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08MBAFM428

Fourth Semester MBA Degree Examination, December 2010
Tax Management

Time: 3 hrs.

Max. Marks:100

Note: 1. Answer any FOUR full questions from the Q.No.1 to 7.
2. Question No. 8 is compulsory.

- 1 a. What is bond washing transaction? (03 Marks)
b. X furnishes the following particulars of his income earned during the P.Y. 2009-10.

i) Interest on German development bonds (1/6 th is received in New Delhi)	Rs.36,000
ii) Income from agriculture in Pakistan (received there but later on Rs.86,000 is remitted to India)	Rs.3,41,000
iii) Income from property in USA received outside India (92,000 is used in Canada for meeting the education expenses of X's son in Canada and Rs.2,48,000 is later on remitted to India)	Rs.3,40,000
iv) Income earned form business in Iran which is controlled from New Delhi (Rs.70,000 received in India)	Rs.4,05,000
v) Divided paid by an Indian company on May 10, 2009 but received outside India	Rs.1,95,000
vi) Past untaxed profit of 2006-07 bright to India in May 2009	Rs.2,10,000
vii) Gift in Foreign currency, from a friend, received in India, on Sept. 6, 2009	Rs.80,000

- Find out GTI of Mr. X if he is i) OR ; ii) NOR and iii) NR. (07 Marks)
c. Explain in brief the set-off and carry forward of the losses. (10 Marks)
- 2 a. Distinguish between direct and indirect tax. (03 Marks)
b. i) X, a foreign national (not being a person of Indian origin), came to India for the first time from USA on July 11, 2003. He stayed here for a stretch of 3 years and left for Japan on July 11, 2006. He returned to India on April 10, 2007 and remained here till August 17, 2007, when he went back to USA. He again came back to India on January 30, 2010 at 11.59 pm and continued to stay in India thereafter. Determine his residential status for the A.Y. 2010-11.
ii) X, after about 30 year's stay in India, returns to America on January 29, 2007. He returns to India in June 2009 to join an American company as its overseas branch manager. Determine his residential status for the A.Y. 2010-11. (07 Marks)
c. X (24 years), an Indian citizen, gives the following particulars of his income and expenditure for the P.Y. 2009-10.

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

Business Income	Rs.3,00,000
Long term capital gain on transfer of gold	Rs.1,00,000
Short term capital gain on sale of shares taxable u/s IIIA	Rs.30,000
Other short term capital gain	Rs.20,000
Income from other sources (including interest from a bank deposit of Rs.16,000)	Rs.28,700
Donation to national defence fund	Rs.24,000
Donation to Government of India for promoting family planning	Rs.27,700
Donation to P.M's national relief fund	Rs.18,000
Donation to Africa (public centre India) fund	Rs.5,000
Donation to National Trust for welfare of persons with Autism	Rs.7,000
Donation to an approved charitable trust	Rs.22,000
Donation in kind to an approved charitable trust	Rs.3,000
Donation to an approved university	Rs.7,500
Payment of mediclaim insurance premium	Rs.6,000

Determine the net income of X for the A.Y. 2010-11

(10 Marks)

- 3 a. What is tax treatment of pension and family pension? (03 Marks)
- b. State any seven incomes exempted from tax (partly or fully) u/s 10.
- c. P and L account of A company [A partnership firm of chartered accountants, which satisfies all conditions of section 184 and 40 (b)] for year ending March 31, 2010 is as follows :

Expenses	1,18,000	Receipts from clients for tax advice	1,20,000
Depreciation	40,000	Audit fees	80,000
Remuneration to partners	1,56,000	Net loss	1,33,000
Interest on capital to partners	19,000		
	3,33,000		3,33,000

Other Information :

- i) Rs.37,250 Out of expenses of Rs.1,18,000 is not deductible U/S 36 and 37. (07 Marks)
- ii) Depreciation as per section 32 is Rs.40,470.
- iii) Interest on capital to partners, not deductible U/S 40(b) is Rs.12,410.

Compute the amount of remuneration to partners deductible U/S 37 (1).

(10 Marks)

- 4 a. Mention any three basic conditions of levying the central excise. (03 Marks)
- b. How do you determine the residential status of an individual and HUF? (07 Marks)
- c. X Ltd. owns two buildings A and B on 1st April 2009 (rate of depreciation: 10%, WDV Rs.14,15,700). It purchases on December 1, 2009 a building C, for Rs.3,10,000 (rate of depreciation: 10%) and sells building A during the P.Y. 2009-10 (i.e. on January 10, 2010). If the sale proceeds of building A are i) Rs.8,70,000 and ii) Rs.15,87,000, what is the amount of depreciation for the P.Y. 2009-10. (10 Marks)

- 5 a. What is slump sale? (03 Marks)
- b. X, an employee of A Ltd. received Rs.62,000 as gratuity (he is covered under the payment of gratuity Act, 1972). He retires on January 31, 2010 after service of 29 years and 8 months. At the time of retirement, monthly salary of X was Rs.3,100. What is the amount of gratuity exempt from the tax? (07 Marks)
- c. X Ltd. Sells the following assets.

	Agricultural land	Bonus shares	House property (let out)
Date of sale	30 - 11 - 2009	1 - 1 - 2010	25 - 3 - 2010
Date of acquisition	9 - 5 - 1993	4 - 4 - 1983	6 - 6 - 1982
Sale consideration	9,00,000	2,50,000	6,00,000
Purchase consideration	70,000	Nil	1,00,000

The agricultural land is situated in an urban area and used for agricultural purpose since 1994. X Ltd. invests in the following assets, during April 2010.

- i) Bonds of the NHAI (redeemable on 1 - 6 - 2013) Rs.4,00,000.
- ii) Bonds (redeemable on 10 - 5 - 2015) of the REC Rs.5,00,000.
- iii) Agricultural land Rs.75,000.

Find out capital gains chargeable to tax.

(10 Marks)

- 6 a. What is MAT? (03 Marks)
- b. What is VAT? What are its salient features? (07 Marks)
- c. State various types of custom duties levied in India. (10 Marks)

- 7 a. Distinguish between tax planning and tax evasion. (05 Marks)

- b. X (51 years) is in the service of A Ltd. since 1980. He dies on January 31, 2010. The following information is available :

Basic salary Rs.40,000 p.m., DA Rs.12,000 p.m. (40% of which is included for the purpose of determining retirement benefits): transport allowance Rs.6,800 p.m. (out of which only Rs.600 is used for the journey between office and residence: the remaining amount is not spent) and entertainment allowance Rs.2000 P.M. He contributes 15% of basic salary towards RPF and A Ltd. also makes a matching contribution. Interest is credited at the rate of 9.5%.

After the death of X, his legal heirs (Mrs.X) gets the following payments from A Ltd.

- i) Salary for the month of January 2010.
- ii) Family pension Rs.20,000 p.m.
- iii) Encashment of leave, standing to the credit of X, on January 31, 2010, Rs.2,40,000 (as per service rules X is entitled for 45 days leave for each year of service).
- iv) Provident fund balance Rs.3,90,000.
- v) Gratuity Rs.2,60,000 (X is not covered by the payment of gratuity Act, 1972 nor is there any agreement with the employer to receive the gratuity).

Mrs. X does not have any other income. Assuming that, salary, allowances and pension become due on the last day of the month, find out tax liability of Mr. X and Mrs. X for the A.Y. 2010-11.

(15 Marks)

- 8 Compute the income from business of X Ltd. for the A.Y. 2010-11. Following is the audited P and L account for the year ending 31st March 2010.

To cost of goods sold	13,78,100	Sales	42,70,500
Office expenses	1,30,000	Rent of quarters given to workers	60,000
Salary to employees	12,80,000	Sale of gold	2,60,000
Expense on scientific research	84,000	Rent of building given to a bank	1,30,000
Bad debts	10,000		
Entertainment expenses	57,000		
Advertisement expenses	2,27,000		
Traveling expenses	3,20,000		
Interest	82,000		
Advance fringe benefit tax	30,000		
IT and wealth tax	86,400		
Sales tax, excise duty and custom duty	1,76,000		
Repairs to workers' quarters	12,000		
Insurance	36,000		
Depreciation	1,86,000		
Other expenses	1,10,710		
Net profit	515,290		
	47,20,500		47,20,500

Other information :

- i) Expenses on scientific research include Rs.30,000 being the cost of the land and Rs.16,000 paid to an approved national laboratory for undertaking scientific research under an approved programme.
- ii) Out of Rs.82,000 (being interest) Rs.60,000 is payable outside India (no tax is deducted at source).
- iii) Sales tax, excise duty and custom duty: Rs.170,000 on March 31, 2010 and Rs.6,000 on 10 Dec. 2010.
- iv) Out of insurance of Rs.36,000, Rs.4000 is fire insurance premium, on the building given to a bank on rental basis and Rs.30,000 on workers' quarters.
- v) Other expenses include :
 - Cost of maintaining holiday home for the benefits of employees of company Rs.30,000.
 - Amount not deductible u/s 37(1) 4,000.

(20 Marks)

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