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B.COM HONOURS	SEMESTER 6	CALICUT UNIVERSITY	COURSE CODE: COM6EJ313

CORPORATE TAXATION AND TAX PLANNING

EXAM REVISION NOTES

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MODULE I

1. INTRODUCTION TO CORPORATE TAXATION & LEGAL TYPOLOGIES OF COMPANIES

Introduction to Corporate Taxation Legal Typologies of Companies: In Indian direct tax jurisprudence, a company is recognized as an independent artificial juridical entity distinct from its shareholders.

- Any Indian company as defined in Section 2(26);
- Any body corporate incorporated by or under the laws of a country outside India (foreign company);
- Any institution, association, or body which is assessed or was assessable as a company for any assessment year up to 1970 ndash;71;
- Any institution, association, or body, whether incorporated or not and whether Indian or non-Indian, which is declared by general or special order of the Central Board of Direct Taxes (CBDT) to be a company.

FOREIGN COMPANY [SEC 2(23A)]

CLOSELY HELD COMPANY

Set-Off and Carry Forward of Losses in Companies: Companies are entitled to set off and carry forward business and capital losses under Sections 70 to 80, subject to standard rules and specialized corporate anti-abuse provisions:

- **Normal Business Loss (Sec 72):** ; Can be set off ONLY against Profits and Gains of Business or Profession (PGBP).
- **Speculation Business Loss (Sec 73):** ; Can be set off ONLY against speculation profits.
- **Unabsorbed Depreciation [Sec 32(2)]:** ; Can be set off against ANY head of income (except salaries), even if business is discontinued.
- **Capital Losses (Sec 74):** ; LTCL against LTCG only; STCL against STCG and LTCG.

Deductions Available to Corporate Assessees under Chapter VI-A: From Gross Total Income (GTI), corporate assessees can claim specific deductions under Chapter VI-A (provided the company does not opt for concessional Section 115BAA/115BAB regimes):

SECTION 80-IAC — ELIGIBLE STARTUPS

Practical Numerical Assessment Problems: Case Data: Zeta Private Ltd is a closely held company. In Previous Year 2024 ndash;25, it incurred an unabsorbed business loss of ₹15,00,000.

Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 1): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

Comparative Regulatory and Practical Implementation Standards: A rigorous examination of corporate commercial practice highlights the indispensable role of standardized accounting principles.

Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

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MODULE II

1. COMPUTATION OF GROSS TOTAL INCOME (GTI) OF A COMPANY

Computation of Gross Total Income (GTI) of a Company: The Gross Total Income (GTI) of a corporate assessee is computed by aggregating taxable incomes across four applicable heads (since a company cannot earn "Salaries"):

- **1. Income from House Property (Sections 22 to 27):** Annual value of buildings or lands appurtenant thereto owned by the company, less municipal taxes and standard deduction u/s 24(a) @ 30% and interest on borrowed capital u/s 24(b).
- **2. Profits and Gains of Business or Profession (Sections 28 to 44DB):** The core income stream.
- **3. Capital Gains (Sections 45 to 55A):** Short-Term Capital Gains (STCG) and Long-Term Capital Gains (LTCG) arising from transfer of capital assets.
- **4. Income from Other Sources (Sections 56 to 59):** Dividend income from domestic and foreign companies, interest on bank fixed deposits, interest on securities, and royalty income.

Corporate Tax Rates: Normal vs. Concessional Regimes: The corporate tax landscape in India underwent a historic structural overhaul via the Taxation Laws (Amendment) Act, 2019, introducing alternative concessional tax regimes:

- **Old / Normal Regime (Turnover > ₹400 Cr):** 94% (> ₹10 Cr)MAT Applicable u/s 115JB
- **Section 115BAA (Any Domestic Company):** 168% Flat Effective RateMAT is COMPLETELY EXEMPT (Zero MAT liability u/s 115JB(5A))
- **Section 115BAB (New Manufacturing Companies):** 160% Flat Effective RateMAT is COMPLETELY EXEMPT

A. Step-by-Step Computation of Book Profit [Section 115JB(2)]: "Book Profit" means the Net Profit as shown in the Statement of Profit and Loss prepared in accordance with Schedule III of the Companies Act, 2013, subject to specific statutory additions and deletions:

MANDATORY DEDUCTIONS (IF CREDITED TO P L)

B. MAT Credit and Carry Forward [Section 115JAA]: Computation of MAT Credit: MAT Credit Generated=Tax Paid under MAT (Sec 115JB) −Normal Corporate Income Tax Liability Carry Forward amp; Set-Off Rules: bull; Carry Forward Period: MAT credit can be carried forward for up to 15 Assessment Years immediately succeeding the year in which it was generated.

TAXATION IN HANDS OF SHAREHOLDERS

Practical Numerical Problems on Book Profit and MAT: Case Data: The Statement of Profit and Loss of Titan Electronics Ltd (a domestic company with turnover of ₹250 Crores, taxable under normal provisions at 25%) for the previous year ended 31st March 2026 shows a Net Profit of ₹85,00,000 after debiting/crediting the following items: bull; Provision for Income Tax: ₹12,00,000 bull; Proposed Dividend: ₹8,00,000 bull; Provision for Unascertained Contingent Liabilities: ₹5,00,000 bull; Provision for Bad and Doubtful Debts: ₹3,50,000 bull; Total Depreciation debited to P amp;L: ₹22,00,000 (which includes ₹4,00,000 depreciation on revaluation of assets) bull; Amount transferred to General Reserve: ₹6,00,000 bull; Agricultural income credited to P amp;L (exempt u/s 10(1)): ₹5,00,000 bull; Amount withdrawn from General Reserve (credited to P amp;L): ₹3,00,000 bull; As per books of account, brought forward business loss is ₹14,00,000 and unabsorbed depreciation is ₹10,00,000.

Comprehensive Calicut University Academic Examination Bank: Explain the historical context of Zero-Tax companies in India. Detail how companies made large commercial profits and distributed high dividends while paying zero corporate tax through incentives.

- **Conceptual Rationale:** When a company pays MAT under Section 115JB because MAT exceeds normal tax, it is effectively paying an advance corporate tax on accounting profits.
- **Calculation Formula:** MAT Credit=Tax Paid under Section 115JB−Tax Payable under Normal Provisions
- **Rules for Carry Forward and Utilization:** Carry Forward Period: Allowed for up to 15 consecutive Assessment Years.
- **Normal Tax exceeds its MAT liability:** Set-Off Trigger: Can be utilized only in an assessment year in which the company's .
- **Section 40(a)(ia) mdash; TDS Default Disallowance:** Section 40(a)(ia) mdash; TDS Default Disallowance: Trigger: Applicable when an assessee company fails to deduct TDS on payments made to residents (contractor fees, professional fees, interest, commission) or fails to remit deducted TDS to the government on or before the ITR filing due date u/s 139(1).

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MODULE III

1. CONCEPT, DEFINITION, AND OBJECTIVES OF TAX PLANNING

Concept, Definition, and Objectives of Tax Planning: Tax Planning is the legal, scientific, and systematic arrangement of an assessee's financial affairs and business operations in such a manner that full advantage is taken of all statutory exemptions, deductions, rebates, allowances, and tax relief provisions granted by the legislature, thereby reducing the net corporate tax burden to the legal minimum without violating the spirit of the law.

MINIMIZATION OF LITIGATION

HEALTHY ECONOMIC GROWTH

Tax Evasion vs. Tax Avoidance: Conceptual and Juristic Divergence: The dividing line between legitimate tax planning, tax avoidance, and illegal tax evasion is one of the most heavily litigated frontiers in tax jurisprudence:

- **Definition:** ; The illegal, fraudulent non-payment of tax by deliberate falsification, suppression, or concealment.
- **Legal Status:** ; Criminal Offense: Prohibited by law, attracting severe penalties and imprisonment.
- **Methods Used:** ; Suppressing cash sales, fabricating false expense vouchers, maintaining duplicate unrecorded cash ledgers (*kaccha khata*).
- **Statutory Remedy:** ; Search and seizure (Section 132), penalty u/s 270A, prosecution u/s 276C.

Nature, Scope, and Ethical Justification of Corporate Tax Planning: Corporate tax planning extends across every stage of corporate life:

- **Organizational Form:** Deciding between a private company, public company, or Limited Liability Partnership (LLP).
- **Location Decisions:** Establishing industrial units in backward areas, Special Economic Zones (SEZs), or states offering regional tax holidays.
- **Capital Structure Planning:** Balancing debt vs.
- **Managerial Compensation:** Structuring executive remuneration with tax-exempt perquisites and provident funds rather than pure taxable salary.

ALIGNMENT WITH LEGISLATIVE INTENT

Comprehensive Calicut University Academic Examination Bank: Define the spectrum of tax behavior ranging from legitimate Tax Planning (ethical/lawful) to Tax Avoidance (exploitative/loophole-driven) and Tax Evasion (criminal/fraudulent).

- **Tax Planning (Lawful amp; Ethical):** Tax Planning (Lawful amp; Ethical): Nature: Working within the letter and spirit of the law to claim statutory benefits.
- **Examples:** Setting up a manufacturing unit in an SEZ, claiming additional depreciation u/s 32(1)(iia), deploying unabsorbed losses.
- **Legal Consequence:** Approved and encouraged by tax authorities and courts as legitimate financial optimization.
- **Tax Avoidance (Unethical Exploitation of Loopholes):** Nature: Bending the law without breaking it; using artificial devices that comply with the literal text of the statute while frustrating its legislative intent.
- **Examples:** Treaty shopping via brass-plate shell companies in zero-tax jurisdictions.

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MODULE IV

1. TAX PLANNING IN CAPITAL STRUCTURE DECISIONS: DEBT VS. EQUITY

Tax Planning in Capital Structure Decisions: Debt vs. Equity: The capital structure decision involves determining the optimal proportion of debt capital and equity capital to fund corporate assets.

EQUITY PREFERENCE SHARE CAPITAL

Dividend Policy vs. Issue of Bonus Shares: Corporate management frequently faces the strategic dilemma of whether to distribute surplus earnings as Cash Dividends or capitalize reserves by issuing Bonus Shares:

- **Impact on Corporate Liquidity:** ; Zero cash outflow; liquid funds remain inside the company to finance growth and capital expenditure.
- **Taxability on Receipt [Sec 2(22)]:** ; Completely Exempt on Receipt: Under Section 2(22), the issue of bonus shares is strictly excluded from "deemed dividend".
- **Subsequent Capital Gains Tax:** ; When bonus shares are later sold: Cost of acquisition is deemed to be NIL u/s 55(2)(aa).

SECTION 54EC — CAPITAL GAINS BONDS

Owning vs. Leasing an Asset: Comparative Financial Decision Model: One of the most frequent practical problems in Calicut University examinations requires evaluating whether a company should Buy / Own an asset using debt or Acquire the asset on Lease:

Alternative B: LEASING THE ASSET

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- **The Interest Tax Shield:** Interest paid on loans is tax-deductible u/s 36(1)(iii).
- **Section 94B Anti-Avoidance (Thin Capitalization):** Statutory Cap: If an Indian company borrows from a non-resident Associated Enterprise (or a third party backed by an AE guarantee), deductible interest is capped at 30% of EBITDA.
- **Excess Interest Carry Forward:** Any disallowed interest exceeding 30% of EBITDA can be carried forward for 8 consecutive assessment years, preventing artificial profit shifting to low-tax parent jurisdictions.
- **Cash Dividend Strategy:** For the Company: Drains liquid working capital.
- **For Shareholders:** Fully taxable at slab rates (for individuals, up to 39%) or corporate rates (for companies).

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