade taxes. The given cases can be categorized into **Tax Management, Tax Planning, Tax Avoidance, or Tax Evasion** based on their nature.

**1. Payment of Life Insurance Premium for a Minor Son – Tax Planning**

Sunil Varma’s decision to pay ₹ 55,000 as a life insurance premium on his minor son’s policy is an act of **Tax Planning**. Tax planning involves making legitimate financial decisions to reduce tax liability within the framework of the law. Under **Section 80C of the Income Tax**

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**Q2A. The taxable income of SGRCS Pvt ltd. computed as per the provisions of Income-tax Act is Rs. 28,40,000. Book profit of the company computed as per the provisions of section 115JB is Rs. 18,80,000. Determine what will the will be the tax liability of SGRCS Pvt ltd. (ignore cess and surcharge)?**

**B. Explain the various reliefs available to the assesses to avoid double taxation under Sections 90 and 91 of the Income Tax Act 1961.**

### Ans 2.

### (A) Tax Liability Calculation for SGRCS Pvt Ltd.

The tax liability of **SGRCS Pvt Ltd.** is determined based on two methods:

1. **Normal Tax Calculation** (as per Income Tax Act provisions)
	* Taxable Income = ₹ 28,40,000
	* **Corporate Tax Rate** (for domestic companies with turnover < ₹ 400 Cr) = **25%**
	* Tax under normal provisions = **₹ 28,40,000 × 25% = ₹ 7,10,000**
2. **Minimum Alternate Tax (MAT) Calculation** (as per Section 115JB)
	* Book Profit = ₹ 18,80,000

**Q3. (A) A corporation is looking to raise Rs. 80 Lakhs to fund a project that will result in pre-tax earnings equal to 30% of the total amount of capital utilized. The corporation could raise debt financing at a rate of 15% per year. The company can raise funds through any one of the following three possible options:**

**1. Rs. 80 lakhs in equity capital,**

**2. Rs. 40 lakhs in loans, and Rs. 40 lakhs in equity capital**

**3. 15 lakhs rupees in equity capital and 65 lakhs rupees in loans.**

**Assume that the business will distribute all profits and dividends. The tax levy is 50%. Determine which of the three options the corporation should choose to reduce its tax liability.**

**(B) What are areas of tax planning with reference to the Industrial Undertaking.**

### Ans 3.

### (A) Best Financing Option to Reduce Tax Liability

When a corporation decides to raise capital, it must consider the tax implications of different financing options. Interest paid on debt is a deductible expense, reducing taxable income and ultimately lowering tax liability.

Given that the corporation needs to raise ₹80 lakhs and expects pre-tax earnings of 30% on the total capital, the calculations for tax liability under the three financing options are as follows:

**Set – 2**

**4. Mr. Kumar (a resident) purchased a house in December 2006 for Rs. 8,56,200 and incurred a cost of improvement of Rs 2,00,000 in year 2010 and sold the same, in April 2024 for Rs. 76,20,000 (brokerage Rs. 20,000). He purchased another house for Rs 400,00,000 in Dec 2024.**

**Cost inflation index number: Previous year**

**117 2005-06**

**122 2006-07**

**167 2010-11**

**301 2023-24**

**317 2024-25**

**Answer following questions:**

**(a) Determine the nature of capital gain?**

**(b) Determine the amount of capital gain?**

**(c) Determine the Capital gain tax liability in this transaction?**

**(d) Can he claim the option of not availing of the indexation and paying tax @ 10% on the capital gain?**

**(e) Specify the amount he can claim as exemption U/s 54.**

**Ans 4.**

### Capital Gain Computation for Mr. Kumar

Mr. Kumar sold a house property in April 2024, which he had purchased in December 2006. Since the holding period of the property is **more than 24 months**, it qualifies as a **Long-Term Capital Asset**, and the gain arising from the sale is a **Long-Term Capital Gain (LTCG).**

### (A) Nature of Capital Gain

Since the property was held for more than **2 years (24 months)** before the sale, the gain is categorized as a **Long-Term Capital Gain (LTCG).**

### (B) Computation of Long-Term Capital Gain (LTCG)

#### Step 1: Compute Indexed Cost of Acquisition (ICOA)

$$ICOA=\frac{Original Cost of Acquisition×CII of Sale Year}{CII of Purchase Year}$$

$$=\frac{8,56,200×301}{122}$$

$$=\frac{2,57,616,200}{122}=21,12,943$$

**Q5. Mr. Yadav is offered the post of director by SGRCS Ltd, with the following two options:**

|  |
| --- |
|  |
|  | **Option I** | **Option II** |
| **Basic Salary** | **18,00,000** | **18,00,000** |
| **Conveyance Allowance (For Private Use)** | **18,000** |  |
| **Car Facility (For Private Use) (1.6 litre cap.) (Cost of Car 2,00,000)** |  | **18,000** |
| **Entertainment Allowance** | **24,000** |  |
| **Entertainment Facility (Health Club)** |  | **24,000** |
| **Education Allowance for two children** | **12,000** |  |
| **Education Facility for two children (Educational institute run by employer)** |  | **12,000** |
| **Rent-free residential facility at Jaipur (population is below 25 lakh)** | **3,60,000** | **3,60,000** |
| **Which option do you recommend to Mr. Yadav as an expert tax planner?** |  |

**Ans 5.**

**Tax Planning Recommendation for Mr. Yadav**

Tax planning plays a crucial role in optimizing salary structures to minimize tax liability while maximizing net income. Mr. Yadav has been offered the position of Director at **SGRCS Ltd** with two different salary structures. As a tax planner, it is important to analyze which option

**Q6. A. Write a short note on:**

**I. Applicability of Transfer Pricing**

**II. Advance Tax Payment**

**III. Assessment procedure in Income tax**

**IV. Advance Rulings**

**B. Explain the special tax Provisions and Incentives that allow for a business to receive a favorable tax treatment due to the location and nature of the business.**

**Ans 6.**

**(A) Short Notes on Key Tax Concepts**

**I. Applicability of Transfer Pricing**

Transfer pricing applies to transactions between associated enterprises to ensure that goods, services, or intellectual property are exchanged at **arm’s length price (ALP)**. In India, it is governed by **Sections 92 to 92F of the Income Tax Act, 1961** and applies to **international transactions and specified domestic transactions**. The purpose is to prevent tax avoidance through profit shifting to low-tax jurisdictions. Compliance with **OECD guidelines** and maintaining **transfer pricing documentation** is mandatory for affected businesses.

**II. Advance Tax Payment**

Advance tax is the **prepayment of income tax** in installments rather than a lump sum at year-e