

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

*Each case study carries 50 Marks.*

**Time Allowed – 4 Hours**

**Maximum Marks – 100**

**CASE STUDY 1**

**Introduction:**

Trikal Cement Ltd. (TCL) is an Indian company, having its head office at Vishakhapatnam. The company operates a SEZ unit as well as several DTA units. TCL is the flagship company in the group and the group has a foreign subsidiary D Inc.

You are the CFO with CA background, handling all taxation matters.

**Meeting of the Board of Directors**

An important Board meeting is scheduled on 25<sup>th</sup> May, 2019. The current date is 20<sup>th</sup> May, 2019. In this meeting, some important decisions are proposed to be taken, some of them having repercussions associated with Indian and international taxation.

**Background of the business activities**

TCL supplies goods to Shine Ltd. (SL), in Sri Lanka. The paid-up capital of SL in INR equivalent is Rs.50 crores. TCL holds to the tune of Rs.14 crores in the same.

TCL supplies goods to Grew Solid Ltd. (GSL), in Singapore. The paid-up capital of GSL in INR equivalent is Rs.80 crores. TCL holds to the tune of Rs.18 crores in GSL.

The voting power in both the companies is directly proportional to the number of shares held.

**Royalty receipts**

D Inc., is currently paying a royalty of 2 millions USD per annum (year ended 31-3-2019) to TCL for supply of know-how. For similar supply of know how to Epsilon LLC., a wholly owned Government Company in Japan, TCL receives annual royalty of USD 3 millions. (1 USD = Rs. 70)

**Export sales data**

Export sales are made from the SEZ unit of TCL.

Manager of Exports Division has furnished the following data pertaining to export sales of identical goods made during the year ended 31-3-2019:

Name of the party	Qty in MT	CIF Rate per MT (Rs.)
SL	8,00,000	11,800
GSL	5,00,000	12,000
XY Inc.	3,00,000	11,900
AB LLC.	2,00,000	11,700

XY Inc and AB LLC are unrelated third parties, located in notified jurisdictional areas.

**External borrowings**

TCL has borrowed a sum of equivalent of Rs.200 crores from Danubes Inc., Dubai on 12-4-2018. On this date, the assets position of TCL was as under:

	(In Rs. Crores)	
Type of assets	Market value	Book value
Tangible fixed assets	350	270
Intangible assets	30	25
Other assets	40	35

Danubes Inc., has charged interest at 8% and TCL has paid interest of Rs.16 crores for the year ended 31-3-2019. Though the normal lending rate of Danubes Inc. was 7% per annum to other parties, in view of the urgent requirement of funds and pressing financial commitments, TCL decided to borrow this amount then.

#### **I. MULTIPLE CHOICE QUESTIONS**

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

- Assume that TCL has entered into an Advance Pricing Agreement (APA) on 2nd Jan., 2019, covering transactions for the period starting from 1<sup>st</sup> April, 2017. This was submitted to the Department on 19<sup>th</sup> Jan., 2019. The Annual Compliance Report for the assessment year 2018-19 shall be furnished within:
  - 60 days from 19<sup>th</sup> Jan., 2019
  - 90 days from 19<sup>th</sup> Jan., 2019
  - 90 days from 2<sup>nd</sup> Jan., 2019
  - 30 days from 30<sup>th</sup> Nov., 2018
- Associated enterprise refers to an enterprise which participates, directly or indirectly, or through one or more intermediaries, in, or if one or more persons participates, directly or indirectly, or through one or more intermediaries in certain areas/spheres. Following is not a connected area or sphere:
  - Management of the two different enterprises.
  - Control of two different enterprises.
  - Capital of two different enterprises.
  - Dividend distribution policy of the two different enterprises.
- Assume that TCL has entered into an agreement for sale of a product to Mr. Kashyap on 21-1-2019, who has an agreement with Deep Inc., of Singapore, in which TCL holds 40% of the share capital. The transaction between TCL and Mr. Kashyap will be deemed to be international transaction for transfer pricing purposes (if the other parameters are met),
  - Whether Kashyap is a resident or non-resident;
  - If Kashyap is a non-resident;
  - If Kashyap is a resident;
  - Will not be deemed to be international transaction at all.
- Which of the following is not a transfer pricing method specified u/s 92C for computation of the ALP?
  - Resale price method
  - Uncontrolled profit method
  - Cost plus method
  - Profit split method
- Variation permitted between the actual price charged by an assessee, being a manufacturer, to an associated enterprise in a Notified Jurisdictional Area (NJA) and the Arm's Length Price (ALP) is
  - 3%

- (b) 5%
  - (c) 7.5%
  - (d) Nil
6. The applicant desiring roll back of the APA may furnish the request for rollback provision in Form No. \_\_\_\_\_ with proof of payment of an additional fee of \_\_\_\_\_.
- (a) 3CEDA; Rs.1 lakh
  - (b) 3CEDA; Rs.5 lakh
  - (c) 3CED; Rs.2 lakh
  - (d) 3CED; Rs.3 lakh
7. In the context of transfer pricing provisions entered into by TCL, international transaction should be in the nature of
- (i) Purchase, sale or lease of tangible or intangible property
  - (ii) Provision of service
  - (iii) Lending or borrowing money
- (a) Transaction specified in (i) or (ii) above with an associated enterprise whether resident or non-resident
  - (b) Transaction specified in (i) or (ii) above with a non-resident associated enterprise
  - (c) Transaction specified in (i) or (ii) or (iii) above with an associated enterprise whether resident or non-resident
  - (d) Transaction specified in (i) or (ii) or (iii) above with a non-resident associated enterprise
8. The OECD member countries have accepted the concept of Arm's Length Price (ALP) for reaping the following benefit:
- (a) Minimises double taxation;
  - (b) Real taxable profits can be determined;
  - (c) Artificial price distortion is reduced;
  - (d) All the three above.
9. Which of the following transactions fall within the meaning of specified domestic transaction under section 92BA?
- (i) any transaction referred to in section 80-A
  - (ii) any transfer of goods and services between eligible business u/s 80-IA and any other business at a price not corresponding to the market value
  - (iii) any expenditure in respect of which payment is made to a related person referred to in section 40A(2)(b)
- (a) Only (i) above
  - (b) (i) and (ii) above
  - (c) (i) and (iii) above
  - (d) (i), (ii) and (iii)
10. Where TCL has maintained proper records and documents, and the TPO has made some adjustments to the ALP, thereby increasing the total income by Rs.1 crore, the penalty leviable u/s 270A will be \_\_\_\_\_
- (a) Nil

- (b) 50% of amount of tax payable on under-reported income
- (c) 200% of amount of tax payable on under-reported income
- (d) amount equal to tax payable on under-reported income

## II. DESCRIPTIVE QUESTIONS

1. State with reasons the correctness or otherwise of following statements.
  - (i) An Advance Pricing Agreement (APA) entered into by the assessee cannot be revised by the CBDT suo moto, but only upon an application made by the assessee for such revision. **(2 Marks)**
  - (ii) Under Rule 10MA(2)(ii), there is a condition that the return of income for the relevant roll back year has been or is furnished by the applicant before the due date specified in Explanation 2 to section 139(1). Hence the applicants who have filed returns under section 139(4) or 139(5) of the Act would not be eligible for roll back of the APA. **(4 Marks)**
  - (iii) Where the total income of TCL is computed by the Assessing Officer applying the provisions of section 115JB, then adjustments made on account of transfer pricing provisions will not have any impact while computing the book profits under section 115JB. Assume that TCL is a company which is not required to comply with the Indian Accounting Standards.  
 Would your answer change if TCL is required to comply with Ind AS? **(4 Marks)**
2. The Board of Directors want to know the income likely to be computed by the Assessing Officer, taking note of the adjustments under transfer pricing provisions. The profits of TCL computed without taking note of said adjustments, as per the provisions of Chapter IV -D of the Act is Rs.32.2 crores. Assume that there is no Advance Pricing Agreement and TCL has opted not to be subjected to Safe Harbour Rules. You are required to examine the various transactions entered into by TCL and determine the applicability of transfer pricing provisions for each transaction. **(18 Marks)**
3. State with reason, whether TCL can claim deduction under section 10AA in respect of the transfer pricing adjustment made in respect of the export sales, if such adjustments to transfer pricing are made by the Assessing Officer. **(2 Marks)**

## CASE STUDY 2

### Introduction

Akash bricks Ltd. ("ABL") is a leading Indian company, having number of divisions and is engaged in manufacturing, as well as trading activities. It has global presence. It has few foreign subsidiaries also. For this case study, S Inc. (located in Singapore), N Inc (formed in New York, USA) and A LLC. (In Perth, Australia) are relevant.

A LLC., ("AL"), incorporated on 1-11-2018, is engaged in various types of e-commerce activities. It has a website present in Indian soil also.

N Inc., ("NI") provides technical know-how to an Indian company DC and is in receipt of royalty, as per an agreement for provision of know-how. The agreement is within the Industrial Policy conditions laid down by the Central Government.

S Inc., ("SI") is engaged in various types of trading activities. It has presence in India also, operating a branch at Delhi.

The company owns a ship and an aeroplane, which operate from Indian ports to various ports across the world. ABL is planning to file an application with the AAR for seeking advance ruling on certain issues.

### Advertisement campaign

ABL decided to expand its overseas markets and in this context, it has engaged the services of two foreign companies PST and DLM. PST is a London-based company and has a branch office in India. DLM is incorporated in Colombo and does not have a PE in India.

During the year, ABL has spent Rs.2.10 crores on digital online advertisements. It has paid Rs.1.20 crores to PST and Rs.90 lakhs to DLM.

### Net results of SI for the year ended 31-3-2019

For the branch of SI in India, the net results for the year ended 31-3-2019 were as under:

Particulars	Rs. In lakhs
Net profit prior to adjustment below	20
Share of HO expenses	45
Net loss (adjusted loss)	25

### Royalty receipts of NI

NI has received royalty of Rs.30 lakhs from DC during the F.Y. 2018-19. It has incurred an expenditure of Rs.3 lakhs in India for earning the same.

## I. MULTIPLE CHOICE QUESTIONS

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

- NI has assets in India as well as outside India. The assets include building, machinery and land. As regards the assets test (for the POEM purposes), to be considered as a company having active business outside India (ABOI), one has to consider whether:
  - 50% or more of the total book value of assets are located outside India.
  - 50% or more of the total market value of land and book value of building and machinery are located outside India.
  - 50% or more of the average value of assets for tax purposes in USA at the beginning and end of the P.Y. is located outside India.
  - 50% or more of the average value of building and machinery for tax purposes in USA at the beginning and end of the P.Y. and value of land as per books of account is located outside India.
- Assume that the income of SI is as under (Rs. in crores):

Place of earning income	Total Income	Income from transactions where			
		Only purchase of goods is from associated enterprises (I)	Only sale of goods is to associated enterprises (II)	Both purchase and sale are made from/to associated enterprises (III)	Royalty/ dividend/ interest (IV)
Earned in India	75	10	18	15	10
Outside India	25	6	4	5	4

Which of the following statements is true?

- SI can be said to be engaged in ABOI, since its royalty/ dividend/ interest income is not more than 50% of its total income
- SI is engaged in ABOI, since its income referred to in (III) & (IV) is not more than 50% of its total income
- SI is not engaged in ABOI, since its income referred to in (I), (II), (III) & (IV) earned in India exceeds 50% of its total income earned in India

- (d) SI is not engaged in ABOI, since its income referred to in (I), (II), (III) & (IV) earned in and outside India exceeds 50% of its total income earned in India and outside India
3. An Indian branch of a foreign bank has paid interest of Rs.2 crores to its head office and Rs.1 crore to the Colombo branch. Tax has to be deducted at source to the tune of
- Nil
  - Rs.10,40,000
  - Rs.31,20,000
  - None of the above
4. The AAR will not allow an application made by a PSU if the question raised in the application
- is pending before any income tax authority or ITAT
  - involves determination of fair market value of any property
  - is designed prima facie for avoidance of tax
- Which of the following option is correct?
- Only (ii)
  - (i) and (ii)
  - (i) and (iii)
  - (i), (ii) and (iii)
5. ABL is desirous of obtaining an advance ruling in respect of a transaction of Rs.100 crore proposed to be undertaken by it. It has to pay a fee of \_\_\_\_\_ while making an application for advance ruling.
- Rs.2 lakh
  - Rs.10 lakh
  - Rs.5 lakh
  - Rs.10,000
6. ABL has paid purchase commission of Rs.7 lakhs to Mr. Guru, a resident. Tax to be deducted at source is
- Nil
  - Rs.70,000
  - Rs.36,400
  - Rs.35,000
7. ABL has paid a sum of Rs.12 lakhs during the year ended 31-3-2019, to the Airports Authority of India, towards landing charges (for using the ground when the aircraft is stationary before and after landing or take off). The amount of tax to be deducted at source by ABL in this regard is
- Nil
  - Rs.24,000
  - Rs.1,20,000
  - Rs.24,960
8. The following residents can be an applicant for seeking advance ruling:
- Public Sector Undertaking
  - Resident entering into a transaction with a non-resident in relation to the tax liability of non-resident

- III. Resident in relation to his tax liability arising out of one or more transactions valuing Rs.100 crore in total
- IV. Resident in relation to his tax liability arising out of one or more transactions valuing Rs.1 crore in total
- (a) (II) & (III)
- (b) (II) & (IV)
- (c) (I), (II) & (III)
- (d) (I), (II) & (IV)
9. ABL made an application seeking advance ruling on 2-1-2019. ABL wanted to withdraw the said application. Under normal circumstances, he may do so within
- (a) 1.2.2019
- (b) 2.2.2019
- (c) 28.2.2019
- (d) 1.3.2019
10. The following persons are involved in an advance ruling.
- (i) Applicant who sought the ruling
- (ii) Commissioner
- (iii) Jurisdictional income tax authorities subordinate to the Commissioner
- (iv) Jurisdictional Principal Chief Commissioner of Income-tax to whom the Commissioner is subordinate
- The advance ruling pronounced by the AAR is binding on
- (a) Only (i) above
- (b) Only (i) and (ii) above
- (c) (i), (ii) and (iii) above
- (d) All four above

## **II. DESCRIPTIVE QUESTIONS**

1. The Board of directors wish to know whether the existence of a website on Indian Soil constitutes a permanent establishment. You are required to give your expert opinion on the same. **(5 Marks)**
2. Briefly sketch the tax implications and the TDS implications (including consequence of non-deduction of TDS) in respect of the advertisement charges paid by the assessee ABL to PST and DLM. Brief note on the provisions involved is also required. **(8 Marks)**
3. Continuing 2 above, if the payment made is "net of tax", can the assessee claim that since it has borne the tax burden, it will not issue any tax deduction certificate to the payee? Advise the Board of Directors suitably. **(3 Marks)**
4. The Board of Directors desires to know the total income of SI in India for income-tax purposes. You are required to compute the same, and give a brief note on the applicable provisions. **(4 Marks)**
5. In the under-mentioned situations, what will be the tax liability (including TDS obligation) of NI and DC:
- (i) The agreement having been entered into before 1st June, 2002; the tax payable by NI is paid to the Indian income-tax authorities by DC;
- (ii) There is no clause in the agreement that DC has to undertake the tax liability; the royalty payable is decided to be Rs.30 Lakhs (net of taxes). **(6 Marks)**

6. Assuming that another foreign company FC has entered into an identical technical know-how agreement with another Indian company and has obtained an advance ruling from the AAR, can NI make use of the said ruling for its tax purposes for the A.Y. 2019-20? **(4 Marks)**

### **CASE STUDY 3**

Mr. Abhinav, a citizen of India, aged 48 years, for the first time, moved for employment purpose to Country "X", a country outside India, on 1<sup>st</sup> September, 2014. He was employed with a consulting firm in Country "X". Since then, he has visited India during the P.Y.2014-15, 2015-16, 2016-17, 2017-18, 2018-19 for 30 days, 50 days, 50 days, 170 days and 150 days, respectively, for both personal and professional purposes. His family comprises of himself, his spouse Mrs. Archana (aged 45 years); his mother, Mrs. Kamala (aged 81 years); and his two sons, Rohan and Kapil, aged 19 years and 15 years, respectively. In addition, Mr. Abhinav's unmarried sister Ms.Geetha, aged 42 years, is living with his family in Country "X" since September, 2014. Ms. Geetha and Mrs. Kamala have been visiting India during the P.Y.2014-15, 2015-16, 2016-17, 2017-18, 2018-19 for 50 days, 50 days, 120 days, 150 days and 150 days, respectively.

In the year 2017-18, Mr. Abhinav resigned from his job and started his own consultancy in Country "X" for providing technical services. He entered into an agreement with ABC Ltd, an Indian company, on 01.06.2017 and pursuant to the agreement, Fees for Technical Services (FTS) of INR 10,00,000, is payable to Mr. Abhinav every year for a period of five years. The agreement is approved by the Central Government. Mr. Abhinav also entered into an agreement with the Government of Country "Y" for provision of technical services for a period of three years. The FTS payable to Mr. Abhinav every year for a period of three years under this agreement in foreign currency is equivalent to INR 15,00,000.

During the previous year 2017-18, Mr. Abhinav became partner in a partnership firm M/s Lotus & Co., India and contributed INR 50 lakhs towards capital. He was paid interest @10% as interest on capital and profit share of INR 4 lakhs every year by the firm.

His friend Mr. George, a citizen and resident of Country "X", borrowed money from Mr. Abhinav and invested the same in bonds issued by MNO Ltd., an Indian Company in April, 2018. Mr. George visited India during the P.Y.2018-19 for the period from 10<sup>th</sup> April, 2018 to 15<sup>th</sup> May, 2018. During the previous year 2018-19, interest on borrowings in foreign currency equivalent to INR 1,95,000 was paid by Mr. George to Mr. Abhinav in his bank account in Country "X".

Mr. Abhinav also earned income of foreign currency equivalent to INR 3,00,000 from his house property in Country 'X' deposited in an Indian Bank at Country 'X' and subsequently brought to India. Also, he had paid property tax of foreign currency equivalent to INR 3,000 on the said property. During the previous year 2018-19, the rental income earned was invested in deposits in India in the ratio of 30:20:50 in NRO savings account, 5 year fixed deposits and NRE savings account. Interest earned on such deposits is INR 4,000, 5,000 and 9,000, respectively.

On 30.06.2018, he sold shares of Prime Pvt. Ltd., India for INR 12,00,000 and of Hello Pvt. Ltd., India for INR 9,30,000 net of transfer expenses. These shares were purchased by him in convertible foreign currency on 01.12.2015 at a cost of INR 6,20,000 and on 01.01.2018 at a cost of INR 7,50,000 respectively. On 31.10.2018, he invested the sale proceeds of INR 10,50,000 in purchase of shares of Cheers Pvt. Ltd., India.

Further, on 01.12.2018, Mr. Abhinav sold 2000 shares of PQR Pvt. Ltd., India, for INR 15 each. 1500 of such shares were acquired on 01.10.2016 @ INR 10 each and 500 shares were acquired on 31.10.2017 @INR 12 each.

In April, 2018, he had taken a loan of INR 50 lakhs @10% from SBI for construction of residential house in Pune. The construction is completed in May, 2019. He prepaid INR 3 lakhs in March, 2019 to the bank.

He had also purchased the following capital assets in April, 2018 and he transferred the same outside India to Mr. Thomas, a resident of Country "X", in March, 2019 –

- Rupee Denominated Bonds of INR 1,00,000 of LMN Ltd., an Indian Company, issued outside India, for INR 2,00,000.



- Government Securities of INR 1,00,000 through an intermediary dealing in settlement of securities, for INR 1,50,000

Mr. Thomas, a citizen of India, visits India for 100 days every year.

Mrs. Archana, a painter by profession, earned income of INR 3,00,000 from exhibition conducted in Mumbai. Rohan and Kapil are pursuing education in Country 'X'. Mr. Abhinav paid foreign currency equivalent to INR 60,000 to Cathedral School, Country 'X,' towards their annual tuition fees. Kapil won an excellence award of INR 25,000 at the Science Olympiad held in Mumbai in February, 2019.

Mr. Abhinav paid foreign currency equivalent to INR 50,000 to an Insurance Company in Country 'X' towards life insurance premium to insure his life and life of Mrs. Archana. Mr. Abhinav has also paid INR 20,000 to New India Assurance Company, India, for health insurance of himself and Mrs. Archana, INR 35,000 to insure health of Mrs. Kamala and INR 25,000 to insure the health of Ms. Geetha.

## **I. MULTIPLE CHOICE QUESTIONS**

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

1. Based on the above facts, Mr. Abhinav's residential status in India for P.Y.2018-19 and P.Y.2014-15 is -
  - (a) Non-resident for both the years
  - (b) Non-resident for P.Y.2018-19 and Resident but not ordinarily resident for P.Y.2014-15
  - (c) Resident but not ordinarily resident for P.Y.2018-19 and Resident for P.Y.2014-15
  - (d) Non-resident for P.Y.2018-19 and Resident and ordinarily resident for P.Y.2014-15.

*(Note – Assume that the rules for determining residential status for A.Y.2015-16 were the same as it is for A.Y.2019-20)*
2. Which of the following benefits are not allowable to Ms. Geetha, while computing her total income and tax liability for A.Y.2019-20 under the Income-tax Act, 1961?
  - (a) Deduction of 30% of gross annual value while computing her income from house property in Bangalore, India
  - (b) Tax rebate of INR 2,500 from tax payable on her total income of INR 3,40,000
  - (c) Deduction for donation made by her to Prime Minister's National Relief Fund
  - (d) Deduction for interest earned by her on NRO savings account.
3. Unexhausted basic exemption limit, if any, of Mr. Thomas, for A.Y.2019-20 can be adjusted against –
  - (a) Only LTCG taxable@20%
  - (b) Only STCG taxable@15%
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
4. Had Ms. Geetha been seconded on employment outside India by the Indian Government, which of the following emoluments paid to her by the Indian Government shall be taxable under the Income-tax Act, 1961:
  - (a) Basic Salary paid outside India
  - (b) Allowances and Perquisites paid outside India
  - (c) Both (a) and (b), since emoluments are paid to her by the Indian Government
  - (d) Neither (a) nor (b), since she has rendered services outside India

5. Ms. Geetha is an enthusiastic sports person and is keen on contributing an article on a game of Soccer in a leading newspaper in India. She approaches you to enquire on taxability of such income for A.Y.2019-20. As per the provisions of Income-tax Act, 1961, such income shall be taxable in her hands at -
  - (a) 5%
  - (b) 10%
  - (c) 20%
  - (d) Normal tax slab rates

**(Note – The above tax rates are excluding cess and surcharge, if any)**
6. Ms. Geetha shall be mandatorily required to file return of income in India for A.Y.2019-20, -
  - (a) if she holds assets outside India even though she does not have taxable income in India
  - (b) if she has income exceeding the basic exemption limit but after taking into account deduction under Chapter VI-A, her income falls below the basic exemption limit
  - (c) if she has income, without giving effect to deduction under Chapter VI-A, below the basic exemption limit and tax credit appearing in Form 26AS, in respect of which she does not wish to claim the refund
  - (d) in all the above situations
7. In December, 2015, Ms. Geetha bought, in foreign currency, 500 Global Depository Receipts of PQR Ltd, an Indian Company, which were issued in accordance with the notified scheme of the Central Government. In January, 2019, she sold 300 GDRs outside India to Mr. Frank, a citizen and resident of Country 'X' and 200 GDRs to Mr. Kamal, a Resident but not ordinarily resident in India. Comment on the tax consequences of such sale transaction under the Income-tax Act, 1961 -
  - (a) Capital gains arising on sale of 500 GDRs shall be subject to tax @20% with indexation benefit in India
  - (b) No capital gains would arise on sale of 500 GDRs in India, since the GDRs are purchased in foreign currency
  - (c) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed in India @10% without indexation benefit
  - (d) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed @20% with indexation benefit in India
8. Benefit of presumptive taxation under the Income-tax Act, 1961 would not be available to Mr. George for A.Y.2019-20, in respect of the related Indian income, if he is engaged in the business of -
  - (a) Operation of Ships
  - (b) Operation of Aircrafts
  - (c) Civil Construction in connection with an approved turnkey power project
  - (d) Plying, hiring or leasing of goods carriages.
9. Interest income earned by Mr. George during the P.Y.2018-19 on bonds, issued by MNO Ltd., an Indian company, under a scheme notified by the Central Government, which were purchased by him in convertible foreign currency, is -
  - (a) taxable@10%
  - (b) taxable@15%

- (c) taxable@20%
- (d) not taxable

**(Note – The above tax rates are excluding cess and surcharge, if any)**

10. An agent, in relation to income which is deemed to accrue or arise in India to a non-resident, is considered as a representative assessee. However, an agent, in relation to a non-resident person does not include -
  - (a) An employee in India of the non-resident
  - (b) A trustee in India of the non-resident
  - (c) A broker in India dealing with the non-resident person only through a non-resident broker, where both non-residents carry on transactions in the ordinary course of business
  - (d) A person in India having business connection with the non-resident

## **II. DESCRIPTIVE QUESTIONS**

1. (i) Examine the tax consequence of fees for technical services (FTS) received by Mr. Abhinav, a resident of Country "X", from ABC Ltd. for Assessment Year 2019-20, if -
  - India has no Double Tax Avoidance Agreement (DTAA) with Country "X"
  - India has a DTAA with Country "X", which provides for taxation of such FTS @5%.
  - India has a DTAA with Country "X", which provides for taxation of such FTS @15%. **(3 Marks)**
 (ii) In case Mr. Abhinav fails to furnish the PAN details to ABC Ltd., at what rate should ABC Ltd. deduct tax at source, considering that Mr. Abhinav is a resident of a Country 'X', with which India has no DTAA? **(4 Marks)**
 (iii) If Mr. Abhinav has a fixed place of profession in India and the contract in respect of FTS with ABC Ltd. is effectively connected with such fixed place of profession in India, how would the FTS be computed in such a case and what are the related requirements under the Income-tax Act, 1961? **(3 Marks)**
2. (i) Chapter XVII-B requires tax deduction at source by a resident making payment to either a resident or a non-resident. It does not require tax deduction at source by non-residents, who do not have any place of business or business connection in India. Examine the correctness or otherwise of this statement. **(3 Marks)**
 (ii) As a tax consultant for M/s Lotus & Co., India, you need to advise the firm regarding tax deduction at source on the payments (i.e. interest on capital and share of profit) made to Mr. Abhinav during the previous year 2018-19, considering that Mr. Abhinav is a resident of Country 'X', with which India has no DTAA. In case tax is not deductible at source, is there any other related requirement to be complied with by the firm? **(4 Marks)**
 (iii) If India has a DTAA with Country 'X' providing for deduction of tax at 10%, then, what is the remedy available in case M/s Lotus & Co., India has deducted tax at the requisite rate provided under the Income-tax Act, 1961? **(3 Marks)**
3. Using the information given in the facts of the case, compute Mr. Abhinav's total income and tax liability for the Assessment Year 2019-20, assuming that he is a resident of Country X, with which India has no DTAA and he opts for computing his income in accordance with the provisions of Chapter XII-A of the Income-tax Act, 1961. You may ignore the amount of advance tax and TDS credit appearing in Form 26AS. Also, ignore the effect of first proviso to section 48, wherever applicable. **(10 Marks)**

**EXHIBIT I**  
**COST INFLATION INDICES**

<b>Financial Year</b>	<b>Cost Inflation Index</b>
2001-02	100
2002-03	105
2003-04	109
2004-05	113
2005-06	117
2006-07	122
2007-08	129
2008-09	137
2009-10	148
2010-11	167
2011-12	184
2012-13	200
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272
2018-19	280