

MOCK TEST PAPER
FINAL (NEW) COURSE : GROUP II
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

Athena Ltd. is a company specializing in manufacture of electronic products such as hair straighteners and curlers. Athena Ltd. was incorporated in Country A in September 2014.

Athena Ltd. set up its own manufacturing facility by July 2015 and set up its first retail store in December 2015 in Country A. The retail store displayed and sold the various variants of straighteners and curlers that it had manufactured. The products are sold under Athena's registered trade mark. The first retail store showed tremendous success and sales. Given the success, between the years 2016 to 2018, Athena grew its network of retail stores in Country A. By the end of 2018, it had set up a total of ten retail stores in Country A.

The board of directors of Athena Ltd. consisted of Mr. Lim, his wife Mrs. Lim and his dear friend Mr. Chang and his wife Mrs. Chang. Mr. Lim, Mrs. Lim, Mr. Chang and Mrs. Chang were all residents and citizens of Country B. The board meetings of Athena Ltd. were regularly held in Country A with each director being personally present for such meetings. All decisions relating to setting up and expansion of the retail stores network were taken up duly by the board of directors with unanimous agreement.

Athena Ltd. seeks to expand its presence to other countries including India in the previous year 2020-21. India is a potential market and seems to be a profitable move for the company.

The board thinks that before any substantial investment is made in the Indian market, it would be fit to gain a comprehensive understanding of the Indian market in terms of consumer choices, market rivals, legal compliances, business regulations, etc. Hence, it devises a four stage strategy to launch the Indian operations.

Stage I:

Athena Ltd. will hire three professionals residing in India based on prescribed qualifications. It would be ideal for the team to comprise one lawyer, one accountant and one business professional.

The functions to be discharged by such professionals include authoring a detailed project report enumerating the domestic landscape of the Indian legal and business regulations that would govern the proposed business in India. For example, what are the legal and regulatory compliances required for setting up a business? What is the projected growth trend of the hair care industry? Who are the market rivals and what is their respective market share? The project report would also include financial projections regarding the profitability for next five years.

The professionals are expected to work independently but can raise any queries to the board of directors of Athena Ltd. These professionals will be given two months to complete the report and present the findings to the board of directors. The remuneration of the professionals would be taken care of, by Athena Ltd.

Pursuant to the strategy, Mr. Hari, Mr. Rajesh and Mr. Ravi were hired by Athena Ltd. on March 1, 2020. Their monthly remuneration were fixed at Rs. 75,000, Rs. 82,000 and Rs. 80,000 respectively, for the two months period. The report was duly submitted by them to the board of Athena Ltd. on April 30, 2020. The board was happy to receive the report and duly considered the findings submitted.

Stage II:

Having implemented the first stage, the next step would be to hire an agent with well-established industry knowledge and with networks and connections in the hair care industry in India. The agent was to work exclusively for Athena Ltd. The initial term of engagement would be ten months, which may be extended to another term, if found agreeable to both parties.

The agent will be expected to identify potential companies and individuals who can serve as advisors/investors/local partners for Athena Ltd. as and when it intends to establish its local presence in India. The agent can hold the first round of discussions and negotiations with any such interested party. Based on such discussions, the agent must convey the expectations of the interested party to Athena Ltd. While the agent can enter into any such preliminary negotiations with the advisors / investors/ local partners, the desired terms of relationship would be subject to independent detailed consideration, confirmation and final approval of Athena Ltd. The agent also had to identify potential customers and promote the company's products. For this purpose, hair curlers and hair straighteners would be supplied to the agent, who in turn has to market these products to potential customers. The Board of Athena Ltd. decided that, as a promotional offer, a discount of 30% can be offered initially to such customers.

After a host of interviews, Mr. Shyam was found eligible for the position of the agent. The terms of engagement of Mr. Shyam were fixed for ten months. Mr. Shyam acted as an agent from June 2020 to March 2021. He received a remuneration of Rs. 1,50,000 per month for the performance of his functions, as described above.

After a series of discussions, Mr. Shyam identified Mr. Garg, Mr. Patnaik and Mr. Sharma as suitable advisors who have relevant industry experience in the hair care and hospitality industries. Mr. Shyam was also able to identify potential customers in western states of India, namely, Maharashtra, Gujarat and Goa and effect sales to such customers during the said period at the prices and terms and conditions decided by Athena Ltd.

Stage III:

The third step is to launch and sell the products in India using e-commerce, given the wide spread use of digital means such as websites and phone based apps by Indians for shopping online. The website, www.athena.in, was designed and hosted such that Indian users can make use of its services for placing orders in India. The website was hosted on a server based in Cayman Islands, owned and operated by Athena Ltd. The business was carried on through the server, which carries on the entire set of operations. The Indian user merely has to click on the desired product and fill in the details of the desired address for delivery and make payment using a payment gateway, after which the order is confirmed and delivery is ensured.

In order to enable the delivery of the straighteners and curlers to Indian customers, Athena Ltd. identified warehouse(s) where the stock can be maintained and from which the orders of the customers can be satisfactorily met. Athena Ltd. directly supplied the stock from Country A to the local warehouses.

The website was functional for the said purpose in January, 2021 and thereafter, online sales were effected through the website at the price decided by Athena Ltd. During Jan- March, 2021, Athena Ltd. was able to sell 2500 units of hair straighteners and 1500 units of hair curlers to customers based in India, who remitted the amount directly to Athena Ltd. in Country A using the payment gateway. The hair dryer was priced at Rs. 2,500 while the hair curler was priced at Rs. 3,500.

Stage IV:

As a fourth step, the board of Athena Ltd. reviewed the strategies adopted. Encouraged by the positive market response in India, the board of Athena Ltd. decided to set up a branch in Mumbai in April, 2021. Mr. Garg and

Mr. Patnaik, who are residing in Mumbai, are now entrusted with spearheading the Indian operations and expansion strategy. Sales will be effected through the Mumbai branch from April, 2021 itself.

Additional facts:

Athena Ltd. is also considering advertising the product on the internet using websites such as Doodle Inc. The board believes that using digital means of advertising would give the necessary push to sales by educating interested Indian customers of the product range which would contribute to better sales and profits, in turn.

The company enters into talks with Doodle Inc. for hosting the desired advertisements. It negotiated a sum of Rs. 30,00,000, which is to be paid to Doodle Inc. in April, 2021 for online advertising services.

Doodle Inc does not have a permanent establishment in India.

Assume that Country A and India have a Double Taxation Avoidance Agreement which is identical to that of the provisions of the OECD Model Convention.

Based on the above facts, you are required to answer the following questions:

I. MULTIPLE CHOICE QUESTIONS

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

1. The income earned by Athena Ltd. from sale of hair straighteners and hair curlers in India during the period from January, 2021 to March, 2021 –
 - (a) Would be taxable in India, since business connection would be established on account of Mr. Shyam being a dependent agent of Athena Ltd. in India
 - (b) Would be taxable in India, since Athena Ltd. has a PE in India
 - (c) Would be taxable in India, due to reasons stated in (a) and (b) above.
 - (d) Would not be taxable in India
2. Which of the following may be viewed by the tax authorities as a tax avoidance measure undertaken by Athena Ltd.?
 - (a) Choosing Doodle Inc., a company not having a PE in India, for advertising its products.
 - (b) Hosting the website on a server based in Cayman islands
 - (c) Both (a) and (b)
 - (d) Entering into limited period engagements with persons resident in India.
3. Which action plan of BEPS addresses tax avoidance measure referred to in 2 above?
 - (a) Action Plan 1
 - (b) Action Plan 2
 - (c) Action Plan 5
 - (d) Action Plan 6
4. In respect of remuneration of Rs. 1,50,000 per month paid by Athena Ltd. to Mr. Shyam, which of the following statements is correct, having regard to the provisions of the Income-tax Act, 1961 (provisions of DTAA may be ignored) –
 - (a) No tax is deductible at source as per the provisions of the Income-tax Act, 1961 since Athena Ltd. is a foreign company and is not resident in India

- (b) Tax has to be deducted at source @5%.
- (c) Tax has to be deducted at source at the rates in force under section 195
- (d) Tax has to be deducted at source@3.75%
5. Which of the following statements are correct in respect of Rs. 30 lakh payable by Athena Ltd. to Doodle Inc. in April, 2021?
- (a) Athena Ltd. is liable to deduct tax at source at the rates in force u/s 195 from Rs. 30 lakh payable to Doodle Inc.
- (b) Athena Ltd. is liable to deduct equalization levy@6% on Rs. 30 lakh payable to Doodle Inc.
- (c) Athena Ltd. is liable to deduct equalization levy@2% on Rs. 30 lakh payable to Doodle Inc.
- (d) Athena Ltd. Is not liable to deduct tax at source or equalization levy from the sum of Rs. 30 lakh payable to Doodle Inc.

II. DESCRIPTIVE QUESTIONS

1. In relation to the income earned during previous year 2020-21 and 2021-22, does Athena Ltd. have a permanent establishment in India? Answer the question in relation to activities undertaken in each of the stages mentioned in the case study. **(8 Marks)**
2. From the following situation given below, determine whether Athena Ltd satisfies the active business outside India test for determination of place of effective management under the Income-tax Act, 1961 for the P.Y.2020-21:

Particulars	Country A	Country B	India
	Foreign currency equivalent		
Value of assets	Rs. 400 lakhs	Rs. 100 lakhs	Rs. 210 lakhs
Number of employees	30	10	20
Payroll expenses on employees	Rs. 160 lakhs	Rs. 35 lakhs	Rs. 65 lakhs
Number of Board Meetings	10	2	4

Particulars	Rs.
Income from transactions where only the purchases of goods are from associated enterprises	25 lakhs
Income from transactions where only the sale of goods is to associated enterprises	45 lakhs
Income from transactions where both purchases and sales are from/to associated enterprises	110 lakhs
Income by way of dividend and interest involving associated enterprises	22 lakhs
Total income by way of dividend and interest	35 lakhs
Total income of Athena Ltd.	250 lakhs

Would your answer change, if the total income of Athena Ltd. had been Rs. 300 lakhs instead of Rs. 250 lakhs? Examine. **(7 Marks)**

Case Scenario 2

Mr. Vaibhav, aged 49 years, and his wife Mrs. Varsha, aged 45 years, are settled in Country A since the year 1995. Prior to that they were always been in India. Since the year 2005, they have become citizens of Country A. They have two daughters, Ms. Anjana and Ms. Manasi, who are also citizens of Country A. They completed their schooling in a CBSE school in Country A. Ms. Anjana had opted for commerce and passed class 12 examination and the CPT examination of ICAI in June, 2013. Thereafter, in the same year, Ms. Anjana joined B.Com (Hons) in Shriram College of Commerce, New Delhi and shifted to Delhi. Simultaneously while pursuing her graduation, she cleared CA Intermediate Examination. After completing her graduation in the year 2016, she joined articleship in a CA firm in New Delhi and completed CA Final in her first attempt in May, 2019. She took up employment in Deloitte, Mumbai at a monthly salary of Rs. 2,00,000 from September, 2019. She visits her parents in Country A for 45 days every year. For the rest of the year, she stays in India. Her sister, Ms. Manasi completed her integrated 5 years BA-MA in literature in Country A and thereafter, worked as a content writer in a publishing house in New York for a monthly salary of US \$ 8,000, which was credited to her bank account in New York. Mr. Vaibhav is engaged in commodity trading in Country A. Mrs. Varsha, a standup comedian, gives performances in Country A through shows organized by Akshara Theatres, set up by her in Pune, India. During the P.Y.2020-21, she derived income of US \$ 4,000 from such shows in Country A (The currency of Country A is US dollars).

Mr. Vaibhav visits India for 40 days every year to spend time with his parents and parents-in-law based in Pune. His parents as well as his parents in law were born in Pune. The details of his income for P.Y.2020-21 are as follows –

Income from commodity trading in Country A - US \$ 60,000

Rental income from house property in Pune – Rs. 50,000 p.m.

Interest on fixed deposits with Bank of India, Pune – Rs. 10.70 lakh

Country A does not levy tax on income from commodity trading. Country A also does not levy tax on income earned outside the country by its citizens who are also its residents. An individual would be a resident of Country A if he stays in Country A for 180 days or more during the financial year (1st April to 31st March).

In the P.Y.2020-21, Mrs. Varsha visited India from 1st December, 2020 to 31st March, 2021 to spend time with her parents and in-laws. During that time, she also performed in some comedy shows organized in India by Akshara Theatres. In the earlier previous years, she visited India every year during the three months July-September (full months) to spend time with her parents and in-laws. She owns a Bungalow in Pune which she has let out for Rs. 60,000 per month. The municipal taxes of Rs. 8,000 p.a. are paid by her tenant. For the P.Y.2020-21, her income from comedy shows performed in India is Rs. 6 lakhs. She also earns interest of Rs. 8 lakhs on fixed deposits with Indian Bank, Pune Branch; and interest on bonds issued by Country A company Rs. 2 lakhs, which was credited to her bank account in Country A. She deposits Rs. 1,50,000 with PPF and contributed Rs. 2 lakh to PM Cares Fund.

Ms. Anjana resigned from Deloitte Mumbai on 15th September, 2020 and took up an offer for employment in Boston Consultancy, California at a salary of US \$ 10,000 p.m. She left India on 27th September, 2020 and joined Boston Consultancy on 1st October, 2020. She earned interest of Rs. 50,000 from fixed deposits with ICICI Bank, Mumbai. She earned dividend of US \$ 750 from shares of US based company in January, 2021. She also earned interest of US \$ 600 from fixed deposits with Citibank, California for the half-year ended 31.3.2021, credited to her bank account in California on 31.3.2021.

Ms. Manasi resigned from the publishing house in New York on 30th November, 2020 to join Penguin Publishing House (PPH) as Commissioning Editor in New Delhi. She came to India on 2nd December, 2020 and joined PPH

on 5th December, 2020. Her salary in PPH is Rs. 2,97,600 p.m. Upto P.Y.2019-20, she used to visit India for 60 days during her summer holidays every year. She earned interest of Rs. 12,500 from savings bank account in HDFC Bank, New Delhi. In February, 2021, she won Rs. 2,50,000 from Assam State lottery, on which tax deductible at source has been fully deducted. She earned income of \$ 4,000 from bonds issued by a US based company in September, 2020, which was credited to her bank account in US. The same was subsequently remitted to her account in HDFC Bank, New Delhi, in December, 2020.

TT buying rate of US \$ on various dates is given below –

Date	TT buying rate of US \$	Date	TT buying rate of US \$
31.3.2020	Rs. 67.50	30.9.2020	Rs. 69.00
30.4.2020	Rs. 67.70	31.10.2020	Rs. 69.30
31.5.2020	Rs. 68.10	30.11.2020	Rs. 69.50
30.6.2020	Rs. 68.50	31.12.2020	Rs. 69.90
31.7.2020	Rs. 68.70	31.1.2021	Rs. 70.10
31.8.2020	Rs. 68.90	28.2.2021	Rs. 70.30
		31.3.2021	Rs. 70.70

Based on the above facts, you are required to answer the following questions:

Your answer should be based on the provisions of the Income-tax Act, 1961. Assume that there is no DTAA between India and Country A.

I. MULTIPLE CHOICE QUESTIONS

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

- What is the residential status of Mr. Vaibhav for A.Y.2021-22?
 - Resident and Ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
 - Deemed resident
- What is the residential status of Ms. Anjana for A.Y.2021-22?
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
 - Deemed resident
- What is the residential status of Ms. Manasi for A.Y.2021-22?
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
 - Deemed resident

4. Would your answer to MCQ 2 and 3 undergo a change, if Ms. Anjana and Ms. Manasi were citizens of India?
 - (a) Yes, answer to both MCQ 2 and 3 would undergo a change
 - (b) No, answer to both MCQ 2 and 3 would remain the same.
 - (c) Answer to MCQ 2 would undergo a change; however, answer to MCQ 3 would remain the same.
 - (d) Answer to MCQ 2 would remain the same; however, answer to MCQ 3 would undergo a change.
5. What would be the residential status of Mr. Vaibhav for A.Y.2021-22, had he been a citizen of India?
 - (a) Resident and Ordinarily resident
 - (b) Resident but not ordinarily resident
 - (c) Deemed resident
 - (d) Non-resident

II. DESCRIPTIVE QUESTIONS

1. What is the residential status of Mrs. Varsha for the A.Y.2021-22? Give reasons for your answer. Also, compute her total income and tax liability for A.Y.2021-22. Ignore TDS. **(7 Marks)**
2. Compute the total income and tax liability of Ms. Anjana and Ms. Manasi for A.Y.2021-22, in a manner as to maximise their tax savings. Ignore TDS. **(8 Marks)**

Case Study 3

SkyAir Inc, is a Singapore Airlines company flying to and fro Singapore and India. The total receipts of Singapore Airlines are Rs. 100 crores for the P.Y. 2020-21. The amount of expenditure incurred by the Airlines in the P.Y. 2020-21 is Rs. 30 crores. The breakup of the amount of receipts for the P.Y. 2020-21 is as under:

- (i) Rs. 30 crores received in India on account of carriage of passengers from Mumbai to Singapore.
- (ii) Rs. 15 crores received in Singapore on account of carriage of passengers from Mumbai to Singapore.
- (iii) Rs. 20 crores received in Singapore on account of carriage of passengers from Singapore to Mumbai.
- (iv) Rs. 35 crores received in India on account of carriage of passengers from Singapore to Mumbai

Mr. David Thomas, a citizen of Hongkong is employed in a foreign ship which carries passengers to and fro Hongkong and India, Mumbai port. Mr. David Thomas is the master of this ship and he stays in India during the year 2020-21 for the following period:

Month	No. of days	Month	No. of days
April, 2020	10	August, 2020	10
May, 2020	11	October, 2020	12
June, 2020	11	December, 2020	10
July, 2020	10	March, 2021	11

In the earlier previous years, his stay in India was for 90 days every year. He received Rs. 22 Lakhs in his foreign bank A/c as his salary on account of his employment on foreign ship. Out of Rs. 22 lakhs, Rs. 5,12,000 pertains to services rendered in India. During the previous year, he received interest on fixed deposits from Canara Bank in India amounting to Rs. 5,15,000. He has paid for medical insurance amounting to Rs. 25,000 to an Insurance company in Hongkong, by way of A/c payee cheque.

Ashirwad Industries, an Indian company, invited tenders and placed orders with foreign companies for supply of different types of capital equipments in connection with setting up of the project for manufacturing of Personal Protective Equipment (PPE) kits. PPE is only one effective measure within a package that comprises administrative and environmental and engineering controls, as described in WHO's Infection prevention and control of epidemic and pandemic-prone acute respiratory infections in health care. At this juncture, Ashirwad Industries entered into contract with Chi Kyon Ltd. a company incorporated in Country M. The contract was divided into 2 phases, phase 1 covering the supply of equipment or machinery on F.O.B basis. Part-II of the contract deals with the installation of the machinery in India, training for operating the machinery, commissioning, assembly and supervision for erection of machinery. The consideration for the entire contract was Rs. 100 crore which was divided between Phase I [Rs. 70 crore] and Phase II [Rs. 30 crore].

For Phase II project, Chi Kyon Ltd. had to send on deputation their specialised employees for 190 days to India for carrying on installation.

Further, to revive the Government's plan of building effective and smooth infrastructure, Ashirwad Industries also entered into an agreement with Country N company to erect, commission and run two infrastructure projects in India. These projects were to widen the national highways connecting Mumbai and Delhi; Jammu and Srinagar. The Country N company carried on the construction projects, and the same lasted for 200 days in the F.Y. 2020-21. It provides the details of the operations in India.

- (i) The contract revenue was Rs. 150 lakhs
- (ii) Salary, other office and administration expenses incurred in respect of its construction project in India Rs. 65 lakhs
- (iii) General Head Office expenses incurred for the Indian construction project – Rs. 3 lakhs
- (iv) Interest charged towards loan given to Indian construction project for its working capital requirement – Rs. 10 lakhs
- (v) Reimbursement of expenses by the Indian construction project to the Head Office which were for the salaries paid to the technicians who provided the services to the project [not included in (ii) above] – Rs. 15 lakhs
- (vi) Technical service fee paid by the Indian construction project to the Head Office – Rs. 10 lakhs

For undertaking these two highly capital intensive projects, Aashirwad Industries took a loan from Indian branch of HSBC Bank. Sonk GmbH, wherein Aashirwad Industries has 51% shareholding, had issued guarantee for the loan obtained from the HSBC Bank. Aashirwad Industries borrowed Rs. 150 crore from Indian branch of HSBC Bank on which it paid interest amounting to Rs. 5 crore during the P.Y. 2020-21. The EBITDA of Aashirwad Industries for the P.Y. 2020-21 is Rs. 10 crore.

Note - DTAA between India-Country M and India -Country N is in line with the UN Model Convention, 2017

I. MULTIPLE CHOICE QUESTIONS

1. What is the amount of income-tax which SkyAir Inc. will have to pay in India for A.Y. 2021-22?
 - (a) Rs. 1,69,72,800
 - (b) Rs. 2,12,16,000
 - (c) Rs. 2,08,00,000
 - (d) Rs. 1,66,40,000

2. Is MAT liability attracted in the hands of SkyAir Inc.? If so, what is the amount of tax which Singapore Airlines will have to pay under section 115JB?
 - (a) No
 - (b) Yes; Rs. 86,19,520
 - (c) Yes; Rs. 78,49,920
 - (d) Yes; Rs. 14,14,14,000
3. What is the amount of tax which Mr. David Thomas liable to pay in India for the A.Y. 2021-22, assuming that he does not opt for section 115BAC?
 - (a) Rs. 1,17,620
 - (b) Rs. 12,480
 - (c) Rs. 1,25,420
 - (d) Rs. 16,120
4. What is the amount of interest disallowed, in the hands of Aashirwad Industries, in respect of interest payment of Rs. 5 crore?
 - (a) No disallowance is attracted, entire Rs. 5 crore is deductible
 - (b) Rs. 3 crore, representing excess interest, would be disallowed
 - (c) Rs. 2 crore, representing excess interest, would be disallowed
 - (d) Entire Rs. 5 crores would be disallowed
5. What would be your answer to Q.4, if the loan was given by HSBC Bank, Hong Kong, directly and not through its PE in India?
 - (a) No disallowance is attracted, entire Rs. 5 crore is deductible
 - (b) Rs. 3 crore, representing excess interest, would be disallowed
 - (c) Rs. 2 crore, representing excess interest, would be disallowed
 - (d) Entire Rs. 5 crore would be disallowed

II. DESCRIPTIVE QUESTIONS:

1. Examine the taxability of the payments made by Ashirward Industries to Chi Kyon. **(5 Marks)**
2. Examine whether the construction project of Country N company would constitute PE in India. Would your answer change if DTAA with Country N is in line with OECD Model Convention, 2017? **(5 Marks)**
3. Compute the amount of profits attributable to construction project of Country N company which can be chargeable to tax in India in accordance with UN Model Convention, 2017. **(5 Marks)**

CASE STUDY - 4

M/s Gryffindors LLP ("the firm") is a Country X based partnership firm engaged in the practice of law. The firm is the largest law firm in Country X and advises fortune 500 clients on various legal matters namely Corporate Mergers & Acquisitions, Tax, Trade law, Construction, Arbitration, Anti-trust laws, Energy, Banking laws etc. The firm has global offices in Country Y and Country Z. The firm does not have any presence in India owing to

regulatory requirements and, therefore, does not have any office in India. The firm is a tax resident of Country X but by virtue of the tax laws in Country X, it is a fiscally transparent entity.

The following are the assignments entered into by the firm and its global offices. Assignment A is a completed assignment, Assignment B is an ongoing assignment and Assignment C pertains to a future assignment which the firm is proposing to undertake. The facts and nature of the assignments containing India nexus are provided below.

Assignment A

Client Name: Connors & Ann, Country X

Nature of Assignment: Connors & Ann had entered into a joint venture agreement with an Indian party in March, 2020 for construction of a nuclear thermal power plant in Tamil Nadu, India during the financial year 2020-21.

Additional Details:

- As per the scope of work, the firm had
 - advised on all aspects of structuring and drafting, negotiation, construction contract and maintenance contracts;
 - advised on procurement structures, multi contract/onshore offshore structures;
 - provided specialised project finance expertise and ensured to reduce the risks associated with operating in foreign jurisdiction;
 - advised on tax and regulatory implications from a Country X law perspective; and
 - attended meetings with project sponsors, negotiated floating rate issues and advisory on any other overseas jurisdiction related regulatory aspects etc.
- The execution of work was done partly from India and partly from Country X office.
- The firm's employees and partners were in India for 120 days.
- The firm's billing model for the services rendered were as follows:
 - each partner and employee of the firm who was involved in doing work for the clients was required to maintain detailed time sheets recording the time spent by them on such work; the said time sheets separately showed the time spent on doing such work in India and outside India;
 - the time so spent was multiplied by the hourly billing rates applicable to each respective partner/employee as specified in the terms of appointment between the firm and the client;
 - the bills so raised were paid to the firm by the client outside India.

Based on the above details, the firm is of the view that the income attributable to the services rendered in India would be taxable in India. The said income would be arrived at based on "estimation of fees with reference to the fees rates at which such services could have been procured from corresponding professionals acting in India".

The firm intends to claim the following expenditure -

- (a) direct costs allocated on the basis of number of hours spent at the pro-rated Country X salary cost; and
- (b) general overheads have been allocated @5% of income on an ad-hoc basis.

Assignment B

Client Name: Vidyut India Limited, an Indian Company, which is a subsidiary of a Vidyut AG, an entity in Country Y.

Nature of Assignment: Vidyut India has entered into a contract with an Indian construction company for construction of a pharma research and development unit in India. Vidyut India also has a group entity, Vidyut Z Inc, in Country Z, from whom necessary inputs are obtained for construction of the pharma research and development centre. The construction agreement provided that the law in Country Y will govern the contract. There is currently a dispute in the contract and as per the agreement, the adjudication proceedings were initiated on 30th August 2020. Gryffindors Y is a registered firm in Country Y engaged by Vidyut India to represent it in the adjudication proceedings in India. Further, as part of the adjudication proceedings, site visits are essential in India and Country Z. For the site visit in Country Z, Gryffindors Z, a Country Z registered partnership firm was engaged for which Vidyut India would compensate the Country Z firm separately.

Additional Details:

- As per the terms of agreement, the activities are to be carried on in Country Y, Country Z and India.
- Except a site visit and an adjudication hearing in Chennai between 21st and 24th September, 2020, no other activity is carried on in India by Gryffindors Y. The total time spent in India was 6 days between 19th September and 24th September, 2020.
- Meanwhile, another site visit in Country Z was for 10 days for which partners from Gryffindors Z undertook the visit and provided its report to Gryffindors Y, Country Y. For the time spent by the Country Z firm, it had raised an invoice to Vidyut India.
- Apart from the 6 days in India and 10 days in Country Z, major part of the adjudication proceedings were at Country Y.
- Gryffindors Y produced a tax residency certificate from Country Y. It is also to be noted that Gryffindors Y is a fiscally transparent entity as per the tax laws of Country Y. Gryffindors Y is only liable for trade tax in Country Y.
- Gryffindors Z produced a tax residency certificate from Country Z tax authorities certifying that it is a tax resident of Country Z. It is also to be noted that Gryffindors Z is a fiscally transparent entity as per the Country Z tax laws.

Assignment C

Client Name: Abhimanyu Holdings Bank Limited, a banking company registered in India.

Nature of Assignment: Abhimanyu Holdings Bank Limited is contemplating to acquire a Country X based national bank. Therefore, it has approached Gryffindors LLP, Country X ('the Firm') for a counsel opinion for the proposed acquisition.

Additional Details:

- The scope of work for the firm shall be the following:
 - Phase I: Education & Training
 - Phase II: Acquisition Transaction
 - Phase III: Regulatory approval for the transaction.

- As part of the first phase, on education and training, the firm will provide a detailed document to Abhimanyu India on the legal framework on banking and regulatory laws in Country X. Further, apart from the document, the firm will provide presentation and discuss the various legal and regulatory requirements in Country X for setting up a bank branch or acquiring a bank in Country X.
- The presentation to be made by the firm will be to the bank officials of Abhimanyu India. The presentation will be made from the law firm's office in Country X. The purpose of the training is to ensure that if the bank sets up a branch or office in Country X, the said officials will be deputed to the Country X entity.
- The work shall be undertaken by the firm from its office in Country X and there will be no visit in India.
- As mentioned previously, the firm is a tax resident of Country X and is a fiscally transparent entity for tax purpose in Country X.
- Phase II and Phase III are subject to the conditions and legal environment being favourable, and hence, the happening of the same is not certain. However, Phase I: Education is certain and a fee of foreign currency equivalent to Rs. 10 lakh has been agreed upon by the firm to render Phase I services, which would be paid in Country X.

Based on the above facts, you are required to answer the following questions:

I. MULTIPLE CHOICE QUESTIONS

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

1. A fiscally transparent entity means –
 - (a) An entity entitled to concessional rate of tax
 - (b) An entity enjoying tax pass through status
 - (c) An entity entitled to benefits of DTAA
 - (d) An entity which is subject to distribution tax on profits distributed by it.
2. Let us say that Gryffindors Y earns income from adjudication proceedings in India on behalf of Vidyut India, for which it is liable to tax in India, having accrued and received in India. In Country Y, it is not liable to pay tax, but its partners are liable to pay tax. This is an example of:
 - (a) Juridical double taxation
 - (b) Territorial double taxation
 - (c) Economic double taxation
 - (d) Municipal double taxation
3. Can benefit of India-Country X tax treaty be availed by M/s. Gryffinders LLP ("the firm"), Country X in respect of income earned by it in India from Assignment A, which is taxable in both India and Country X, by virtue of the respective domestic tax laws?
 - (a) Yes, since the income is subject to tax in both countries albeit in the hands of different persons i.e., the firm in India and the partners in Country X
 - (b) No, since as per the laws of Country X, the firm is a fiscally transparent entity. Hence, there is no double taxation of income in its hands.

- (c) No, since the firm is a non-resident, the income earned by it from Assignment A is not taxable in India. Hence, the benefit of DTAA would not be available.
- (d) No, due to reasons stated in (b) and (c) above.
4. What are the tax implications under the Income-tax Act, 1961 in respect of income earned from assignment A by M/s. Gryffindors LLP, a Country X based partnership firm (You may ignore the provisions of the DTAA for the purpose of answering this question) -
- (a) the entire income from the assignment is taxable in India
- (b) Only income attributable to the services rendered in India is taxable in India
- (c) No part of the income is taxable in India since the firm does not have a permanent establishment in India
- (d) No part of the income is taxable in India since the income was received outside India.
5. Vidyut India Ltd. receives dividend of Rs. 10 lakhs from its subsidiary company ABC Ltd., which is an Indian company. It also receives dividend of Rs. 8 lakhs from MNC Inc., a foreign company, in which it holds 25% shareholding. Vidyut India Ltd. declares dividend of Rs. 20 lakhs in April, 2021 for the F.Y.2020-21. What is the deduction available to Vidyut India Ltd. under section 80M?
- (a) Rs. 8 lakhs
- (b) Rs. 10 lakhs
- (c) Rs. 18 lakhs
- (d) Rs. 20 lakhs

II. DESCRIPTIVE QUESTIONS

1. (i) For making the payment to Gryffindors Y and Gryffindors Z, Vidyut India Limited's tax advisor has opined that the Country Y firm and the Country Z firm are not eligible to access India-Country Y DTAA and India-Country Z DTAA, respectively, even though TRC has been provided by such firms. The Indian client's tax advisor has formed this view based on Article 1 read with the relevant articles of the India-Country Y DTAA and India Country Z DTAA coupled with the fact that both the firms are fiscally transparent entities as per the tax laws of the respective countries. Examine the correctness of the view taken by the tax adviser by analysing the relevant Articles of the India-Country Y DTAA and India Country Z DTAA **(5 Marks)**
- (ii) Assuming that the tax treaty benefit is available for both the foreign entities, namely, Gryffindors Y and Gryffindors Z your views are solicited as to whether Article 14 of India-Country Y and India-Country Z tax treaty can be invoked. **(4 Marks)**
2. (i) What are the tax implications under the Income-tax Act, 1961 in respect of income earned by the firm, M/s. Gryffindors X from the proposed phase I service to be rendered by it in respect of Assignment C? **(3 Marks)**
- (ii) Assuming that the above-referred income is not chargeable to tax in India in the hands of the firm as per the Indian tax laws, is it possible to bring it into tax by invoking the India-Country X DTAA provisions? Examine. **(3 Marks)**

EXHIBIT A

Extract of the relevant Articles of India - Country X DTAA

ARTICLE 1

SCOPE OF THE CONVENTION

1. *This Convention shall apply to persons who are residents of one or both of the Contracting States.*
2. *This Convention extends to the territory of each Contracting State, including its territorial sea, and to those areas of the exclusive economic zone or the continental shelf adjacent to the outer limit of the territorial sea of each State over which it has, in accordance with international law, sovereign rights for the purpose of exploration and exploitation of the natural resources of such areas, and references in this Convention to the Contracting State or to either of them shall be construed accordingly.*

ARTICLE 2

TAXES COVERED

1. *The taxes which are the subject of this Convention are :*
 - (a) *in Country X :*
 - (i) *the income-tax;*
 - (ii) *the corporation tax;*
 - (iii) *the capital gains tax; and*
 - (iv) *the petroleum revenue tax;*
(hereinafter referred to as "Country X tax");
 - (b) *in India;*
the income-tax including any surcharge thereon;
(hereinafter referred to as "Indian tax").
2. *This Convention shall also apply to any identical or substantially similar taxes which are imposed by either Contracting State after the date of signature of this Convention in addition to, or in place of, the taxes of that Contracting State referred to in paragraph 1 of this Article. The competent authorities of the Contracting States shall notify each other of any substantial changes which are made in their respective taxation laws.*

ARTICLE 3 (EXTRACT)

GENERAL DEFINITIONS

1. *In this Convention, unless the context otherwise requires:*
 - (f) *the term "person" includes an individual, a company, a body of persons and any other entity which is treated as a taxable unit under the taxation laws in force in the respective Contracting States;*

ARTICLE 4

FISCAL DOMICILE

1. *For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation, or any other criterion of a similar nature, provided, however, that:*

- (a) *this term does not include any person who is liable to tax in that State in respect only of income from sources in that State; and*
- (b) *in the case of income derived or paid by a partnership, estate, or trust, this term applies only to the extent that the income derived by such partnership, estate, or trust is subject to tax in that State as the income of a resident, either in its hands or in the hands of its partners or beneficiaries.*

ARTICLE 5

PERMANENT ESTABLISHMENT

1. *For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.*
2. *The term "permanent establishment" shall include especially:*
 - (a) *a place of management;*
 - (b) *a branch;*
 - (c) *an office;*
 - (d) *a factory;*
 - (e) *a workshop;*
 - (f) *premises used as a sales outlet or for receiving or soliciting orders;*
 - (g) *a warehouse in relation to a person providing store facilities for others;*
 - (h) *a mine, an oil or gas well, quarry or other place of extraction of natural resources;*
 - (i) *an installation or structure used for the exploration or exploitation of natural resources;*
 - (j) *a building site or construction, installation or assembly project or supervisory activities in connection therewith, where such site, project or supervisory activity continues for a period of more than six months, or where such project or supervisory activity, being incidental to the sale of machinery or equipment, continues for a period not exceeding six months and the charges payable for the project or supervisory activity exceed 10 per cent of the sale price of the machinery and equipment;*
 - (k) *the furnishing of services including managerial services, other than those taxable under Article 13 (Royalties and fees for technical services), within a Contracting State by an enterprise through employees or other personnel, but only if:*
 - (i) *activities of that nature continue within that State for a period or periods aggregating more than 90 days within any twelve month period; or*
 - (ii) *services are performed within that State for an enterprise within the meaning of paragraph 1 of Article 10 (Associated enterprises) and continue for a period or periods aggregating more than 30 days within any twelve-month period:*

Provided that for the purposes of this paragraph an enterprise shall be deemed to have a permanent establishment in a Contracting State and to carry on business through that permanent establishment if it provides services or facilities in connection with, or supplies plant and machinery on hire used or to be used in, the prospecting for, or extraction or production of, mineral oils in that State.

ARTICLE 13

ROYALTIES AND FEES FOR TECHNICAL SERVICES

1. *Royalties and fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.*
2. *However, such royalties and fees for technical services may also be taxed in the Contracting State in which they arise and according to the law of that State; but if the beneficial owner of the royalties or fees for technical services is a resident of the other Contracting State, the tax so charged shall not exceed :*
 - (a) *in the case of royalties within paragraph 3(a) of this Articles, and fees for technical services within paragraphs 4(a) and (c) of this Article,—*
 - (i) *during the first five years for which this Convention has effect ;*
 - (aa) *15 per cent of the gross amount of such royalties or fees for technical services when the payer of the royalties or fees for technical services is the Government of the first-mentioned Contracting State or a political sub-division of that State, and*
 - (bb) *20 per cent of the gross amount of such royalties or fees for technical services in all other cases; and*
 - (ii) *during subsequent years, 15 per cent of the gross amount of such royalties or fees for technical services; and*
 - (b) *in the case of royalties within paragraph 3(b) of this Article and fees for technical services defined in paragraph 4(b) of this Article, 10 per cent of the gross amount of such royalties and fees for technical services.*
3. *For the purposes of this Article, the term "royalties" means :*
 - (a) *payments of any kind received as a consideration for the use of, or the right to use, any copyright of a literary, artistic or scientific work, including cinematography films or work on films, tape or other means of reproduction for use in connection with radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience; and*
 - (b) *payments of any kind received as consideration for the use of, or the right to use, any industrial, commercial or scientific equipment, other than income derived by an enterprise of a Contracting State from the operation of ships or aircraft in international traffic.*
4. *For the purposes of paragraph 2 of this Article, and subject to paragraph 5, of this Article, the term "fees for technical services" means payments of any kind of any person in consideration for the rendering of any technical or consultancy services (including the provision of services of a technical or other personnel) which:*
 - (a) *are ancillary and subsidiary to the application or enjoyment of the right, property or information for which a payment described in paragraph 3(a) of this article is received ; or*
 - (b) *are ancillary and subsidiary to the enjoyment of the property for which a payment described in paragraph 3(b) of this Article is received ; or*

- (c) *make available technical knowledge, experience, skill know-how or processes, or consist of the development and transfer of a technical plan or technical design.*
5. *The definition of fees for technical services in paragraph 4 of this Article shall not include amounts paid :*
 - (a) *for services that are ancillary and subsidiary, as well as inextricably and essentially linked, to the sale of property, other than property described in paragraph 3(a) of this Article;*
 - (b) *for services that are ancillary and subsidiary to the rental of ships, aircraft, containers or other equipment used in connection with the operation of ships, or aircraft in international traffic;*
 - (c) *for teaching in or by educational institutions ;*
 - (d) *for services for the private use of the individual or individuals making the payment ; or*
 - (e) *to an employee of the person making the payments or to any individual or partnership for professional services as defined in Article 15 (Independent personal services) of this Convention.*
 6. *The provisions of paragraphs 1 and 2 of this Article shall not apply if the beneficial owner of the royalties or fees for technical services, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties or fees for technical services arise through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right, property or contract in respect of which the royalties or fees for technical services are paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article 7 (Business profits) or Article 15 (Independent personal services) of this Convention, as the case may be, shall apply.*
 7. *Royalties and fees for technical services shall be deemed to arise in a Contracting State where the payer is that State itself, a political sub-division, a local authority or a resident of that State. Where, however, the person paying the royalties or fees for technical services, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the obligation to make payments was incurred and the payments are borne by that permanent establishment or fixed base then the royalties or fees for technical services shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.*
 8. *Where, owing to a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties or fees for technical services paid exceeds for whatever reason the amount which would have been paid in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In that case, the excess part of the payments shall remain taxable according to the law of each Contracting State, due regard being had to the other provisions of this Convention.*
 9. *The provisions of this Article shall not apply if it was the main purposes or one of the main purposes of any person concerned with the creation or assignment of the rights in respect of which the royalties or fees for technical services are paid to take advantage of this Article by means of that creation or assignment.*

EXHIBIT B

Extract of the relevant Articles of India - Country Y DTAA

ARTICLE 1

PERSONAL SCOPE

This Agreement shall apply to persons who are residents of one or both of the Contracting States.

ARTICLE 2

TAXES COVERED

- 1 *This Agreement shall apply to taxes on income and on capital imposed on behalf of a Contracting State, of a land or a political sub-division or local authority thereof, irrespective of the procedure in which they are levied.*
- 2 *There shall be regarded as taxes on income and on capital all taxes imposed on total income, on total capital, or on elements of income or of capital, including taxes on gains from the alienation of movable or immovable property, and the pay roll tax.*
- 3 *The existing taxes to which this Agreement shall apply are in particular:*
 - (a) *in the Federal Republic of Country Y :*
income-tax,
corporation-tax,
capital tax, and
trade tax
(hereinafter referred to as "Country Y tax");
 - (b) *in the Republic of India,*
the income-tax including any surcharge tax thereon, and the wealth-tax (hereinafter referred to as "Indian tax").
- 4 *This Agreement shall apply also to any identical or substantially similar taxes which are imposed after the date of signature of this Agreement in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States shall notify each other of changes of importance which have been made in their respective taxation laws.*

ARTICLE 3 (EXTRACT)

GENERAL DEFINITIONS

1. *For the purposes of this Agreement, unless the context otherwise requires, -*
 - (d) *the term "person" includes an individual, a company and any other entity which is treated as a taxable unit under the taxation laws in force in the respective Contracting States ;*

ARTICLE 4 (EXTRACT)

RESIDENT

1. *For the purposes of this Agreement, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management or*

any criterion of a similar nature. But this term does not include any person who is liable to tax in that State in respect only of income from sources in that State or capital situated therein.

ARTICLE 14

INDEPENDENT PERSONAL SERVICES

1. *Income derived by an individual who is a resident of a Contracting State from the performance of professional services or other independent activities of a similar character shall be taxable only in that State except in the following circumstances when such income may also be taxed in the other Contracting State:*
 - (a) *if he has a fixed base regularly available to him in the other Contracting State for the purpose of performing his activities, in that case, only so much of the income as is attributable to that fixed base may be taxed in that other State ; or*
 - (b) *if his stay in the other Contracting State is for a period or periods amounting to or exceeding in the aggregate 120 days in the relevant fiscal year; in that case, only so much of the income as is derived from his activities performed in that other State may be taxed in that other State.*
2. *The term "professional services" includes independent scientific, literary, artistic, educational or teaching activities, as well as the independent activities of physicians, surgeons, lawyers, engineers, architects, dentists and accountants.*

EXHIBIT C

Extract of the relevant Articles of India – Country Z DTAA

ARTICLE 1

PERSONAL SCOPE

This Agreement shall apply to persons who are residents of one or both of the Contracting States.

ARTICLE 2

TAXES COVERED

1. *The taxes to which this Agreement shall apply are:*
 - (a) *in the case of India :*
the Income-tax including any surcharge thereon; and
 - (b) *in the case of Country Z:*
the federal, cantonal and communal taxes on income (total income, earned income, income from capital, industrial and commercial profits, capital gains, and other items of income).
2. *The Agreement shall also apply to any identical or substantially similar taxes which are imposed by either Contracting State after the date of signature of the present Agreement in addition to, or in place of, the taxes referred to in paragraph 1 of this Article.*
3. *In this Agreement, the term "Indian tax" means tax imposed by India, being tax to which this Agreement applies; the term "Country Z tax" means tax imposed in Country Z, being tax to which this Agreement applies; and the term "tax" means Indian tax or Country Z tax, as the context requires; but the taxes in the preceding paragraphs of this Article do not include any penalty or interest imposed under the law in force in either Contracting State relating to the taxes to which this Agreement applies.*
4. *The competent authorities of the Contracting States shall notify to each other any significant changes which have been made in their relevant respective taxation laws.*

ARTICLE 3 (EXTRACT)

GENERAL DEFINITIONS

1. *In this Agreement, unless the context otherwise requires:*
 - (d) *the term "person" includes an individual, a company, a body of persons, or any other entity which is taxable under the laws in force in either Contracting State;*

ARTICLE 4

FISCAL DOMICILE

1. *For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation, or any other criterion of a similar nature, provided, however, that:*
 - (a) *this term does not include any person who is liable to tax in that State in respect only of income from sources in that State; and*
 - (b) *in the case of income derived or paid by a partnership, estate, or trust, this term applies only to the extent that the income derived by such partnership, estate, or trust is subject to tax in that State as the income of a resident, either in its hands or in the hands of its partners or beneficiaries.*

ARTICLE 14

INDEPENDENT PERSONAL SERVICES

1. *Income derived by an individual or a firm who is a resident of one of the Contracting States in respect of professional services or other independent activities of a similar character shall be taxable only in that State unless:*
 - (a) *the individual or firm has a fixed base regularly available to the individual or firm in the other Contracting State for the purpose of performing the individual's or the firm's activities, in which case the income may be taxed in that other State but only so much of it as is attributable to activities exercised from that fixed base; or*
 - (b) *the stay by the individual or, in the case of a firm, by one or more members of the firm (alone or together) in the other Contracting State is for a period or periods amounting to or exceeding 183 days in a year of income, in which case only so much of the income as is derived from the activities of the individual, that member or those members, as the case may be, in that other State may be taxed in that other State.*
2. *The term "professional services" includes services performed in the exercise of independent scientific, literary, artistic, educational or teaching activities as well as in the exercise of the independent activities of physicians, surgeons, lawyers, engineers, architects, dentists and accountants.*

Case study 5

Pineapple Inc., a USA based company, has multiple subsidiaries across the world. The group has specialization in manufacturing and selling premium mobile phones. Pineapple Inc. has wholly owned subsidiary (WOS) in Luxemburg i.e. Orange Ltd. Orange Ltd. was established to act as holding company and it has no other operating business. Orange Ltd purchased Grapes Ltd, a Singapore based company in April 2014. One year after the acquisition, Pineapple Inc. has acquired debentures of Grapes Ltd in April 2015 to infuse funds in Grapes Ltd. Grapes Ltd. acts as a marketing and distribution company of the group in Asia Pacific region. Grapes Ltd has a wholly owned subsidiary in India i.e. Mango Ltd. which acts as a marketing and distribution company in India. Grapes Ltd also has subsidiaries in Sri Lanka, Taiwan and China.

Due to recent developments in Base erosion and profit shifting (BEPS) actions and consideration of Multilateral Instrument, the group is thinking to realign the investment structure so as to shift the holding company to non-tax haven. As a measure to realign the investment structure, Orange Ltd. transferred its entire stake in Grapes Ltd to UK based group company called Kiwi Ltd. at book value on 1st September 2020. Subsequently, on 1st December 2020, Pineapple Inc has transferred its debenture holding in Grapes Ltd to third party buyer at fair market value.

You a tax advisory firm in India and you have been hired by the group to advise on the tax implication arising in India on the restructuring. In respect of the above proposed transaction, you have received the following information from the group which you had sought for:

- (1) Financial year followed by each of the above companies

Company	Financial Year
Pineapple Inc, USA	1st January to 31st December
Orange Ltd., Luxembourg	1st July to 30th June
Grapes Ltd, Singapore	1st January to 31st December
Mango Ltd, India	1st April to 31st March
Kiwi Ltd, UK	1st April to 31 st March

- (2) Balance sheets positions of Orange Ltd. as on 1.9.2020 before transfer and as on previous accounting year end date:

Liabilities	30th June 2020	1st Sep 2020	Assets	30th June 2020	1st Sep 2020
	Amount in crores			Amount in crores	
Capital	1200	1450	Investment in Grapes Ltd	1000	1000
Liabilities	100	150	Other assets	300	600
Total	1300	1600	Total	1300	1600

- (3) Balance sheet positions Grapes Ltd as on the date of transfer and as on previous accounting year end date:

Liabilities	31 Dec 2019	1 Sep 2020	Assets	31 Dec 2019	1 Sep 2020
	Amount in crores			Amount in crores	
Capital	2500	2000	Investment in Mango Ltd	1000	1000
Liabilities	-	-	Investment in China, Sri Lanka and Taiwan	500	500
			Other assets	1000	500
Total	2500	2000	Total	2500	2000

- (4) Balance sheet of Mango Ltd as on the date of transfer and as on previous accounting year end date :

Liabilities	31 March 2020	1 Sep 2020	Assets	31 March 2020	1 Sep 2020
	Amount in crores			Amount in crores	
Capital	500	800	Investments	300	300
Liabilities	500	400	Immovable property	200	200
			Other assets	500	700
Total	1000	1200	Total	1000	1200

(5) Fair Market Value as per Rule 11UB of the Income-tax Rules, 1962:

Date	Orange Ltd	Grapes Ltd	Mango Ltd
	Amount in crores		
31st Dec 2019	6000	5000	3000
31st March 2020	6300	5300	3300
30th June 2020	6500	5500	3500
1st Sep 2020	7000	6000	4000

(6) Other details

- The stamp duty value of immovable property of Mango Ltd. is 500 crores
- The year-wise cost inflation index are as under:

Financial year	Cost Inflation Index (CII)
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272
2018-19	280
2019-20	289
2020-21	301

(7) Mr. Win and his brother Mr. Hope, who are citizens and residents of USA, are shareholders of Pineapple Inc. Mr. Win is a football player and Mr. Hope is a pop singer. Mr. Win comes to India from 1st March, 2021 to 31st March, 2021 to participate in football tournaments for which he is paid Rs. 25 lakhs. He contributes an article on football in a leading sports magazine in India and earns Rs. 2 lakh. He also purchased a lottery ticket in India and won Rs. 3 lakhs. Mr. Hope accompanied his brother to India and earned Rs. 4 lakhs from pop music events. He has no other income in India.

Based on the above facts, you are required to answer the following questions:

I. MULTIPLE CHOICE QUESTIONS

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

- What will be the specified date on which the 50% threshold for triggering indirect transfer in the hands of Orange Ltd. would be tested?
 - 31st December, 2019
 - 31st March, 2020
 - 30th June, 2020
 - 1st September, 2020

2. Which company is required to do reporting in India upon transfer of shares of Grapes Ltd i.e. to file Form 49D?
 - (a) Grapes Ltd
 - (b) Mango Ltd
 - (c) Orange Ltd
 - (d) All
3. Would indirect transfer provision be triggered in the hands of Pineapple Inc. on transfer of debentures in Grapes Ltd?
 - (a) Yes, as debentures represent interest in Grapes Ltd
 - (b) Yes, as indirect transfer applies to both shares and debentures
 - (c) No, as debentures do not represent share or interest in Grapes Ltd
 - (d) No, because indirect transfer applies only to equity shares
4. Are Mr. Win and Mr. Hope required to file their return of income for A.Y.2021-22 u/s 139 mandatorily, if tax deductible at source from all components of their income have been fully deducted and remitted to the Central Government on time?
 - (a) Yes, both Mr. Win and Mr. Hope are required to file their return of income u/s 139 mandatorily for A.Y.2021-22
 - (b) No, both Mr. Win and Mr. Hope are not required to file their return of income u/s 139 for A.Y.2021-22, since they are non-residents and tax deductible at source has been fully deducted
 - (c) Mr. Win is required to file his return of income u/s 139 mandatorily, but not Mr. Hope
 - (d) Mr. Hope is required to file his return of income u/s 139 mandatorily, but not Mr. Win.
5. Whether Kiwi Ltd is required to withhold any tax u/s 195 on the consideration payable to Orange Ltd.? Your answer should be with reference to the provisions of the Income-tax Act, 1961.
 - (a) Yes, Kiwi Ltd is required to deduct tax u/s 195 on the component of income chargeable to tax in India.
 - (b) No, Kiwi Ltd is not required to deduct tax at source since the capital gains is not chargeable to tax in India.
 - (c) No, Kiwi Ltd. is not required to deduct tax at source since it is a non-resident not having a permanent establishment in India.
 - (d) No, due to reasons stated in (b) and (c) above.

III. DESCRIPTIVE QUESTIONS

1. Compute the tax liability in India on transfer of stake in Grapes Ltd. by Orange Ltd. on the basis of the provisions of the Income-tax Act, 1961. Ignore the effect of DTAA. **(9 Marks)**
2. Compute the tax liability of Mr. Win and Mr. Hope for A.Y.2021-22. **(6 Marks)**