Solution for Assignment 8

1. Effective income tax rates are
    a. Incremental rates applicable over range of income
    b. Tax rate before depreciation
    c. Tax rate after depreciation
    d. Tax rate based on gross income

2. While calculating income taxes, interest earned from funds loaned by an individual or corporation is
    a. Considered under allowable deduction
    b. Considered an income
    c. Not considered an income
    d. None of these

3. For constant effective tax rate through realized life of an asset, a shorter recovery period results into relatively
    a. Low annual depreciation and low taxable income
    b. Low annual depreciation and high taxable income
    c. High annual depreciation and high taxable income
    d. High annual depreciation and low taxable income

4. When a depreciable asset of an organization used in business is exchanged or sold for an amount larger than its value,
    a. The organization may get some tax rebate
    b. No taxes are to be paid by the organization
    c. Taxes are to be paid by organization on the gain received
    d. Organization will get some tax rebate on gain received

5. While dealing with after tax replacement analysis, defenders current market value and book value
    a. Must be considered
    b. Must not be considered
    c. Are not important
    d. None of these

6. Income tax amount is calculated based on
    a. Gross income
    b. Taxable income
    c. Gross income-taxable income
    d. Taxable income – Gross income

7. A machine is purchased and installed for Rs. 12 Lakhs. It has a three years useful life. For annual income of Rs. 5 Lakhs and effective income tax rate of 40%, the taxable income in year 1 using SL depreciation schedule is Rupees __________
    a. 1 Lakhs
    b. 4 Lakhs
    c. 5 Lakhs
    d. -1 Lakhs

Solution: Every year depreciation charge = 12 / 3 = 4 Lakhs
Taxable Income = Total income – Depreciation Charge = 5 – 4 = 1 Lakhs (Ans)

8. A person has a taxable income of Rs. 4 Lakhs. The effective tax rate on additional income of Rs. 1.5 Lakhs using the following income tax rate will be

Taxable Income	Upto 2.5 Lakhs	2.5 to 5 Lakhs	5 to 10 Lakhs	>10 Lakhs
Tax Rate	Nil	10% of amount exceeding 2.5 Lakhs	20% of amount exceeding 5 Lakhs	30% of amount exceeding 10 Lakhs

   a. 10%
   b. 20%
   c. 13.33%
   d. 12.5%

Solution: Tax on income of 4 Lakhs = (4 – 2.5) Lakhs x 10% = 15000
Tax on income of 5.5 Lakhs (with additional income) = (5 – 2.5) Lakhs x 10% + 0.5 Lakhs x 20%
= 35000
For additional income of Rs. 1.5 Lakhs, extra tax paid = 20000
Effective tax rate on additional income of Rs. 1.5 Lakhs = 20000 / (1.5 Lakhs) = 13.33% (Ans)

9. A small company has a taxable income that places it in the 35% tax bracket. The amount of taxes that a depreciation charge of Rs. 16,000 would save is
   a. Rs. 0
   b. Rs. 3,200
   c. Rs. 5,600
   d. Rs. 10,400

Solution: Net saved amount = 35% of 16000 = 5600 (Ans)

10. A subcontractor with an effective tax rate of 25% has gross income of Rs. 55,000, other income of Rs. 4,000, operating expenses of Rs. 13,000, and other deductions and exemptions of Rs. 11,000. The income tax due will be
   a. Rs. 7,750
   b. Rs. 8,750
   c. Rs. 10,750
   d. Rs. 13,750

Solution: Income Tax = 25% of (Gross income + other income – operating expenses – exemptions)
= 0.25 x (55000 + 4000 – 13000 – 11000)
= 8750 (Ans)