ASSESSMENT OF COMPANIES

1. From the following information, determine the tax liability of Z Ltd., domestic company, for the assessment year 2008-2009 and 2009-2010.

S. No.	Assessment year	Book-profits Rs	Total income Rs
1.	2008-2009	2,60,000	1,30,000
2.	2009-2010	2,20,000	1,50,000

Solution:

Assessment year	Book-profit	Total income	Tax on book-profit @ 11.33% and rounded off (Sec. 288B)	Tax on total income @ 33.99% and rounded off (Sec. 288B)	Tax credit Tax on book-profits minus tax total income	Tax credit set off: Tax on total income minus tax on book profits	Tax payable after tax credit set if any	Tax credit balance
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
2008-2009	2,60,000	1,30,000	29,460	44,190		14,730	29,460	44,190
2009-2010	2,20,000	1,50,000	24,930	50,980	-	26,050	24,930	26,050

Note: Tax payable is rounded off to the nearest multiple of Rs 10 (Sec. 288B)

2. Fashion Ltd., a well-diversified group, gives below its profit and loss account for the accounting year 2007-2008:

Particulars	Rs	Particulars	Rs
Manufacturing expenses	9,00,000	Sale of manufactured goods	35,00,000
Salaries/wages	5,50,000	Sale of agriculture produce	10,00,000
Cultivation expenses	4,00,000	Receipt from generation/distribution of power	15,00,000
Power generation/distribution expenses	4,00,000		
Irrigation expenses	6,00,000	Receipt from water supply/ irrigation projects	15,00,000
Expenses of I.U., located in backward district	5,00,000	Receipt from I.U. set up in backward district in July 2003	10,00,000
Expenses of I.U., located in free trade zone(Sec. 10A)	1,50,000	Transfer from Reserve & Provision a/c, debited to profit and loss account in 1995-1996 on account of free service under warranty period	9,50,000
Expenses of I.U. (Sec. 10B)	1,00,000		
Expenses of I.U. (Sec. IOC)	50,000		
Provision for losses of subsidiary	4,00,000	Sale of goods of I.U. (Sec. 10B)	2,00,000
Sundry expenses	10,000	Sale of goods of I.U,, located in free trade zone (Sec. 10A)	2,00,000
Provision for bad and doubtful debts	2,00,000		
Provision for bills under discount	50,000	Sale of goods of I.U. located in Nothern Easthern Region (NER) (Sec. 10C)	1,00,000
Provision for sales tax, wealth tax against demand notice	3,30,000	Income from UTI	50,000
Income tax provision against demand notice	3,00,000	Long term capital gain on sale of equity shares, transaction chargeable to Securities Transaction Tax	5,00,000
Dividend paid on preference shares	2,00,000		
Proposed dividend on equity shares	4,00,000		
Transfer to general reserve	1,00,000		
Dividend Equalisation reserve	2,00,000		
Penalties under direct tax laws	60,000		
Goodwill written off	50,000		
Depreciation	3,00,000		
Amortisation of patent rights	30,000		
Expenses on transfer of equity shares	20,000		
Net profit	42,00,000		
	1,05,00,000		**1,05,00,000**

The following additional information is provided as below:

1. Depreciation includes, a sum of Rs.1,00,000 on account of revaluation of building and plant and machinery.
2. Past year losses, before depreciation, are given below:

	Loss Rs	Depreciation Rs
2003-2004	(-) 5,00,000	(-) 6,00,000
2004-2005	Nil	(-) 5,00,000
2005-2006	(-) 7,00,000	(-) 4,00,000
2006-2007	(-) 5,00,000	Nil

Compute book-profits for the previous year 2007-2008/AY 2008-2009 for MAT under Sec. 115 JB.

Computation of Book Profit for the AY 2008-2009

Particulars	Rs	Rs
Net profit as per profit and loss account		42,00,000
Add:		
(i) Cultivation expenses	4,00,000	
(ii) Expenses of I.U. located in Free Trade Zone (Sec. 10A)	1,50,000	
(iii) Expenses of I.U. under Sec. 10B	1,00,000	
(iv) Provision of loss of subsidiary	4,00,000	
(v) Provision for bad and doubtful debts— an unascertained liability	2,00,000	
(vi) Provision for bills under discount— an unascertained liability	50,000	
(vii) Provision for wealth-tax, sales- tax, against demand notice— an ascertained liability	-	
(viii) Income-tax provision— an ascertained liability to be added back	3,00,000	
(ix) Dividend paid on preference shares	2,00,000	
(x) Proposed dividend on equity shares	4,00,000	
(xi) Transfer to general reserve	1,00,000	
(xii) Dividend Equalisation reserve	2,00,000	
(xiii) Depreciation [Sec. 115JB(2)(g) w.e.f. AY 2007-2008]	3,00,000	28,00,000
Adjusted profits		**70,00,000**
Less:		
(i) Sales of agriculture produce [Sec. 10(1)]	10,00,000	
(ii) Receipt from I.U. in Free Trade Zone [Sec. 10A]	2,00,000	
(iii) Receipt from I.U. Sec. 10B	2,00,000	
(iv) Depreciation, excluding depreciation on account of revaluation of assets	2,00,000	
(v) Brought forward loss or depreciation, whichever is less.	9,00,000	
(vi) Withdrawals from Reserve & Provision for free sale service, under warranty scheme	9,50,000	
(vii) Long-term capital gain on transfer of equity shares {Sec. 10(38)] — see Note below	Nil	
(viii) Receipts from UTI [Sec. 10(35)]	50,000	35,00,000
		35,00,000
Book-profits		

Note: 1. Calculation of brought forward losses or depreciation:

2003-2004	Loss	5,00,000
2004-2005	Loss/depreciation	Nil
2005-2006	Depreciation	4,00,000
2006-2007	Loss/depreciation	Nil

1. Transfer from provision for after sale service, free of cost, made during the year 1995-1996, debited to profit and loss a/c and now credited to profit and loss a/c and now credited to profit and loss a/c is an allowable deduction [Sec. 115-JB(2)].

2. Long-term capital gain from the transfer of equity shares in a company is exempt is chargeable to securities trans action tax (STT). However, for the purposes of computing book-profits, it is not to be deducted [Sec. 10(38)]. Accordingly, the expenditure incurred for the transfer of equity shares has not been added back in computing book profits.

3. Classic Exporters Ltd, runs a new industrial undertaking set up in 2001-2002 which satisfies the conditions of Sec. 80-IB. Given below is the profit and loss account for the previous year 2007-2008.

Particulars	Rs	Particulars	Rs
Stock	4,00,000	Domestic sales	24,00,000
Purchases	23,00,000	Export sales	43,00,000
Salaries and wages	9,70,000	Export incentives Sec. 28(iiia)/(iiic)	50,000
Entertainment expenses	1,30,000	Profit of foreign branch	2,50,000
Freights and insurance attributable to exports	3,00,000	Brokerage/commission/interest/rent, etc	50,000
Travelling expenses	2,20,000	Transfer from contingency reserve	10,00,000
Depreciation	1,50,000	Stock	3,50,000
Selling expenses	1,20,000		
Income tax paid	90,000		
Income-tax penalty	20,000		
Wealth tax paid	10,000		
Custom duty payable against demand notice	30,000		
Provision for unascertained liabilities	20,000		
Provision for ascertained liabilities	50,000		
Proposed dividend	3,00,000		
Loss of subsidiary company	50,000		
Net profit	32,40,000		
	84,00,000		84,00,000

You are further informed:

(i) Excise duty for 2006-2007, amounting Rs 1,20,000 was paid on 15 December 2007

(ii) Depreciation under Sec. 32 is Rs 2,20,000

(iii) During the year 2004-2005, contingency reserve, amounting Rs 10,00,000, debited to profit and loss a/c, was added back to the extent of Rs 4,00,000 in the computation of book-profits. The company has transferred the said reserve to the profit and loss a/c during the year.

(iv) Brought forward business loss/depreciation:

PY	Accounting purposes		Tax purposes	
	Loss	Depreciation	Loss	Depreciation
2005-2006	(-) 10,00,000	(-) 1,00,000	(-) 5,00,000	(-) 2,50,000
2006-2007	(-) 2,00,000	(-) 3,00,000	(-) 1,00,000	(-) 2,00,000

Compute the following: (a) Total income, (b) Book-profits and (c) Tax liability.

Computation of total income for the AY 2008-2009

Particulars	Rs	Rs
Net profit as per Profit & Loss A/c		32,40,000
Add:		
1. Income tax ,	90,000	
2. Wealth tax	10,000	
3. Custom duty payable	30,000	
4. Provision for unascertained liability	20,000	
5. Proposed dividend	3,00,000	
6. Loss of subsidiary company	50,000	
7. Income-tax penalty	20,000	5,20,000
		37,60,000
Less:		
(i) Withdrawals from contingency reserve	10,00,000	

(ii) Excise duty	1,20,000	
(iii) Depreciation	70,000	
(iv) Brokerage, commission, interest and rent, etc.	50,000	12,40,000
Business profits		**25,20,000**
Add: Income from other sources: Brokerage/ commission, etc.		50,000
Aggregated income		**25,70,000**
Less:		
(i) Brought forward losses (Sec. 72)	6,00,000	
(ii) Brought forward depreciation [Sec. 32(2)]	4,50,000	10,50,000
Gross Total Income		**15,20,000**
Less: Profit from industrial undertaking Sec. 80IB: 30% of Rs 15,20,000 as included in GTI		4,56,000
Total income		**10,64,000**

(b) Computation of Book Profits for the AY 2008-2009

Particulars	Rs	Rs
Net profits as per Profit & Loss A/c		32,40,000
Add:		
(i) Income tax	90,000	
(ii) Provision for unascertained liability	20,000	
(iii) Proposed dividend	3,00,000	
(iv) Loss of subsidiary	50,000	4,60,000
		37,00,000
Less:		
(i) Withdrawals from contingency reserve		
(ii) Brought forward business loss or depreciation whichever is less	4,00,000	
2004-2005 Depreciation	1,00,000	
2005-2006 Loss	2,00,000	7,00,000
Book-profits		**30,00,000**

(c) Computation of tax liability for the AY 2008-2009

Particulars	Rs
(a) 30% x 10,64,000 = 3,19,200	
(b) 10% x 30,00,000 = 3,00,000	
Since the amount of income tax on total income is more than the amount of tax on book-profits,	
Accordingly, tax liability is computed as under:	
(i) Income tax	3,19,200
(ii) Add: Surcharge on income tax @ 10%	31,920
	3,51,120
(iii) Add: Education cess @ 2%	7,022
(iii) Add: SHEC @ 1%	3,511
Tax payable	**3,61,653**

Note: No adjustment is required for depreciation debited to profit and loss a/c because it is not on account of revaluation of any asset.

4. Z Ltd is a qualifying shipping company which has got two qualifying ships during the previous year 2007-2008:

Ship	Tonnage weight	No. of operational days
Ship A	37,949 tonnes and 990 kg	300 days
Ship B	25,550 tonnes and 275 kg	365 days

Compute its tonnage income under Tonnage Tax Scheme for the assessment year 2008-2009.

Solution:

Ship A		Ship B	
(i) Tonnage consisting of kilograms is ignored. (ii) If such tonnage is not a multiple of 100 tonnes and the last two digits are less than 50, the tonnage is reduced the tonnage is reduced to the previous lower tonnage which is a multiple of 100. (iii) Tonnage rounded off = 37,900 tonnes		(i) Tonnage consisting of kilograms is ignored. (ii) If such tonnage is not a multiple of 100, and last two degits are 50 or more, the tonnage is increased to next higher tonnage which is a multiple of 100 (iii) Tonnage rounded off - 25,600 tonnes	
Income— computation under TTS		**Income— computation under TTS**	
Daily TI:	Rs	Daily TI:	Rs
First 1,000 tonnes = Rs 46 x 10 = Next 9,000 tonnes = Rs 35 x 90 = Next 15,000 tonnes = Rs 28 x 150 = Balance 12,900 tonnes = Rs 19 x 129=	460 3150 4200 2451	First 1,000 tonnes = Rs 46 x 10 = Next 9,000 tonnes = Rs 35 x 90 = Next 15,000 tonnes = Rs 28 x 150 = Balance 600 tonnes = Rs 19 x 6 =	460 3150 4200 114
Daily TI	10,261	Daily TI	7,924
Total TI for the previous year Rs 10, 261 x 300 =	30,78,300	Total TI for the previous year Rs 7,924x365	28,92,260