DIRECTORATE OF DISTANCE EDUCATION
NALSAR UNIVERSITY OF LAW, HYDERABAD

Advanced Diploma in Corporate Taxation

Academic Year: 2023-2024
Annual Examination (May, 2024)

Paper II – 1.2. Taxation of Corporate Profits Part II (Batch:2023-2024)

Duration of the Examination: 3 hours **TOTAL MARKS: 100**

INSTRUCTIONS TO CANDIDATES

- **a) Read the instructions carefully and adhere to the same.**
- **b) Please mention your DDE ID No., date of the exam, name of the programme & subject on the Answer Sheet and the Additional Answer Sheets, if any.**
- **c) The questions to be interpreted as given and no clarification can be sought from the Invigilator.**
- **d) Clearly indicate the question numbers while answering them. Answers without question numbers / wrong question numbers will not be evaluated.**
- **e) Write the answers clearly and neatly. Answers in illegible handwriting will not be taken into consideration.**
- **f) Candidates are prohibited to carry phones or any other electronic devices, books, material etc. in the Examination Hall.**
- **g) Copying is strictly prohibited and is considered as a serious academic mis-conduct and the University will take action as it deems fit.**

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1) Startup India (P) Ltd., an Indian company having two undertakings engaged in manufacture of cement and steel, decided to hive off cement division to Regret India (P) Ltd., an Indian company, by way of demerger. The net worth of Startup India (P) Ltd. immediately before demerger was Rs. 40 crores. The net book value of assets transferred to Regret India (P) Ltd. was Rs. 10 crores. The demerger was made in January 2024. In the scheme of demerger, it was fixed that for each equity share of Rs. 10 each (fully paid up) of Startup India (P) Ltd., two equity shares of Rs. 10 each (fully paid up) were to be issued.

One Mr. Nikhil held 25,000 equity shares in Startup India (P) Ltd. which were acquired in the financial year 2004-05 for Rs. 6,00,000. Mr. Nikhil received 50,000 equity shares from Regret India (P) Ltd. consequent to demerger in January 2024. He sold all the shares of Regret India (P) Ltd. for Rs. 8,00,000 in March, 2024.

In this background you are requested to answer the following:

a. Does the transaction of demerger attract any income tax liability in the hands of Startup India (P) Ltd. and Regret India (P) Ltd.?

b. Compute the capital gain that could arise in the hands of Mr. Nikhil on receipt of shares of Regret India (P) Ltd.

c. Compute the capital gain that could arise in the hands of Mr. Nikhil on sale of shares of Regret India (P) Ltd.

d. Will the sale of shares by Mr. Nikhil affect the tax benefits availed by Startup India (P) Ltd. and/or Regret India (P) Ltd.?

e. Is Mr. Nikhil eligible to avail any tax exemption under any of the provisions of the Income-tax Act, 1961 on the sale of shares of Regret India (P) Ltd.? If so, mention in brief.

F.Y. 2004-05 - Cost inflation index = 113
F.Y. 2023-24 - Cost inflation index = 348

(5 marks x 5 = 25 marks)

2) ABC Private Limited company is engaged in implementing infrastructure development projects. For the relevant assessment year. It claimed deduction of Rs. 4.97 crores u/s 80IA (4) of the Income Tax Act, 1961. ABC Private Limited contended that it had undertaken a road development project, for which, it had entered into agreement with the Gujarat State Road Development Corporation (GSRDC) which was set up by the Government for the special purpose. The assessing officer doubted whether such agreement would satisfy the requirements of section 80IA (4) of the Income Tax Act, 1961. \

Discuss whether ABC Private Limited who enters into an agreement with GSRDC for an infrastructure development project would be entitled to deduction u/s 80IA(4) of the Act, even though as per the requirement contained therein, the agreement has to be entered with the central government or state government. Discuss with the reference of the case law if any. **(25 marks)**

3) Aditya, Managing Director of Oberoi Private Limited holds 70% of its paid up capital of Rs. 20,00,000/-. The balance as at 31.03.2023 in General Reserve was Rs. 6,00,000/-. The company on 01.04.2023 gave an interest-free loan of Rs. 5,00,000/- to its Assistant Manager having salary of Rs. 20,000 p.m., who in turn on 15.04.2023 advanced the said amount of loan so taken from the company to Mr. Aditya. The Assessing Officer had treated the amount of advance as deemed dividend. Is the action of Assessing Officer correct? (**25 marks)**

4) Ramesh and Suresh are friends. Ramesh is a property dealer, and Suresh is engaged in the business as sold automobile spare parts. On 14.02.2024 Ramesh sold a building in the course of his business to his friend Suresh, for Rs. 180 Lakh, the stamp duty value as on date was Rs. 300 Lakh. However, they entered into an agreement on 01.09.2023 when the stamp duty value was, 280 Lakh. Ramesh received a down payment of Rs. 30 Lakh by a crossed cheque from Suresh on the date of agreement. Discuss the tax implications in the hands of Ramesh and Suresh, assuming that Ramesh has purchased the building for Rs. 150 1akh on 12.07.2022. Would your answer be different if Ramesh was a share broker instead of a property dealer? **(25 marks)**

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