

MOCK TEST PAPER 1
FINAL (NEW) COURSE : GROUP II
ELECTIVE PAPER 6C: INTERNATIONAL TAXATION
Attempt any four out of five case study based questions.

Each case study carries 25 Marks.

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY - 1

M/s. Shiva Vishnu LLP is a leading tax consultant based at New Delhi. The firm has four resident partners, Mr. Shiva, Mr. Vishnu, Mr. Ganesh and Mr. Karthik. As per the partnership deed, the profits and losses are shared equally amongst partners. All partners are working partners and salary is paid to all partners as per the terms of the partnership deed.

One of the partners, Mr. Vishnu sold listed equity shares of B Ltd (STT was paid both at the time of purchase and sale) on 23rd January, 2019 for Rs.2,70,000. The said shares were purchased by him on 15th January, 2018 for Rs.2,75,000. The fair market value of such shares on 31st January, 2018 was Rs.2,50,000. He sold residential house owned by him in Pune for Rs.22 lakhs on 24th February, 2019. The said land was purchased by him for Rs.11 lakhs on 22nd February, 2017.

The LLP provides direct taxes consultancy services. Over the last couple of years, they have taken up few assignments in the area of international taxation. These assignments relate to double taxation avoidance agreements, non-resident taxation, transfer pricing and other international taxation matters.

The details of some of the assignments are as follows -

Assignment 1 [Client – Ganges Ltd.]

Ganges Ltd. is an Indian Company in which Nile Inc., a Country E company holds 40% shareholding and voting power. During the previous year 2016-17, the Indian company supplied computers to the Country E based company @CED 1100 per piece. The price of computer supplied to other unrelated parties in Country E is @CED 1400 per piece. During the course of assessment proceedings relating to A.Y.2017-18, the Assessing Officer carried out primary adjustments and added a sum of Rs. 168 lakhs, being the difference between actual price of computer and arm's length price for 700 pieces and it was duly accepted by the assessee. The Assessing Officer passed the order, in which the primary adjustments were made, on 1.6.2018. On account of this adjustment, the excess money of Rs. 168 lakhs is available with Nile Inc, Country E. In this context, Ganges Ltd. wants to know the effect of this transaction for the assessment year 2019-20 on the basis that it declared an income of Rs. 300 lakhs and the excess money is still lying with Nile Inc. till today. Assume the rate of exchange as 1 CED = Rs. 80. [CED stands for Country E Dollars, which is the currency of Country E]

Assignment 2 [Client – Godavari Ltd.]

Godavari Ltd., a resident Indian Company, on 01-04-2018 has borrowed Rs. 80 crores from M/s. Mississippi Inc, a Company incorporated in Country F, at an interest rate of 8% p.a. The said loan is repayable over a period of 12 years. Further, loan is guaranteed by M/s Amazon Inc incorporated in Country F. M/s. Colorado Inc, a non-resident, holds shares carrying 40% of voting power both in M/s Godavari Ltd. and M/s Amazon Inc. M/s Colorado Inc has also deposited Rs. 80 crores with M/s Mississippi Inc.

The net profit of M/s. Godavari Ltd. was Rs. 7 crores after debiting the above interest, depreciation of Rs. 4 crores and income-tax of Rs. 2.70 crores. Godavari Ltd. wants to know if interest is allowable as deduction under the head "Profits and gains of business or profession" and if so, to what extent.

Assignment 3 [Client – Ms. Sheetal]

Ms. Sheetal is a resident Individual. She has income from the following sources:

- (i) Taxable income from a sole-proprietary concern in Baroda Rs. 80 lakhs.
- (ii) Share of profit from a partnership firm in Bhopal Rs. 40 lakhs.
- (iii) Agricultural Income (Gross) from coffee estate in Country G which has no DTAA with India, CGD 40000. Withholding Tax on the above income CGD 8000
- (iv) Brought forward business loss of F.Y.2014-15 in Country G was CGD 12000 which is not permitted to be set off against other income as per the laws of that country.

Ms. Sheetal desires to know her total income and tax liability for the A.Y. 2019-20 (Assume 1 CGD = Rs.50). [CGD stands for Country G Dollars which is the currency of Country G]

Based on the above facts, answer the following questions –

Multiple Choice Questions

Write the most appropriate answer to each of the following questions by choosing one of the four options given. Each question carries two marks.

1. Would the total income of A.Y.2019-20 of Ganges Ltd. undergo a change if –

- (i) the primary adjustment made was Rs.90 lakhs;
- (ii) the said adjustment pertained to P.Y.2015-16?

The correct answer is -

- (a) No, the total income of A.Y.2019-20 would not undergo any change due to the reasons stated in either (i) or (ii) above.
 - (b) Yes, the total income of A.Y.2019-20 would undergo a change due to the reason stated in (i) but not due to the reason stated in (ii) above.
 - (c) Yes, the total income of A.Y.2019-20 would undergo a change due to the reason stated in (ii) but not due to the reason stated in (i) above .
 - (d) Yes, the total income would undergo a change due to the reasons stated in both (i) and (ii) above.
2. Interest payable by Godavari Ltd. to Mississippi Inc. would be subject to limitation of interest deduction because –
- (i) M/s. Colorado Inc. holds shares carrying 40% voting power in Godavari Ltd.
 - (ii) M/s. Colorado Inc. holds shares carrying 40% voting power both in Godavari Ltd. and M/s. Amazon Inc
 - (iii) M/s. Amazon Inc. guarantees the loan taken by Godavari Ltd. from M/s. Mississippi Inc.
 - (iv) M/s. Colorado Inc. has deposited Rs.80 crores with M/s. Mississippi Inc.

The most appropriate answer is -

- (a) (i) and (iv) above

- (b) (ii) and (iii) above
 - (c) (i) and (iii) above
 - (d) Either (a) or (b)
3. While computing total income of Ms. Sheetal under the Income-tax Act, 1961, brought forward business loss in Country G –
- (i) can be set-off against her business income from sole-proprietorship in Baroda
 - (ii) cannot be set-off against her business income from sole-proprietorship in Baroda since such set-off is not permitted as per the tax laws of Country G
 - (iii) should not be deducted while computing doubly taxed income for the purpose of deduction under section 91
 - (iv) has to be deducted while computing doubly taxed income for the purpose of deduction under section 91

Which of the above statements are correct?

- (a) (i) and (iii)
 - (b) (ii) and (iii)
 - (c) (i) and (iv)
 - (d) (ii) and (iv)
4. If Ms. Sheetal derived share income from a partnership firm in Country G which is taxable under the laws of Country G, then, assuming that the shares of the partners are not specified in the instrument evidencing partnership since the same is not a requirement as per the laws of Country G, which of the following statements would be correct?
- (i) Share income of Ms. Sheetal from the partnership firm would be taxable under the Income-tax Act, 1961
 - (ii) Share income of Ms. Sheetal from the partnership firm would be exempt under section 10(2A) of the Income-tax Act, 1961
 - (iii) Share income of Ms. Sheetal from the partnership firm would be included in “doubly taxed income” for the purpose of deduction under section 91
 - (iv) Share income of Ms. Sheetal from the partnership firm would not be included in “doubly taxed income” for the purpose of deduction under section 91

The correct answer is –

- (a) (i) and (iii)
- (b) (i) and (iv)
- (c) (ii) and (iii)
- (d) (ii) and (iv)

5. In relation to the transaction of sale of shares and land by Mr. Vishnu, which of the following statements are correct, in the context of the facts given in the case study and the provisions contained in the Income-tax Act, 1961 –
- Long-term capital loss (computed) on sale of listed equity shares by Mr. Vishnu cannot be set-off against long-term capital gains on sale of land by him, since loss from an exempt source cannot be set-off against gains from a taxable source.
 - Long-term capital loss (computed) on sale of listed equity shares by Mr. Vishnu can be set-off against long-term capital gains on sale of land by him.
 - Long-term capital gains (computed) on sale of listed equity shares by Mr. Vishnu is includible in computation of total income but not taxable.
 - Long-term capital gains (computed) on sale of listed equity shares by Mr. Vishnu is exempt, and hence not includible while computing total income.

DESCRIPTIVE QUESTIONS

- Ganges Ltd. wants to know the effect of the transaction of supply of computers to Nile Inc., in respect of which the Assessing Officer carried out primary adjustments in computing the total income for A.Y.2019-20, considering that the excess money is still lying with Nile Inc. **(3 Marks)**
 - Is the interest payable by Godavari Ltd. to M/s. Mississippi Inc. allowable as deduction while computing the total income of Godavari Ltd.? If so, to what extent? **(5 Marks)**
- Compute the total income and tax liability of Ms. Sheetal for A.Y.2019-20. **(7 Marks)**

CASE STUDY - 2

Mr. Eashwar, an Indian citizen aged 55 years, carries on the business of trading in garments in India. He has also set up a branch office in Country X and Country Y for trading in garments in those countries. He visits Country X and Y frequently for furtherance of his business. During the P.Y.2018-19, he made three visits to Country X from 13th May, 2018 to 13th June, 2018, from 18th August, 2018 to 5th October, 2018 and from 17th January, 2019 to 4th February, 2019. He visited Country Y thrice from 3rd April, 2018 to 24th April, 2018, from 4th July, 2018 to 14th August, 2018 and 5th March, 2019 to 20th March, 2019. The number of days of his stay in Country X and Y during the past ten years is as follows –

Previous Year (P.Y.)	No. of days in Country X	No. of days in Country Y
P.Y.2017-18	97	78
P.Y.2016-17	95	85
P.Y.2015-16	98	82
P.Y.2014-15	100	80
P.Y.2013-14	103	75
P.Y.2012-13	110	70
P.Y.2011-12	120	60
P.Y.2010-11	118	60
P.Y.2009-10	115	62
P.Y.2008-09	108	72

He has not visited any other country in the last 10 years. He has a passion for writing and has written two literary books, from which he earns royalty income in Country X. He has purchased agricultural land in Country X. In Country Y, he has purchased a house, which he has let out. He has invested in shares of a company incorporated in Country Y. The following are the particulars of income earned by him in India, Country "X" and Country "Y" for the previous year 2018-19.

Particulars	Rs.
Income from the business of trading in garments	
In India	34,30,000
In Country X	10,45,000
In Country Y	(1,30,000)
Agricultural income in Country "X" (gross) (taxable in Country X)	1,25,000
Dividend received from a company incorporated in Country "Y" (gross) (taxable in Country Y)	40,000
Royalty income from a literary book from Country "X" (gross) (taxable in Country X)	4,00,000
Expenses incurred for earning royalty	40,000
Rent from a house situated in Country "Y" (gross) (taxable in Country Y)	1,80,000
Municipal tax in respect of the above house (not allowed as deduction in country "Y")	10,000

Note: Business loss in Country "Y" not eligible for set off against other incomes as per law of that country.

The rates of tax in Country "X" and Country "Y" are 20% and 30%, respectively.

Mr. Eashwar's younger brother, Mr. Karan, aged 48 years, earns income from a business in Country Z.

Mr. Eashwar's elder sister, Mrs. Radha Srinivas, aged 61 years, is married and settled in Calcutta. She is a Hindustani classical singer and composer who gives concerts in India and Country W. She visits Country W every year during the music season in October to participate in the Mega music concert held there. For the rest of the year, she gives concerts in India. She earns Rs.10 lakhs from concerts held in India and CWD 10145 from concerts held in Country W. Tax deducted in Country W in October, 2018 in respect of income earned by her in that country was 2500 CWD. She earns income of CUD 10000 by way of royalty in respect of copyright of her musical compositions in Country U. The royalty is paid to her every year on 25th March after deduction of tax@10%. In India, she has interest income of Rs.4 lakhs from fixed deposits in her name and Rs.25,000 from savings bank account. She pays medical insurance premium of Rs.27,000 to insure her health and Rs.30,000 to insure the health of her husband, a resident aged 64 years. She deposits Rs.1.50 lakhs in public provident fund and Rs.3 lakhs in five-year fixed deposit in the name of her son, Mr. Ramesh. The conversion rates are as follows -

TT buying rate	30.9.2018	31.10.2018	28.2.2019	31.3.2019
Country U dollar (CUD)	Rs.70	Rs.74	Rs.78	Rs.80
Country W dollar (CWD)	Rs.70	Rs.72	Rs.68	Rs.69

Based on the above facts, answer the following questions, assuming that India has –

- no double taxation avoidance agreement with Countries W, X and Y;
- a double taxation avoidance agreement with Country Z in line with OECD Model Convention, 2017

- (iii) a double taxation avoidance agreement with Country U in line with UN Model Convention, 2017
- (iv) India follows credit method for providing double taxation relief with respect to taxes paid in Countries Z and U.

Multiple Choice Questions

Write the most appropriate answer to each of the following questions by choosing one of the four options given. Each question carries two marks.

1. The total income of Mr. Eashwar for the A.Y.2019-20 is -
 - (a) Rs.46,89,000
 - (b) Rs.48,19,000
 - (c) Rs.49,89,000
 - (d) Rs.51,19,000
2. For the purpose of computing deduction under section 91 for A.Y.2019-20, the “doubly taxed income” of Mr. Eashwar in respect of income earned in Country X and Country Y would be –
 - (a) Rs.15,30,000 and Rs.1,59,000, respectively
 - (b) Rs.12,30,000 and Rs.1,59,000, respectively
 - (c) Rs.15,30,000 and Rs.29,000, respectively
 - (d) Rs.12,30,000 and Rs.29,000, respectively
3. The rebate under section 91 available to Mr. Eashwar for A.Y.2019-20 is –
 - (a) Rs.2,53,842
 - (b) Rs.3,48,995
 - (c) Rs.3,13,842
 - (d) Rs.2,88,995
4. As per the India-Country Z DTAA and India-Country U DTAA, royalty, if any, arising to Mr. Karan and Ms. Radha Srinivas in Country Z and Country U, respectively, would be taxable –
 - (a) Only in India
 - (b) Royalty arising to Mr. Karan may be taxed either in India or in Country Z and royalty arising to Ms. Radha Srinivas may be taxed either in India or in Country U
 - (c) Royalty arising to Mr. Karan would be taxable only in India; Royalty arising to Ms. Radha Srinivas may be taxed either in India or in Country U
 - (d) Royalty arising to Ms. Radha Srinivas would be taxable only in India; Royalty arising to Mr. Karan may be taxed either in India or in Country Z
5. Let us suppose that, as per the DTAA between India and Country U, a particular income earned by Mrs. Radha Srinivas in Country U may be taxed in Country U. While computing her total income under the Income-tax Act, 1961, the said income –
 - (a) should not be taken into account at all
 - (b) should be taken into account; thereafter, deduction is to be allowed from the tax payable in India on her total income.
 - (c) may be taken into account in order to compute the amount of tax on the remaining income.

- (d) may be taken into account; thereafter, deduction may be allowed from the tax payable in India on her total income.

DESCRIPTIVE QUESTIONS

1. Determine the residential status of Mr. Eashwar for A.Y.2019-20. (5 Marks)
2. Compute the total income and tax liability of Ms. Radha Srinivas for A.Y.2019-10, and determine the foreign tax credit available to her. (10 Marks)

CASE STUDY - 3

Mr. Arjun, aged 52 years, carries on in Mumbai, business of trading of spices grown in his own spice gardens in Munnar. He also has spice gardens in Country Z, and he derives income from Country Z from sale of spices grown therein. He stays in India during the entire month of May, July, September, November, January and March. He stays in Country Z during the months of April, June, August, October, December and February. As per the domestic laws of Country Z, he would be resident of that country if his stay in that country is for 180 days or more. Mr. Arjun owns a flat in Juhu, Bombay, where he lives with his wife, two children, and his parents. He also owns a flat in Thane which he has let out. He owns a residential house in Country Z where he stays when he visits Country Z. Mr. Arjun is passionate artist and has showcased his paintings in art exhibitions in Mumbai. He has saving deposits in SBI from which he earned interest of Rs.42,300 in the P.Y.2018-19. He deposited Rs.1,50,000 in public provident fund and paid Rs.28,000 as mediclaim premium to insure his health and that of his spouse. He also paid Rs.32,000 to insure the health of his parents.

Mr. Arjun holds 100 equity shares in each of the four Indian companies, namely, ABC Ltd., PQR Ltd., EFG Ltd and HIJ Ltd. The particulars of businesses carried on/services provided by these companies are detailed hereunder –

Company	Particulars
ABC Ltd.	It is engaged in manufacturing spices in India and has a branch in Country Z and Country L. It effects sale of spices to customers, P and Q through its branch in Country Z; and customers, J and K through its branch in Country L. In addition, it also effects sale of spices to bulk customers M and N in Country Z and bulk customers O and Q in Country L, directly.
PQR Ltd.	It is engaged in lending business and it also has a branch in Country L and Country Z. It has given a loan to L & Co., a firm located in Country L at interest taxable @ 20% as per the domestic tax laws of Country L. It has also given a loan to Z & Co., a firm located in Country Z, at interest taxable @ 8% as per the domestic tax laws of Country Z.
EFG Ltd.	It is engaged in assembly projects in India. It has also set up assembly projects in Country Z and Country L. In Country Z, the project was set up on 28 th March, 2018 and lasted upto 30 th March, 2019. In Country L, the project was set up on 5 th May, 2018 and lasted upto 31 st October, 2018.
HIJ Ltd.	It is engaged in providing technical consultancy services to clients in India and abroad. It provides technical consultancy to clients in Country Z and Country L, respectively, through personnel engaged by it for such purposes. The personnel so engaged for Country Z project stayed in Country Z from 3 rd June, 2018 to 25 th January 2019 in the P.Y.2018-19. The personnel so engaged for Country L project stayed in Country L from 10 th July, 2018 to 24 th December 2018 in the P.Y.2018-19.

Mr. Arjun sold part of the equity shares held by him in each of the above companies. The details of the shares are given below -

Name of Co.	No. of shares	Date of acquisition	Cost of acquisition (per share)	Date of transfer	Sale price (per share)	FMV as on 31.1.2018
ABC Ltd.	40	28.12.2017	Rs.1,000	2.1.2019	Rs.7,500	Rs.2,000
PQR Ltd.	25	30.11.2017	Rs.3,000	28.12.2018	Rs.5,000	Rs.6,500
EFG Ltd.	45	1.1.2018	Rs.2,000	15.1.2019	Rs.3,000	Rs.1,500
HIJ Ltd.	10	15.1.2018	Rs.4,000	2.3.2019	Rs.2,500	Rs.6,000

Based on the above facts, answer the following questions, assuming that India has –

- a double taxation avoidance agreement with Country Z in line with OECD Model Convention, 2017
- a double taxation avoidance agreement with Country L in line with UN Model Convention, 2017
- India follows credit method for providing double taxation relief with respect to taxes paid in Countries Z and L.

Multiple Choice Questions

Write the most appropriate answer to each of the following questions by choosing one of the four options given. Each question carries two marks.

- For ABC Ltd., which of the following is a criterion for residency in India's DTAA with Country L but not in India's DTAA with Country Z –
 - Place of management
 - Place of incorporation
 - Neither (a) nor (b)
 - Both (a) and (b)
- As per the DTAA entered into by India with Country Z and Country L, the assembly projects set up by EFG Ltd. in those countries would –
 - constitute a PE in both countries
 - not constitute a PE in either country Z or Country L
 - constitute a PE in Country Z but not constitute a PE in Country L
 - constitute a PE in Country L but not constitute a PE in Country Z.
- As regards provision of technical consultancy services by HIJ Ltd. to its clients in Country Z and Country L through personnel engaged by them for such purposes, which of the following statements is correct, as per the DTAAs entered into by India with those countries?
 - Provision of such services would constitute a PE in both cases
 - Provision of such services would not constitute a PE in either case
 - Provision of such services would constitute a PE in Country Z but not in Country L
 - Provision of such services would constitute a PE in Country L but not in Country Z
- As regards taxability of profits earned by ABC Ltd. from sale of spices to customers through its branches in Country Z and L and profit from sale of spices to customers in Country Z and L directly, which of the following statements is correct, considering the DTAA entered into by India with such countries?

- (a) ABC Ltd. will be subject to tax in Country Z and Country L, to the extent of profits earned from sales effected to customers through its branches located therein.
 - (b) ABC Ltd. will be subject to tax in Country Z and Country L on entire profits earned from sales effected to customers located therein, whether through its branches or directly.
 - (c) ABC Ltd. will be subject to tax in Country Z in respect of profits earned from sales effected to customers through its branch located therein and in Country L on entire profits earned from sales effected to customers located therein, whether through its branch or directly.
 - (d) ABC Ltd. will be subject to tax in Country L in respect of profits earned from sales effected to customers through its branch located therein and in Country Z on entire profits earned from sales effected to customers located therein, whether through its branch or directly.
5. As regards taxability of interest received/receivable by PQR Ltd. on loan given to L & Co. and Z & Co., which of the following statements is correct, considering the DTAA entered into by India with such countries?
- (a) Country L and Z can tax such interest in the hands of PQR Ltd. at its domestic tax rates, namely, 20% and 8%, respectively.
 - (b) Country L and Z cannot tax such interest in the hands of PQR Ltd. since interest is taxable only in India, being the country of residence of PQR Ltd.
 - (c) Country L and Z can tax such interest in the hands of PQR Ltd. at a rate, not exceeding the maximum rate to be established through bilateral negotiations
 - (d) Country Z can tax such interest in the hands of PQR Ltd. at a rate of 8%. However, Country L can tax such interest in the hands of PQR Ltd. at a rate, not exceeding the maximum rate to be established through bilateral negotiations.

DESCRIPTIVE QUESTIONS

1. Examine whether Arjun would be treated as a resident of India or Country Z, as per the relevant article of the DTAA between India and Country Z **(6 Marks)**
2. Compute the capital gains of Arjun, assuming that the equity shares of all four companies are listed, and securities transaction tax has been paid both at the time of purchase and sale of such shares.
Also, compute the tax liability of Mr. Arjun, assuming that income computed under the head "Profits and gains of business and profession" is Rs.18,50,000 and income from house property (computed) is Rs.5,25,000. **(9 Marks)**

CASE STUDY - 4

Holding Ltd. is the Indian parent company of a group of various multinational companies having diversified business portfolio. Its group companies are spread across Country A, Country B, Country C and Country D:

Holding Ltd undertakes various transactions with its subsidiaries situated in the countries mentioned above at a predetermined profit margin. One of its subsidiaries Beyond Ltd. (Country A) is engaged in the business of manufacturing and trading of wagons. Holding Ltd purchased a wagon from Beyond Ltd for \$15,000 which included warranty for 3 months. The identical wagon was purchased by Holding Ltd by paying \$14,000 from completely unrelated party with 1 year of warranty. Fair value of warranty is \$700 for one year. However, Beyond Ltd provided credit of 4 months to Holding Ltd. Arm's length interest rate is 9% p.a. Net profit before tax of Holding Ltd. is Rs.25,00,000. Assume 1 \$ = Rs.50.

Mr. Yatish is the employee of the War Ltd. (Country B). War Ltd is the associate enterprise of Holding Ltd. Mr. Yatish, Citizen of Country B, came on deputation to Holding company. He came to India for the first time on 25th April, 2018 and left India on 21th October, 2018. For the F.Y. 2018-19, Yatish has earned salary of Rs.15,00,000 in India and Rs.23,00,000 in Country B. Out of that Rs.23,00,000 earned in Country B, Rs. 9,00,000 was received in India and Rs.14,00,000 was received in Country B.

Elizabeth Ltd (Country C) is one of the subsidiary companies of the Holding Ltd. Elizabeth Ltd. has filed a case in a High Court in India regarding interpretation of one of the clauses of the India-Country C DTAA and it has made reference to the decision given by Supreme Court of Justice Country E regarding the interpretation of a similar matter in Country E – Country F DTAA. However, the Income-tax department has contended that such reference of Foreign Court decision cannot be made in an Indian Court for interpretation of treaties.

Statue Ltd (Country D) has office in Pune which undertakes storage, display as well as delivery of the goods to the Indian customers. All sales orders and contracts are executed by the head office in Singapore.

Assume that India has a DTAA with Country A, Country B, Country C and Country D in line with the OECD Model Tax Convention 2017.

Another Indian company, Signature Ltd., has earned following income in Country Y:

Income	Date of Accrual of Income
Dividend	25 th May, 2018
Profit of Shipping Business	12 th December, 2018
Capital Gain	31 st March, 2019

Based on the above facts, answer the following questions –

Multiple Choice Questions

Write the most appropriate answer to each of the following questions by choosing one of the four options given. Each question carries two marks.

- India-Country B DTAA was signed on 1st July, 2016. However, TDS provisions of Goods and Service Tax Act came in force on 1st October, 2018. Whether such provisions will be covered in the India-Country B DTAA?
 - Yes, it will be covered
 - No, it won't be covered
 - Will be covered if India-Country B enters into fresh agreement to that effect
 - Will be covered if fresh DTAA is made.
- Mr. Diana, resident and ordinarily resident, did not disclose foreign asset worth Rs.25 Lakh in income tax return. Calculate the amount of penalty leviable under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015-
 - Rs. 25 Lakh
 - Rs.50 Lakh
 - Rs.10 Lakh
 - Rs.1 Crore

3. In the interpretation of the treaty, the provisions shall be interpreted in such a way that it enables provisions of the treaty to work and to have their appropriate effects. Which of the following basic principle suggest the above:
 - (a) Purposive Interpretation
 - (b) The principle of effectiveness
 - (c) Liberal Construction
 - (d) Reasonableness and Consistency
4. Following details are given for Signature Ltd. in respect of Dividend received by it from Country Y:

TTBR on 30th April, 2018 – Rs.65/ CYD
 TTSR on 30th April, 2018 – Rs.66/ CYD
 TTBR on 25th May, 2018 – Rs.65/ CYD
 TTSR on 25th May, 2018 – Rs.66/ CYD

State the specified date and rate of exchange respectively for conversion of dividend.

 - (a) 30th April, 65/CYD
 - (b) 30th April, 65.5/CYD
 - (c) 25th May, 65/CYD
 - (d) 30th April, 66/CYD
5. Holding Ltd has advanced loan to Non-Resident company of Rs. 60 Crores. Is the company required to furnish information in Form 15CA in respect of this transaction and if so, in which part?
 - (a) Part B of Form 15CA
 - (b) Part C of Form 15CA
 - (c) Part D of Form 15CA
 - (d) Not required to furnish Form 15CA

Descriptive Questions

1. Calculate Holding Ltd'.s profit chargeable to tax after transfer pricing adjustments. **(5 Marks)**
2. Determine residential status of Mr. Yatish for A.Y. 2019-2020 and calculate Mr. Yatish's income which will be chargeable to tax in India. (Double taxation relief may be ignored) **(6 Marks)**
3. Analyse the correctness of contention made by the Income-tax department in the case filed by Elizabeth Ltd. **(2 Marks)**
4. State whether, Statue Ltd.'s office in India will constitute Permanent Establishment in India. **(2 Marks)**

CASE STUDY - 5

Rio Grande Inc, a notified Foreign Institutional Investor (FII), derived the following incomes for the financial year 2018-19:-

- (1) Interest received on investment in Rupee Denominated Bonds of Cauvery Ltd., an Indian company issued in March, 2018 - Rs.4,70,000

- (2) Dividend from listed equity shares of Indian companies – Rs.2,80,000
- (3) Interest on securities – Rs.15,48,000 (Expenses of Rs.13,000 has been incurred to earn such income)
- (4) **Income from sale of securities and shares:**

(i) **Bonds of Vaigai Ltd.**

[Date of purchase 7th July 2015; Date of sale 5th February, 2019]

Sale proceeds Rs. 58,00,000

Cost of purchase Rs. 29,00,000

Cost Inflation Index: F.Y.2015-16:254; F.Y.2018-19:280

(ii) **Listed equity shares of Mahanadi Ltd.**

[Date of purchase – 5th June, 2018; Date of sale – 4th January, 2019]

Sale Consideration Rs. 14,50,000

Purchase cost Rs. 6,00,000

[STT paid both at the time of purchase and sale]

(iii) **Unlisted equity shares of Godavari Ltd.**

[Date of purchase – 2nd August, 2018; Date of sale – 29th March, 2019]

Sale Consideration Rs. 7,80,000

Purchase cost Rs. 2,65,000

Rio Grande Inc. wants to know its total income and tax liability for the A.Y. 2019-20. It has no other income during the F.Y.2018-19.

Zara Ltd. is a company resident in Country A. It had set-up a liaison office at Calcutta to receive trade inquiries from customers in India. The work of the liaison office is not only restricted to forwarding of the trade inquiries to Zara Ltd. but the liaison office also negotiates and enters into contracts on behalf of Zara Ltd. with the customers in India. Zara Ltd. wants to know whether setting up of a liaison office would constitute business connection in India.

Based on the above facts, answer the following questions –

Multiple Choice Questions

Write the most appropriate answer to each of the following questions by choosing one of the four options given. Each question carries two marks.

1. In respect of interest payable to Rio Grande Inc. on Rupee Denominated Bonds issued outside India by Cauvery Ltd., –
 - (a) tax is deductible at source at the rates in force under section 195
 - (b) tax is deductible at source@5.2%.
 - (c) tax is deductible at source@20.8%
 - (d) no tax is deductible at source.

2. If we assume that Rupee Denominated Bonds were issued outside India by Cauvery Ltd. in October, 2018 and Zara Ltd. has also subscribed to such bonds, then, in respect of interest payable to Zara Ltd. on such rupee denominated bonds,
 - (a) tax is deductible at source at the rates in force under section 195
 - (b) tax is deductible at source@5.2%.
 - (c) tax is deductible at source@10.4%
 - (d) no tax is deductible at source.
3. If we assume that Rio Grande Inc. had purchased listed shares of Vaigai Ltd. (STT paid) and not bonds, the date of purchase and sale remaining the same as given in respect of bonds, the entire capital gains arising on sale of such shares would be -
 - (a) Exempt from tax
 - (b) taxable@20% with indexation benefit.
 - (c) taxable@10% without indexation benefit.
 - (d) None of the above.
4. If the liaison office set up in India by Zara Ltd. does not conclude contracts in India but habitually plays the principal role leading to conclusion of service contracts, then, the activities of the liaison office -
 - (a) would not constitute business connection for attracting deemed accrual provisions under section 9(1)(i), since it does not actually conclude contracts.
 - (b) would not constitute business connection for attracting deemed accrual provisions under section 9(1)(i), since contract is for provision of services by Zara Ltd. and not purchase and sale of goods
 - (c) would not constitute business connection due to reasons states in (a) and (b) above
 - (d) constitutes business connection for attracting deemed accrual provisions under section 9(1)(i).
5. What are the provisions which have been incorporated in Indian tax laws in line with BEPS Action 1?
 - (i) Expansion of scope of business connection to include activities of an agent who habitually plays a principal role leading to conclusion of contracts
 - (ii) Expansion of scope of business connection to include activities which constitute significant economic presence
 - (iii) Introduction of equalization levy
 - (a) Only (iii) above
 - (b) (i) and (iii) above
 - (c) (ii) and (iii) above
 - (d) (i), (ii) and (iii) above.

DESCRIPTIVE QUESTIONS

1. Compute the total income and tax liability of Rio Grande Inc. for A.Y.2019-20. **(12 Marks)**
2. Would the activities carried out by the liaison office set up in India by Zara Ltd. constitute business connection to attract deemed accrual provisions under section 9(1)? **(3 Marks)**