

Internal Assessment Test - 3

Sub:	Tax Management	Code:	14MBAFM409
Date:	21.06.2017	Duration:	90 mins
		Max Marks:	50
		Sem:	
		Branch:	MBA

	OBE	
	Marks	

Part A - Write short notes on any two (3*2=6 Marks)

1 (a) Define the term Clubbing of income.	[03]	CO1	L1
(b) What is Book Profit?	[03]	CO2	L1
(c) Write a note on Excise duty.	[03]	CO1	L1

Part B - Answer any two (2*7=14)

2 (a) Explain the term goods and dutiable goods under customs act.	[07]	CO2	L2
(b) Discuss MAT and when it is applicable.	[07]	CO1	L3
(c) Briefly discuss set off and carry forward of losses.	[07]	CO3	L3

Part C - Answer any one (2*10= 20 marks)

3 (a) P & L ac of X co. (a firm of X, Y and Z which satisfies all conditions of sections 184 and 40 b for the year ending 31. 3.2017 is as follows	[20]	CO3	L4
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Debit	Amount	Credit	Amount
Cost of goods sold	47,90,000	Sales	66,00,000
Remuneration to X	6,00,000	Rent of House property (half portion)	55,000
Y	9,00,000		
Z	55,000		
Income tax	8,000	Interest on Debentures	60,000
Interest to Partners X @ 13.5 %	40,000		
Y @ 13.5%	10,000		
Z @ 13.5%	60,000		
Municipal tax on House Property(entire	5,000		

property)			
Other expenses	2,10,000		
Net profit	32,000		

Other information:

1. Out of other expenses, Rs.48,500 is not deductible u/s 37,36 and 43

2. On Jan 15, 2017 the firm pays an outstanding sales liability of Rs. 2,922 of the previous year 2014. As this amount pertains to the PY 2013. It has not been debited to the above P and L ac.

3. Z is not a working partner.

4. The firm owns a house, the ground floor is used for business purposes, and the first floor is given on rent. Municipal tax is paid on May 10, 2017.

Find out the net income of the firm for the AY 2017-18.

(b) Explain the various deductions that can be claimed while calculating income from other sources(sec 80C to 80U). What are the amounts which are not deductible

[20]

L3

Part D - Compulsory (1*10=10/2*5=10 marks)

4 (a) Explain sec 80D and 80DD.

[05]

CO1

L2

(b) Who should sign the return of income? (Mention any 5 assesseees)

[05]

CO3

L3

Course Outcomes		PO1	PO2	PO3	PO4	PO5	PO6	PO7	PO8	PO9
CO1	Develop a thorough, critical understanding of the concepts in the law of income tax, including the capital gains provisions and fringe benefits tax									
CO2	To enable students to develop experience in identifying tax issues and applying the income tax law									
CO3	To develop ability to calculate	1a,	4a,	3a,						

:	taxable income of individuals, partnerships and companies	1b,	4b	3b						
CO4:	To familiarize the students with CST and VAT	1c	2a, 2b, 2c							
CO5:										
CO6:										

Cognitive level	KEYWORDS
L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

PO1 - *Engineering knowledge*; PO2 - *Problem analysis*; PO3 - *Design/development of solutions*; PO4 - *Conduct investigations of complex problems*; PO5 - *Modern tool usage*; PO6 - *The Engineer and society*; PO7- *Environment and sustainability*; PO8 - *Ethics*; PO9 - *Individual and team work*; PO10 - *Communication*; PO11 - *Project management and finance*; PO12 - *Life-long learning*

Key notes for TAX Management for IAT 3

Section A

1. **Income** of minor will be **clubbed** along with the **income** of that parent whose **income** (excluding minor's **income**) is higher. ... In case the **income** of individual includes **income** of his/her minor child, such individual can claim an exemption under section 10(32)) of Rs. 1,500 or **income** of minor so **clubbed**, whichever is less.
2. Definition. *Profit* which has been made but not yet realized through a transaction, such as a stock which has risen in value but is still being held. also called unrealized gain or unrealized *profit* or paper gain or paper *profit*.
3. An **excise** or **excise** tax (sometimes called an **excise duty**) is a type of tax charged on goods produced within the country (as opposed to customs **duties**, charged on goods from outside the country). It is a tax on the production or sale of a good. This tax is now known as the Central Value

Section B

1. Excisable *goods* means *goods* specified in the first and second schedule to *central excise tariff act* it includes salt. Even nil rated *goods* are excisable *goods* , they remain excisable if they are mentioned in the CETA(*Central excise tariff act*).

The word "*goods*" has not been defined *under the Central Excise Act*. ... Thus, immovable property or property attached to earth is not '*goods*' and hence duty cannot be levied on it. *Goods* must be Marketable - The item must be such that it is capable of being bought or sold.

2. Law makers observed that there is many companies which are disclosing massive profit in the accounts as laid in the Annual General Meeting (AGM) before the shareholder but at the same time these companies also showing profit nil or bit above nil for the income tax purpose. Variance between profits as per the Companies Act and as per Income Tax Act was due to many dissimilar allowance of disallowance in the both Acts e.g. difference in method and rate of depreciation provided in both Acts.

To put an end on this trend and bring these kind of companies under the tax net, law maker framed concept of MAT, according to this concept corporate entity has to pay minimum tax. The concept of MAT is govern by the provisions contains in section 115JB of Income Tax Act, 1961.

Applicability of MAT:- MAT is applicable to all companies including the foreign companies.

Analysis of provision of section 115JB:- Where in case of a company, the income tax payable on the total income as computed under the income tax act in respect of any previous year is less than 18.5% of its BOOK PROFIT, then such book profit shall be deemed to be the total income of the assessee and the tax payable on such total income shall be the amount of income tax at the rate of 18.5%. This income tax is, further has to be enhance by surcharge (as applicable) and education cess (@3%).

In the simple words every company has to compute its income tax liability as per two sets of provisions. The set of provisions which results in higher income tax liability become the income tax payable. Followings are the two set of provisions:

- 1). Income tax computed as per normal provisions of income tax act.
- 2). Income tax computed as per provision of section 115JB of income tax act.

3.Set-Off means adjustment of certain losses against the income under other sources in the same assessment year. Carrying Forward of unadjusted losses to be **set-off** in subsequent years is called **Carry Forward**.

How to adjust Business Losses ?

If there is a loss in the business, the same can be adjusted against profits made in any other business of the same tax payer. The Loss, if any, still remaining, can be adjusted against Income from any Other Source.

From A/Y 2005-2006 loss from Business cannot be set off against Salary Income.

However, Loss sustained in speculative business can be adjusted only against profits earned in another speculative business.

Business Loss can be carried forward for a maximum period of next **8 (Eight)**

Assessment Years and adjusted against Business Profit of the subsequent years.

Unabsorbed Depreciation can be Set-Off even if Business/Profession is discontinued and can be carried forward for unlimited number of years.

However, for claiming the benefit of carry forward of losses, the tax payer has to invariably file his returns within due date.

Section C

1. Computation of book profit

Net profit as per P& L ac	32,000
Add Expenses disallowed	
Remuneration to Partners	
X 6,00,000	
Y 9,00,000	
Z 55,000	15,55,000
Interest on tax	8,000
Interest to partners X	4,444
Y	1,111
Z	667
Municipal taxes 50% on HP	2,500
Other expenses	48,500
Total	16,58,222
Less Business expenses not appeared in P & L ac	2,922
Total	16,55,300
Less income not taxes under this head	1,10,000

Book Profit is RS.15,45,300

Computation of Income from business for Firm

Book profit	15,45,300
Less remuneration to partners	10,17,180
Total income from business is Rs. 5,28,120	

Section D

1. In simple terms, you can reduce up to Rs 1,50,000 from your total *taxable income* through *section 80C*. This deduction is allowed to an Individual or an HUF. A maximum of Rs 1, 50,000 can be claimed for the financial year 2016-17. The limit for the financial year 2017-18 is also Rs 1, 50,000.

2 Under Section 277 of the Income Tax Act it is liable to prosecuted if any person making false statement. The verification must be signed by the authorized person and return the name and designation of the person signing the return before furnishing the return.

The return should be signed by the individual who filing his income tax in case the taxpayer is mentally incapable then the return may be signed by his guardian or any other person competent to act on is behalf.

If the person is not able to sign and verify his return of income because he is out of India or any other reason then any person duly empowered by him through valid power of Attorney may sign on his behalf. In this case a certified copy of the Power of Attorney must accompany the return.

In Hindu Undivided Family the return need to signed by person himself. In his absence or he is mentally disabled then the return signed by any other adult

member of such family.

In case of company if they are resident then the return signed by managing director. If there is no managing director or he is not able to sign and verify the return due to any reason the return signed by any director thereof.

In case of non resident a person holding a valid power of attorney from the company which should be attached to the return can sign the return.

In case of Wound up/taken over by Govt. the return should be signed and verified by the liquidator or the Principal Officer as the case may be.

In Local authorities and in association of person the return should be signed by the principal officer and any member of the association or the Principal officer respectively.

In firms the return should be signed by managing partner or if he is not able to sign and verify the return then by any partner thereof not being a minor.

A new assessee can file their return with the Assessing officer having territorial jurisdiction over the area where he resides or his principal place of business is situated or with the Assessing Officer having special jurisdiction over specific assesseees or classes of income. And an existing assessee file his income tax return with the Assessing Officer who had previously assessed him or with the Assessing officer where his case stands transferred.