

# **Department of Applied Economics and Commerce**

## **Patna University, Patna-05**

**Class:- M.Com semester(IV)                      Subject:- Corporate Tax Planning and Management**

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### **Selection of form of Business Organisation:-**

A business can be either of an Individual or a Joint Hindu Family or a Firm or a Joint Stock Company. The best form of business organization from tax point of view is one which attracts minimum tax liability.

### **IV. Company:-**

A domestic company is liable to pay tax for the assessment year 2020-21 as under:

- (i) Where the total turnover or the gross receipt in the previous year does not exceed 250 crore rupees. **@25%**
- (ii) In any other case **@30%**

**Surcharge:** (i) @7% if total income exceeds Rs. One crore but does not exceed Rs. Ten Crore

(ii) @ 12% if total income exceeds Rs. Ten crore.

### **Marginal Relief:-**

- (i) Where total income exceeds Rs. One crore but does not exceed Rs. Ten crore, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income tax on total income of Rs. One crore by more than the amount of income that exceeds Rs. One crore.
- (ii) Where total income exceeds Rs. Ten crore, the total amount payable as income-tax and surcharge on a total income of Rs. Ten crore by more than the amount of income that exceeds Rs. Ten crore.

Further, a company will be liable to pay Health & Education cess @4% .

**Deduction:-**

- (i) Interest on loan taken for business
- (ii) Remuneration paid to the Managing Director and other staff.
- (iii) U/s 80IB

Tax on income of certain domestic companies (Sec. 115BA)

A domestic company may pay tax @25% (+ surcharge, if any and health & education cess), at its option if it fulfils the following conditions:

**Conditions:**

- (a)** The company has been set up and registered on or after 01.03.2016;
- (b)** The company is not engaged in any business other than the business of manufacture or production of any article or thing research in relation to, or distribution of such article or thing manufactured or produced by it; and
- (c)** The company has not claimed deductions from its income under the following Sections:

**(A)**

- (i) 10AA – Unit in special economic zone; or
- (ii) 32(1) (ia) – Additional depreciation on plant or machinery; or
- (iii) 32AC or 32AD – Investment allowance; or
- (iv) 33AB – Deposit in Tea Development Account etc; or
- (v) 33ABA – Production of petroleum or natural gas in India; or
- (vi) 35 – Payment to outsiders for research or expenditure on in-house research; or
- (vii) 35AC –
- (viii) 35AD – Capital expenditure on specified business; or
- (ix) 35CCC – Expenditure on agricultural extension project; or
- (x) 35CCD – Expenditure on any skill development project; or
- (xi) Deduction u/ss 80IA, 80IAB, 80IAc, 80IB, 80IBA, 80IC, 80ID, 80IE, 80JJA, form gross total income.

**(B)** Brought forward loss

Practice:-

Firm versus company

A and B want to start a business, the estimated profits of which for the year are Rs. 10,00,000. They have two options for selecting a form of organization:

(a) Partnership firm:

- (i) 12% interest on capital of Rs.7,50,000 each.
- (ii) Salary Rs.2,00,000 p.a. each.
- (iii) Equal distribution of remaining profits.

(b) Company:

- (i) Rs. 5,00,000 each as share capital and Rs. 2,50,000 each as loan @15%.
- (ii) Salary Rs.2,00,000 p.a. each.
- (iii) Distribution of remaining profits as dividends equally.

Assumed company is liable to pay income tax @25% +Surcharge +Health & Education cess.

Which option is better from tax point of view?

**Solution:-**

**(a) Partnership firm:**

**Computation of Total Income and Tax Liability  
For the Assessment Year 2020-21**

**Status:- Firm**

**P.Y 2019-20**

Particular	Rs.	Rs.
Estimated profits of business		10,00,000
Less: Interest to partners on Rs. 15,00,000 @ 12% p.a.		1,80,000
Book profits		8,20,000
Less: Remuneration to partners: 90% of Rs.3,00,000	2,70,000	
	3,12,000	
	5,82,000	
Or Rs. 4,00,000 as per deed, whichever is less		4,00,000
Business Income being Total Income		4,20,000
Tax @30%		1,26,000
Add: Surcharge		Nil
		1,26,000
Add: Health & Education cess @4%		5040
Tax Liability		1,31,040

### Computation of Income and Tax Liability of Partners

Particular	A Rs.	B Rs.
Interest	90,000	90,000
Remuneration	2,00,000	2,00,000
Share in Firm	Exempt	Exempt
Total Income	2,90,000	2,90,000
Tax including Health & Education cess @4%	Nil	Nil
	2,90,000	2,90,000
Add: 50% of (Rs. 4,20,000 – 1,31,040)	1,44,480	1,44,480
Net Income of each Partner	4,34,480	4,34,480

Total Net Income = 4,34,480 + 4,34,480 = **8,68,960**

**(b) Company**

### Computation of Total Income and Tax Liability

For the Assessment Year 2020-21

**Status:- Company**

**P.Y 2019-20**

Particular	Rs.	Rs.
Estimated profits of business		10,00,000
Less: Interest on Rs. 5,00,000 @ 15%	75,000	
Remuneration to directors	4,00,000	4,75,000
Business Income being Total Income		<u>5,25,000</u>
Tax @ 25%		1,31,250
Add: Surcharge		Nil
		1,31,250
Add: Health & Education cess @4%		5,250
		<u>1,36,500</u>

Profit after Tax = Rs.5,25,000 – 1,36,500 = Rs.3,88,500

Tax on dividends @ 17.472% ( including Surcharge & Health & Education cess) = Rs. 3,88,500 x 17.472% = Rs. 67,879

### Computation of Income and tax Liability of Directors/Shareholders

Particular	Rs.	Rs.
Salary (2,00,000 – 50,000 standard deduction u/s 16)	1,50,000	1,50,000
Interest	37,500	37,500
Dividend	Exempt	Exempt
Total Income	1,87,500	1,87,500
Tax	Nil	Nil

### Computation of Net Income of Directors/Shareholders

Particular	A Rs.	B Rs.
Salary received	2,00,000	2,00,000
Interest	37,500	37,500
Dividend 50% of (Rs. 3,88,500 – 67,879)	1,60,310	1,60,310
	3,97,810	3,97,810
Less: Tax	Nil	Nil
Net Income	3,97,810	3,97,810

Total Net Income 3,97,810 + 3,97,810 = **Rs. 7,95,620**

**Suggestion:** By comparing of Net Income of Firm and Company it can be said that **Partnership Firm** should be formed

Thanks