MOCK TEST PAPER 1

FINAL (NEW) COURSE : GROUP II

ELECTIVE PAPER 6C: INTERNATIONAL TAXATION

SOLUTION TO CASE STUDY 1

I. ANSWERS TO MCQs (Most appropriate answers)

Q. No.	Answer
1	(a)
2	(d)
3	(c)
4	(a)
5	(b)

II. Answers to Descriptive Questions

Answer to Q.1

(a) In this case, Ganges Ltd., the Indian company, and Nile Inc., a Country E company, are deemed to be associated enterprises as per section 92A(2) since Nile Inc. holds more than 26% voting power in Ganges Ltd.

On account of the primary adjustment of Rs.168 lakhs made by the Assessing Officer, the total income of Ganges Ltd. for A.Y.2017-18 would increase by Rs.168 lakhs. In this case, secondary adjustment has to be made under section 92CE, since –

(1) The company has accepted the primary adjustment made by the Assessing Officer;

(2) The primary adjustment is in respect of A.Y.2017-18; and

(3) The primary adjustment exceeds Rs.100 lakhs.

Accordingly, the excess money (i.e., Rs.168 lakhs) available with the associated enterprise (i.e., Nile Inc., Country E) not repatriated to India within 90 days of the date of the order of the Assessing Officer would be deemed as an advance made by the Ganges Ltd. to its associated enterprise, Nile Inc. Interest would be calculated on such advance at the rate of six month LIBOR as on 30th September + 3%, since the international transaction is denominated in foreign currency. Such interest computed upto 31.3.2019 would be added to his total income for A.Y.2019-20.

(b) If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise (AE) and such interest exceeds Rs. 1 crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

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Further, where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction would be applicable.

In the present case, since M/s Colorado Inc holds 40% of voting power i.e., more than 26% of voting power in both Godavari Ltd and M/s Amazon Inc, Godavari Ltd. and M/s Amazon Inc are deemed to be associated enterprises.

Since loan of Rs. 80 crores taken by Godavari Ltd., an Indian company from M/s Mississippi Inc, is guaranteed by M/s Amazon Inc, an associated enterprise of Godavari Ltd., such debt shall be deemed to have been issued by an associated enterprise and interest payable to M/s Mississippi Inc shall be considered for the purpose of limitation of interest deduction under section 94B.

Computation of interest to be allowed in the computation of income under the head profits and gains of business or profession of M/s.Godavari Ltd.

Particulars	Rs.
Net profit	7,00,00,000
Add: Interest already debited (Rs. 80 crores x 8%)	6,40,00,000
Depreciation	4,00,00,000
Income tax	2,70,00,000
EBITDA	**20,10,00,000**
Interest paid or payable by Godavari Ltd.	6,40,00,000
Less: Excess interest – Lower of	
Interest paid or payable in excess of 30% of EBITDA	
- Rs. 6,40,00,000 (-) Rs. 6,03,00,000 Rs. 37,00,000	
Interest paid or payable to non-resident AE Rs. 6,40,00,000	
	37,00,000
Interest allowable as deduction	**6,03,00,000**

Note – *Since Colorado Inc., an associated enterprise of Godavari Ltd., has deposited a matching amount of Rs. 80 crores with Mississippi Inc., the interest payable by Godavari Ltd. to Mississippi Inc. on loan of Rs. 80 crores borrowed from Mississippi Inc. would be subject to limitation of interest deduction on the basis of this line of reasoning also.*

Answer to Q.2

Computation of taxable income and tax payable by Ms. Sheetal for A.Y. 2019-20

Particulars	Rs.	Rs.
Profits and gains from business and profession		
Income from sole proprietary concern in Baroda	80,00,000	
Share of profit, Rs. 40 lakhs, from a partnership firm in Bhopal is exempt	Nil	
Business profit	80,00,000	

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Less: Business Loss[1] in Country G (CGD 12,000 x Rs. 50/CGD)	6,00,000	
		74,00,000
Income from Other Sources		
Agricultural income from coffee estate in Country G, is taxable in India (CGD 40,000 x Rs. 50/CGD)		20,00,000
Gross Total Income/ Total Income		**94,00,000**
Tax on total income		
Tax on Rs. 94,00,000 [30% x Rs. 84,00,000 plus Rs. 1,12,500]		26,32,500
Add: Surcharge@10%, since total income exceeds Rs. 50 lakhs		2,63,250
		28,95,750
Add: HEC@4%		1,15,830
		30,11,580
Average rate of tax in India [i.e., Rs. 30,11,580/Rs. 94,00,000 x 100]	32.04%	
Average rate of tax in Country G [i.e., CGD 8,000/CGD 40,000]	20%	
Doubly taxed income [Rs. 20,00,000 – Rs. 6,00,000]	14,00,000	
Rebate under section 91 on Rs. 14,00,000 @20% (lower of average Indian tax rate and rate of tax in Country G]		2,80,000
Tax payable in India [Rs. 30,11,580 – Rs. 2,80,000]		**27,31,580**

Note: *Since Ms.Sheetal is resident in India for the P.Y.2018-19, her global income would be subject to tax in India. She would be allowed deduction under section 91 since all the following conditions are fulfilled:-*

(a) She is a resident in India during the relevant previous year.

(b) Agricultural income from coffee estate accrues or arises to her outside India in Country G during that previous year.

(c) Such agricultural income is not deemed to accrue or arise in India during the previous year.

(d) Such agricultural income has been subjected to income-tax in Country G in her hands and she has paid tax on such income in Country G.

(e) There is no agreement under section 90 for the relief or avoidance of double taxation between India and Country G, where the income has accrued or arisen.

SOLUTION TO CASE STUDY 2

I. ANSWERS TO MCQs

MCQ No.	Answer
1.	a
2.	d

[1] Since the eight year period from A.Y.2015-16, being the assessment year in which such business loss was incurred, has not expired, the business loss can be set-off against current year business income

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3.	a
4.	c
5.	b

II. ANSWERS TO DESCRIPTIVE QUESTIONS

Answer to Q.1

Determination of residential status of Mr. Eashwar for A.Y.2019-20

No. of days of stay in Country X = 32 days + 49 days +19 days = 100 days

No. of days of stay in Country Y = 22 days + 42 days +16 days = 80 days

No. of days of stay in India = 365 days – 100 days – 80 days = 185 days

Since Mr. Eashwar's stay in India is for 185 days (i.e., 182 days or more) in the P.Y.2018-19, he is resident in India for A.Y.2019-20.

For determining whether he is resident and ordinarily resident in the A.Y.2019-20, the number of days of his stay in India in the last seven previous years is relevant -

Previous Year (P.Y.)	No. of days in Country X	No. of days in Country Y	No. of days in India
P.Y.2017-18	97	78	365-97-78 = 190
P.Y.2016-17	95	85	365-95-85 = 185
P.Y.2015-16	98	82	366-98-82 = 186
P.Y.2014-15	100	80	365-100-80 = 185
P.Y.2013-14	103	75	365-103-75 = 187
P.Y.2012-13	110	70	365-110-70 = 185
P.Y.2011-12	120	60	366-120-60 = 186
Total number of days in the last seven years			**1304**

Since his stay in India exceeds 730 days in the last seven previous years and his number of days of stay in India is 182 days or more in all the earlier previous years, he satisfies the condition of being resident in atleast 2 out of the 10 preceding previous years. Therefore, he is resident and ordinarily resident in India for A.Y. 2019-20.

Answer to Q.2

Computation of tax liability of Ms. Radha Srinivas for the A.Y. 2019-20

Particulars	Rs.	Rs.
Profits and gains of business or profession		
From concerts held in India	10,00,000	
From royalty received from Country U [CLD 10000 x 80 (being conversion rate as on 31.3.2019 -Rule 115)]	8,00,000	
From concerts held in Country W [CWD 10145 x 69 (being conversion rate as on 31.3.2019 – Rule 115)	7,00,005	
		25,00,005

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Income from Other Sources		
Income from fixed deposits in her name	4,00,000	
Income from savings bank account	25,000	4,25,000
Gross Total Income		**29,25,005**
Less: **Deduction under section 80C**		
Deposit in PPF	1,50,000	
Five year fixed deposit in the name of her son (does not qualify for deduction under section 80C)		
Under section 80D	50,000	
Medical insurance premium to insure her health and health of spouse (Rs.57,000, restricted to Rs.50,000, being the maximum allowable for senior citizens) (See Note 1)		
Under section 80TTB	50,000	
Interest on bank FD and savings bank account restricted to		2,50,000
Total Income		**26,75,005**
Total Income (rounded off)		**26,75,010**
Tax on Total Income		
Income-tax (See Note 2)		6,12,503
Add: Health and Education Cess @4%		24,500
		6,37,003
Average rate of tax in India (i.e., Rs. 6,37,003/ Rs. 26,75,010 × 100)	23.813%	
Foreign Tax Credit		
Lower of tax payable under the Income-tax Act, 1961 on income from profession and foreign tax payable on such income		
Tax covered under India-Country U DTAA under section 90 [Lower of Rs.1,90,504 (i.e., 23.813% x Rs.8,00,000) and Rs.78,000 (Rs. 78, being the conversion rate as on 28.2.2019 as per Rule 128 x CUD 1000)]	78,000	
Income-tax referred to in section 91: Country W [Lower of Rs.1,66,692 (i.e., 23.813% x Rs.7,00,005) and Rs.1,75,000 (Rs. 70, being the conversion rate as on 30.9.2018 as per Rule 128 x CWD 2500)]	1,66,692	
		2,44,692
Tax payable in India (Rs. 6,37,003 – Rs. 2,44,692)		**3,92,311**
Tax payable (rounded off)		**3,92,310**

Notes:

1. Section 80D allows a higher deduction of up to Rs. 50,000 in respect of the medical premium paid to insure the heath of a senior citizen. Therefore, in respect of medical insurance premium of Rs.57,000 paid by Mrs. Radha Srinivas to insure the health of herself and her spouse, she will be allowed deduction of

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Rs. 50,000 under section 80D, since she and her husband are resident Indians of the age of 60 years or more during the P.Y.2018-19.

2. The basic exemption limit for senior citizens is Rs. 3,00,000 and the age criterion for qualifying as a "senior citizen" for availing the higher basic exemption limit is 60 years. Accordingly, Mrs. Radha Srinivas is eligible for the higher basic exemption limit of Rs. 3,00,000, since she is 60 years old.

3. As per Rule 115, for computing income from profession of Mrs. Radha Srinivas, the TT buying rate as on 31.3.2019 has to be considered. Royalty income from Country U and income from concerts in Country W constitute her income from profession, since she is a singer and a composer. However, as per Rule 128, for computing foreign tax credit, TT buying rate as on the last day of the month immediately preceding the month in which tax was deducted or paid in that country has to be considered. Foreign Tax Credit has been computed accordingly.

4. Since the DTAA with Country U is in line with UN Model Convention, as per article 12(1), royalty income arising in a Contracting State (Country U, in this case) and paid to a resident of another Contracting State (Mrs. Radha Srinivas, a resident of India, in this case) ***may*** be taxed in that other State (India, in this case). However, such royalties may also be taxed in the Source State according to its laws, but if the beneficial owner is a resident of another State, then the tax so charged shall not exceed a prescribed percentage to be established though bilateral negotiations (assumed to be 10%, as given in the question, in this case). It is presumed that the rate of 10% is as per domestic tax laws and the negotiated rate as per Article 12(2) of the DTAA of India with Country U. Credit for such tax paid by Mrs. Radha Srinivas in Source State, i.e., Country U, in this case, would be available as per Article 23B(1).

SOLUTION TO CASE STUDY 3

I. ANSWERS TO MCQs

MCQ No.	Answer
1.	b
2.	b
3.	b
4.	c
5.	d

II. ANSWERS TO DESCRIPTIVE QUESTIONS

Answer to Q.1

The India-Country Z DTAA is in line with OECD Model Convention. Hence, the relevant article i.e., Article 4 of the OECD Convention needs to be looked into for determining the residential status of Mr.Arjun.

As per Article 4(1), the term "resident of a Contracting State" means, *inter alia*, any person who is a resident of a Contracting State in accordance with the taxation laws of that State.

Therefore, for determining whether Mr. Arjun is a resident of India or Country Z, first, the residential status as per the taxation laws of respective countries has to be ascertained.

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As per section 6(1) of the Income-tax Act,1961, an individual is said to be resident in India in any previous year if he has been in India during the previous year for a total period of 182 days or more. Mr. Arjun stays in India for 184 days during the P.Y.2018-19 (31 days in May + 31 days in July + 30 days in September + 30 days in November + 31 days in January + 31 days in March). Therefore, he is resident in India for P.Y.2018-19.

For being resident and ordinarily resident, he should fulfil both the following conditions:

(i) He is a resident in atleast 2 out of 10 years preceding the relevant previous year, and

(ii) His total stay in India in last seven years preceding P.Y. 2018-19 is 730 days or more.

In this case, since Arjun stays in India for 184 days every year, he is resident in India in every previous year as per the provisions of the Income-tax Act, 1961. Therefore, he satisfies the condition of being resident in India for atleast 2 years out of 10 preceding previous years. Also, he has stayed in India for 1288 days (184 days x 7) during the last seven previous years, which is more than 730 days. Hence, he is resident and ordinarily resident in India for A.Y.2019-20 as per the provisions of the Income-tax Act, 1961.

As per Country "Z" tax residency rules, Arjun qualifies to be resident for the year 2018-19 in Country "Z", since he stays for 181 days (more than 180 days) in Country "Z" in the Financial Year 2018-19.

Thus, as per the domestic tax laws of India and Country Z, Arjun qualifies to be a resident both in India and Country Z during the year P.Y. 2018-19. Hence, the tie-breaker rule provided in Article 4(2) will come into play.

This Rule provides that where an individual is a resident of both the countries, he shall be deemed to be resident of that country in which he has a permanent home and if he has a permanent home in both the countries, he shall be deemed to be resident of that country, which is the centre of his vital interests i.e. the country with which he has closer personal and economic relations.

From the facts, it is evident that Arjun has been living in his own flat in Juhu, Bombay, with his family. Hence, it can be considered as permanent home for him in India. In Country "Z" also, he owns a residential house which would be considered as permanent home for him. Since he has a permanent home both in India and Country "Z", the next test needs to be analysed.

Arjun owns spice gardens in Munnar in India and in Country Z, from which he earns income. However, he also owns a house property in Thane in India from which he derives rental income. His family also resides in Mumbai, India. He has showcased his paintings in Art exhibitions in Mumbai. Therefore, his personal and economic relations with India are closer, since India is the place where -

(a) his residential property is located and

(b) social and cultural activities are closer

Thus, by applying Article 4 of the India-Country "Z" DTAA, Arjun shall be deemed to be resident in India in the P.Y.2018-19.

Answer to Q.2

Computation of total income of Mr. Arjun for A.Y.2019-20

Particulars	Rs.	Rs.
Income from house property		5,25,000
Profits and gains of business and profession		18,50,000
Capital Gains [**See Working Note below]**		2,50,000
Income from other sources		42,300
Gross Total Income		**26,67,300**

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***Less:* Deduction under Chapter VI-A**		
Under section 80C [Deposit in PPF] Under section 80D [Rs.28,000, restricted to Rs.25,000 + Rs.32,000 (since parents are senior citizens, and Rs.32,000 is within the enhanced limit of Rs.50,000)]	1,50,000 57,000	
Under section 80TTA	10,000	2,17,000
Total Income		**24,50,300**
Computation of tax liability		
Particulars	**Rs.**	**Rs.**
Tax@10% u/s 112A on LTCG of Rs.1,50,000 [LTCG in excess of Rs.1 lakh]		15,000
Tax on other income of Rs.22,00,300		
Upto Rs.2,50,000	Nil	
Rs.2,50,001 – Rs.5,00,000@5%	12,500	
Rs.5,00,001 – Rs.10,00,000@20%	1,00,000	
Rs.10,00,001 – Rs.22,00,300@30%	3,60,090	
		4,72,590
		4,87,590
Add: Health and education cess@4%		19,504
Total tax liability		**5,07,094**
Total tax liability (rounded off)		5,07,090

Working Note-

The capital gains arising from sale of shares in all the four companies is long-term since the period of holding in each case is 12 months or more.

Company	Particulars	LTCG
ABC Ltd.	In this case, the lower of sale price (Rs.7,500) and FMV as on 31.1.2018 (Rs.2,000) is Rs.2,000.As the actual cost of acquisition of equity shares of ABC Ltd. (Rs.1,000) is less than Rs.2,000, the cost of acquisition of such share would be taken as Rs.2,000. The long-term capital gain would be Rs.2,20,000 (Rs.7,500 – Rs.2,000) x 40 shares.	2,20,000
PQR Ltd.	In this case, the lower of sale price (Rs.5,000) and FMV as on 31.1.2018 (Rs.6,500) is Rs.5,000. As the actual cost of acquisition of equity shares of PQR Ltd. (i.e., Rs.3,000) is less than Rs.5,000, the cost of acquisition would be taken as Rs.5,000. The long-term capital gains would be Nil (Rs.5,000 – Rs.5,000) x 25 shares.	Nil
EFG Ltd.	In this case, the lower of sale price (Rs.3,000) and FMV as on 31.1.2018 (Rs.1,500) is Rs.1,500. As the actual cost of Rs.2,000 is higher than Rs.1,500, the cost of acquisition would be taken as Rs.2,000. Accordingly, the long-term capital gains would be Rs.45,000 (Rs.3,000 – Rs.2,000) x 45	Rs.45,000

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HIJ Ltd.	In this case, the lower of sale price (Rs.2,500) and the FMV as on 31.1.2018 (Rs.6,000) is Rs.2,500. Since the actual cost of acquisition (i.e., Rs.4,000) is less than Rs.2,500, accordingly, the actual cost of Rs.4,000 will be taken as the cost of acquisition. The long-term capital loss would be Rs.15,000 (Rs.2,500 – Rs.4,000) x 10 shares.	(Rs.15,000)
Long-term capital gains		**2,50,000**

SOLUTION TO CASE STUDY 4

I. Answer to MCQs

Q. No.	Answer
1	(b)
2	(c)
3	(b)
4	(a)
5	(d)

II. Answers to Descriptive Questions

Answer to Q.1

Holding Ltd, the Indian company and Beyond Ltd., Country A, are deemed to be associated enterprises as per section 92A, since Beyond Ltd. is the subsidiary of Holding Ltd.

As per *Explanation* to section 92B, the transactions entered into between these two companies for purchase of wagon is included within the meaning of "international transaction".

As Holding Ltd. purchased similar product from an unrelated entity at $14,000, the transactions between Holding Ltd. and such unrelated party can be considered as comparable uncontrolled transactions for the purpose of determining the arm's length price of the transactions between Holding Ltd. and Beyond Ltd. Comparable Uncontrolled Price (CUP) method of determination of arm's length price (ALP) would be applicable in this case.

However, such figure needs to be adjusted by the functional adjustments:

	Amount (in $)
Purchase of Wagon from unrelated party	$14,000
Less: Difference in Warranty (Note-1)	($525)
Add: Adjustment for credit extended (Note-2)	$450
Arm's length price	**$13,925**

Therefore, transfer pricing adjustment would be of Rs. 53,750 [($ 15,000 - $ 13,925) x Rs.50]. The profits of Holding Ltd chargeable to tax would be Rs.25,00,000+Rs.53,750 = Rs.25,53,750.

Note:

(1) Beyond Ltd offered warranty only for 3 months while unrelated party provided it for 1 year. Therefore, 9 months' cost of warranty has to be adjusted. ($700*9/12)

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(2) Beyond Ltd has provided credit for 4 months whereas unrelated party has not provided such credit. Therefore, adjustment for the cost of such credit is needed to be carried out to arrive at arm's length price. ($15000*9%*4/12)

Answer to Q.2

As per section 6(1), an individual is said to be resident in India in any previous year if he satisfies the conditions:-

(i) He has been in India during the previous year for a total period of 182 days or more, or

(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In this case, Mr. Yatish stay in India during the P.Y. 2018-19 is 180 days (i.e., 6+31+30+31+31+30+21 days). Since his stay in India is for less than 182 days, he does not satisfy condition (i). As regards, condition (ii), since Mr. Yatish came India for the first time in the P.Y. 2018-19, he cannot satisfy the second basic condition of stay of atleast 365 days in the four immediately preceding previous years. Hence, his residential status for A.Y.2019-20 is Non-Resident.

Taxability of income

As per section 5(2), in case of a non-resident, only income which accrues or arises in India or which is deemed to accrue or arise to him in India or which is received or deemed to be received in India in the relevant previous year is taxable in India.

Calculation of income chargeable to tax in the hand of Mr. Yatish

Particulars	Amount (Rs.)
Salary earned in India	15,00,000
Salary earned outside India but received in India	9,00,000
Salary earned outside India and received outside India (not taxable)	Nil
Amount Taxable in India	**24,00,000**

Answer to Q.3

In *CIT v. Vishakhapatnam Port Trust's case [1983] 144 ITR 146*, the Andhra Pradesh High Court observed that, "in view of the standard OECD Models which are being used in various countries, a new area of genuine 'international tax law' is now in the process of developing. Any person interpreting a tax treaty must now consider decisions and rulings worldwide relating to similar treaties. The maintenance of uniformity in the interpretation of a rule after its international adoption is just as important as the initial removal of divergences. Therefore, the judgments rendered by courts in other countries or rulings given by other tax authorities would be relevant." Therefore, stand taken by the Income Tax Department may not be accepted by the court.

Answer to Q.4

As per the Article-5 of DTAA between India – Country D, the term "permanent establishment" shall be deemed not to include the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise. Therefore, Statue Ltd (Country D)'s office in India will not constitute Permanent Establishment, since its activities are confined only to storage, display and delivery of goods.

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SOLUTION TO CASE STUDY 5

I. Answer to MCQs

Q. No.	Answer
1	(b)
2	(d)
3	(d)
4	(d)
5	(c)

II. Answers to Descriptive Questions

Answer to Q.1

Computation of total income of Rio Grande Inc., a notified FII, for A.Y.2019-20

Particulars	Rs.	Rs.
Interest on Rupee Denominated Bonds	4,70,000	
Dividend income of Rs. 2,80,000 [Exempt under section 10(34)]	Nil	
Interest on securities	15,48,000	
		20,18,000
[No deduction is allowable in respect of expenses incurred in respect thereof as per section 115AD(2)]		
Long-term capital gains on sale of bonds of Vaigai Ltd.		
Sale consideration	58,00,000	
Less: Cost of acquisition	29,00,000	
[Benefit of indexation is not allowable as per section 115AD(3)]		29,00,000
Short-term capital gains on sale of STT paid equity shares of Mahanadi Ltd.		
Sale consideration	14,50,000	
Less: Cost of acquisition	6,00,000	8,50,000
Short-term capital gains on sale on unlisted equity shares of Godavari Ltd.		
Sale consideration	7,80,000	
Less: Cost of acquisition	2,65,000	5,15,000
Total Income		**62,83,000**

Computation of tax liability of Rio Grande Inc. for A.Y.2019-20

Particulars	Rs.
Tax@5% on interest of Rs. 4,70,000 received from an Indian company on investment in rupee denominated bonds = 5% x Rs. 4,70,000	23,500
Tax@20% on interest on securities of Rs. 15,48,000 =20% x Rs. 15,48,000	3,09,600
Tax@10% on long-term capital gains on sale of bonds of Vaigai Ltd. = 10% x Rs. 29,00,000	2,90,000

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Tax@15% on short-term capital gains on sale of listed equity shares of Mahanadi Ltd., in respect of which STT has been paid = 15% of Rs. 8,50,000	1,27,500
Tax@30% on short-term capital gains on sale of unlisted equity shares of Godavari Ltd. = 30% of Rs. 5,15,000	1,54,500
	9,05,100
Add: HEC@4%	36,204
Tax Liability	**9,41,304**
Tax Liability (rounded off)	9,41,300

Answer to Q.2

If a Liaison Office is maintained solely for the purpose of carrying out activities which are preparatory or auxiliary in character, and such activities are approved by the Reserve Bank of India, then, no business connection is established.

In this case, had the liaison office's activities been restricted to forwarding of trade inquiries to Zara Ltd., a Country A based company, its activities would not have constituted business connection. However, the activities of the liaison office in Calcutta extends to also negotiating and entering into contracts on behalf of Zara Ltd. with the customers in India, on account of which business connection is established. Hence, the deemed accrual provisions under section 9(1)(i) would be attracted.

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