



DSTC

Durgesh Singh Tax Classes

Direct Tax Laws & International Taxation

Mock Test Paper Series

by
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**For CA Final Examination
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Mock Test – 1

(Transfer Pricing, International Taxation, General Anti Avoidance Rules)

Key Instructions:

- 1) Read the questions very carefully.
- 2) For descriptive questions, the answers should be in line with the specific question asked and the marks allocated.
- 3) Check the time taken for each question.
- 4) Notes/working notes should be attached suitably.
- 5) Figures on the right indicates the marks.
- 6) Highlighted Questions in pink shade are for New Syllabus students only.
- 7) **For answers and solution video download DSTC Mobile Application from Google Play Store and Contact for more details at 9779430034.**

Multiple Choice Questions			M
Q.1	I	<p>Kaveri Ltd. is an Indian Company in which Andes Inc., a Country A company holds 30% shareholding and voting power. During the previous year 2016-17, the Indian company supplied computers to the Country A based company @CAD 2200 per piece. The price of computer supplied to other unrelated parties in Country A is @CAD 2500 per piece. During the course of assessment proceedings relating to A.Y.2017-18, the Assessing Officer carried out primary adjustments and added a sum of Rs.138 lakhs, being the difference between actual price of computer and arm's length price for 500 pieces and it was duly accepted by the assessee. The Assessing Officer passed the order, in which the primary adjustments were made, on 1.7.2019. On account of this adjustment, the excess money of Rs.138 lakhs is available with Andes Inc, Country A. What would be the effect of this transaction while computing the total income of Kaveri Ltd. for the assessment year 2020-21, assuming that –</p> <p>(i) Kaveri Ltd. declared an income of Rs.220 lakhs;</p> <p>(ii) the excess money is still lying with Andes Inc. till today,</p> <p>(iii) Kaveri Ltd. has not opted to pay additional income-tax on such excess money not repatriated; and</p> <p>(iv) the rate of exchange is 1 CAD = Rs.92 and the six-month LIBOR as on 30.9.2019 is 10%. [CAD stands for Country A Dollars, which is the currency of Country A] –</p> <p>a) Interest of Rs.13.80 lakhs would be added to the total income of Kaveri Ltd</p> <p>b) Interest of Rs.13.455 lakhs would be added to the total income of Kaveri Ltd.</p> <p>c) Interest of Rs.10.35 lakhs would be added to the total income of Kaveri Ltd.</p> <p>d) Interest of Rs.8.97 lakhs would be added to the total income of Kaveri Ltd.</p>	1
	II	<p>An APA application seeks to cover 5 years starting from A.Y.2020-21 to A.Y.2022-26. The International transaction is of continuing nature. For P.Y.2019-20 it undertook the International Transaction on 01/12/2019. The Application for APA shall be made before:</p> <p>a) 01/04/2020</p> <p>b) 01/12/2019</p> <p>c) 01/04/2019</p> <p>d) 01/04/2021</p>	1
	III	<p>Which of the following statement is correct: The Constituent Entity of the International Group shall be required to maintain Local file as per Sec. 92D if:</p> <p>a) It has entered International Transaction; or</p> <p>b) If the aggregate value of International transaction exceeds Rs.1 Crore; or</p> <p>c) It is irrelevant whether it has entered the International Transaction during the previous year or not; or</p> <p>d) It is not required to maintain information and document as per section 92D if it has filed Cbcr for the relevant tax year.</p>	1
	IV	<p>If Country A is a notified jurisdictional area (NJA), then, the rate at which interest receivable from a infrastructure debt fund notified u/s 10(47) is taxable in the hands of Mr. Ram, a resident of Country A, and the rate at which tax has to be deducted at source on such income are, respectively,-</p> <p>a) 30% and 5%</p> <p>b) 5% and 5%</p> <p>c) 30% and 30%</p> <p>d) 5% and 30%</p>	1

V	<p>If ABC Ltd. has two Units, Unit 1 is engaged in power generation business and Unit 2 is engaged in manufacture of wires. Both the units were set up in Karnataka in the year 2014. In the year 2019-20, twenty lakh metres of wire are transferred from Unit 2 to Unit 1 at Rs.125 per metre when the market price per metre was Rs.180. Which of the following statements is correct?</p> <p>a) Transfer pricing provisions would be attracted in this case b) Transfer pricing provisions would not be attracted in this case since Unit 1 and Unit 2 belong to the same company and are not associated enterprises. c) Transfer pricing provisions would not be attracted in this case as it is not an international transaction since both Units are in India. However, for the purpose of Chapter VIA deduction, the profits of power generation business shall, however, be computed as if the transfer has been made at the market value of Rs.180 per MT. d) Transfer pricing provisions would not be attracted in this case due to reasons mentioned in both (b) and (c) above.</p>	1
VI	<p>XYZ Ltd. has failed to report an international transaction entered by it with PQR Inc., which is a specified foreign company in relation to XYZ Ltd. What would be the penalty leviable in this case?</p> <p>(i) 2% of the value of transaction (ii) 50% of tax payable on under-reported income (iii) 200% of tax payable on under reported income</p> <p>Choose the correct option:</p> <p>a) Only(i) b) Only(iii) c) (i) & (ii) d) (i) & (iii)</p>	1
VII	<p>Alpha Ltd's total income of A.Y.2020-21 has increased by Rs.34 lakhs due to application of arm's length price by the Assessing Officer on transactions of purchase of goods from its foreign holding company in respect of a retail trade business carried on by it, and the same has been accepted by Alpha Ltd., then,-</p> <p>a) business loss of A.Y.2016-17 cannot be set-off against the enhanced income b) deductions under Chapter VI-A cannot be claimed in respect of the enhanced income c) unabsorbed depreciation of A.Y.2011-12 cannot be set-off against the enhanced income d) Business loss referred to in (a), deductions referred to in (b) and unabsorbed depreciation referred to in (c) cannot be set-off against the enhanced income</p>	1
VIII	<p>In respect of any payment made to a person located in a Notified Jurisdictional Area (NJA), tax is deductible at higher of the rate specified in the Income-tax Act, 1961 or rates in force or-</p> <p>a) 10% b) 15% c) 20% d) 30%</p>	1
IX	<p>Interest paid to non-resident associated enterprise disallowed under the relevant provision of the Income-tax Act, 1961, during the A.Y. 2020-21 can be carried forward upto-</p> <p>a) A.Y.2024-25 b) A.Y.2025-26 c) A.Y.2028-29 d) Indefinitely</p>	1

X	<p>Fly Ltd., an Indian company, has to make secondary adjustment in A.Y. 2020-21, if the primary adjustment to transfer price, made by it suo moto in its return of income, is in respect of–</p> <p>a) A.Y. 2016-17 and the amount of primary adjustment is Rs.2crore b) A.Y. 2019-20 and the amount of primary adjustment is Rs.1crore c) A.Y. 2019-20 and the amount of primary adjustment is Rs.1.05crore d) A.Y. 2020-21 and the amount of primary adjustment is Rs.1crore</p>	1
XI	<p>XYZ Ltd. has entered into a specified domestic transaction during the previous year 2019-20. The company failed to obtain a report from a Chartered Accountant and furnish such report under section 92E on or before the due date for furnishing return of income under section 139(1). Is any penalty imposable on XYZ ltd? If yes, what will be the quantum of penalty?</p> <p>a) Penalty is not imposable, as report is to be furnished only in case of an assessee who has entered into an international transaction. b) Penalty of Rs.1 lakh is imposable c) Penalty @2% of the value of specified domestic transaction is imposable d) Penalty @2% of the value of transaction or Rs.1 lakh, whichever is higher, is imposable</p>	1
XII	<p>Y is a foreign company having permanent establishment in India namely X. Z, a non-resident associated enterprise, has invested Rs.900 crore through debt in X. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of X during the financial year was Rs.150 crore. Compute the amount of interest allowable in respect of the debt assuming that the debt was invested on the first day of the financial year and the rate of interest is 10% per annum.</p> <p>a) Rs.45 crore b) Rs.90 crore c) Rs.30 crore d) Rs.15 crore</p>	1
XIII	<p>Music Academy, as per its rules, pays a fixed honorarium per concert to each musician performing in the concerts organised by it. Hari, a violinist, however, refuses to accept this sum. If he requests Music Academy to pay such sum directly to Aid Us, an unregistered institution providing relief to the poor and needy in rural India, what would be the tax consequence?</p> <p>a) No amount would be chargeable to tax in the hands of Mr. Hari, since this is a case of diversion of income at source by overriding title. b) The amount payable to Aid Us would be chargeable to tax only in the hands of Mr. Hari, since it is a case of application of income c) The amount payable to Aid Us would be chargeable to tax only in the hands of the institution which has received the amount d) The amount payable to Aid Us would be chargeable to tax both in the hands of Mr. Hari and in the hands of the institution</p>	1
XIV	<p>A notified infrastructure debt fund eligible for exemption under section 10(47) of the Income-tax Act, 1961 pays interest of Rs.5 lakhs to a company incorporated in a foreign country. The foreign company incurred expenditure of Rs.12,000 for earning such interest. The fund also pays interest of Rs.3 lakhs to Mr. Frank, who is a resident of Country A, a notified jurisdictional area. Which of the following statements are correct?</p> <p>a) No tax deduction at source is required in respect of both the payments. b) No TDS is required in respect of payment of Rs.5 lakhs to the foreign company. However payment of interest to Frank attracts TDS@31.2% c) TDS@5.20% is attracted on Rs.4,88,000 to the foreign company. TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank d) TDS@5.20% is attracted on interest payment of Rs.5 lakhs to the foreign company.</p>	1

		<i>TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank</i>	
XV	<i>Samraat, resident in India, has earned an income of Rs.4 lakh by way of lump sum consideration for copyright of a book, being a work on literary from a publisher in Country E, with which India does not have a DTAA. The same has been taxed at a flat rate of 5% in Country E. In India, his gross total income is Rs.7 lakhs. The double taxation relief available is:</i>	<ul style="list-style-type: none"> a) Rs.20,000 b) Rs.7,725 c) Rs.1,950 d) Nil 	1
XVI	<i>Interest income earned by a non-resident during the P.Y. 2019-20 on bonds, issued by ABC Ltd., an Indian company, under a scheme notified by the Central Government, which were purchased by him in convertible foreign currency, is –</i>	<ul style="list-style-type: none"> a) Taxable @10% b) Taxable @15% c) Taxable @20% d) Not taxable 	1
XVII	<i>Mr. Harry and Mr. Sujoy, resident and Indian citizens, have been appointed as senior officials of County A embassy and County B embassy, respectively, in India in October, 2019. Mr. Harry and Mr. Sujoy are subjects of Country A and County B, respectively, and are not engaged in any other business or profession in India. The remuneration received by Indian officials working in Indian embassy in County A is exempt but in County B is taxable. The tax treatment of remuneration received by Mr. Harry and Mr. Sujoy from embassies of Country A and Country B, respectively, in India for the P.Y. 2019-20 is:</i>	<ul style="list-style-type: none"> a) Exempt from income-tax under section 10 b) Taxable under the Income-tax Act, 1961 c) Remuneration received by Mr. Harry is exempt but remuneration received by Mr. Sujoy is taxable d) Remuneration received by Mr. Sujoy is exempt but remuneration received by Mr. Harry is taxable 	1
XVIII	<i>The rate of deduction of tax from interest payable to a foreign company (located in a country with which there is no DTAA) by an Indian company on borrowing made by it from the said foreign company by way of issue of rupee denominated bonds on 31.03.2019 is:</i>	<ul style="list-style-type: none"> Nil 5% + HEC 5% + Surcharge (if applicable) + HEC 20% + HEC 	1
XIX	<i>Equalisation levy shall not be charged when:</i>	<ul style="list-style-type: none"> a) Payment is made to Resident Person b) The non-resident providing advertisement service has a PE in India & the advertisement service are effectively connected with such PE c) Both A & B d) None of the above 	1
XX	<i>An Indian Company would be liable to deduct Equalisation levy when it has to make payment of:</i>	<ul style="list-style-type: none"> a) Rs.99,000 each for online advertisement to 10 Foreign Companies b) Rs.2,00,000 each for online advertisement to 5 Foreign Companies 	1

		<p>c) Rs.50,000 each for online advertisement to 10 Foreign Companies</p> <p>d) All of above</p>	
	XXI	<p>Which of the following person would not be entitled to the benefit of India-USA DTAA:</p> <p>a) Mr. Patel, a tax resident of India</p> <p>b) RIL an Indian Company</p> <p>c) Z PLC, a U.K. incorporated company but a resident of USA, due to its POEM in USA.</p> <p>d) M/s Charlee LLP a fiscally transparent entity incorporated in USA & resident of USA, all of whose partners are tax residents of UK.</p>	1
	XXII	<p>Mr. Ganesh, a citizen of India, is employed in the Indian embassy in the USA. He is a non-resident for A.Y.2020-21. He received salary and allowances in the USA from the Government of India for the year ended 31.3.2020 for services rendered by him in the USA. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?</p> <p>a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ganesh, since he is a non-resident.</p> <p>b) Salary, allowances and perquisites received outside India by Mr. Ganesh is taxable in India since they are deemed to accrue or arise in India.</p> <p>c) Salary received by Mr. Ganesh is taxable in India but allowances and perquisites are exempt.</p> <p>d) Salary received by Mr. Ganesh is exempt but allowances and perquisites are taxable.</p>	1
	XXIII	<p>Mr. Rajesh, a resident Indian, is an employee of M/s. ABC Ltd., Bangalore. In addition to the salary income from M/s. ABC Ltd., he also earns interest from fixed deposits. M/s. PQR Inc., a foreign company not having permanent establishment in India, rendered online advertisement services to Mr. Rajesh, for which Mr. Rajesh made a payment of Rs. 2 lakhs in the F.Y.2019-20. Which of the statements is correct?</p> <p>a) The transaction is subject to equalisation levy since payment exceeding Rs.1 lakh has been made for online advertisement services by a resident to a non-resident not having permanent establishment in India.</p> <p>b) Equalisation levy@6% has to be deducted from the consideration of Rs.2 lakhs payable to M/s. PQR Inc.</p> <p>c) Both (a) and (b)</p> <p>d) The transaction is not subject to equalisation levy</p>	1
	XXIV	<p>ABC Ltd. an Indian company paid dividend distribution tax under section 115-O in respect of dividend distributed by it to its resident and non-resident shareholders. Mr. John, a shareholder of ABC Ltd. and a resident of Country X, has to pay tax in Country X on dividend received by him from ABC Ltd., as per the domestic tax laws of Country X. This is an example of:</p> <p>a) Juridical double taxation</p> <p>b) economic double taxation</p> <p>c) territorial double taxation</p> <p>d) municipal double taxation</p>	1
	XXV	<p>Mr. Akhilesh, a non-resident Indian citizen, is an enthusiastic sports person and is keen on contributing an article on a game of Hockey in a leading newspaper in India. He approaches you to enquire on taxability of such income for A.Y. 2020-21. As per the provisions of Income-tax Act, 1961, such income shall be taxable in his hands at –</p> <p>a) 5%</p> <p>b) 10%</p> <p>c) 20%</p>	1

	d) <i>Normal Tax Slab Rates</i>	
XXVI	<p>If an Indian company has entered into an advance pricing agreement (APA) in respect of its international transaction with associated enterprise for the P.Y. 2019-20. The company decides to make an application for roll back of the said APA. However, rollback provision shall not be available in respect of the said transaction for a rollback year, if –</p> <ul style="list-style-type: none"> (i) Such application has the effect of reducing total income declared in the return of income of the said year (ii) Determination of the arm's length price of the said transaction for the said year has been the subject matter of appeal before Commissioner (Appeals) and the Commissioner (Appeals) has passed an order disposing of such appeal at any time before signing of the agreement (iii) Determination of the arm's length price of the said transaction for the said year has been the subject matter of appeal before Appellate Tribunal and the Appellate Tribunal has passed an order disposing of such appeal at any time before signing of the agreement (iv) Return of income for the relevant rollback year has been furnished by the company under section 139(4). <p>The most appropriate answer is –</p> <ul style="list-style-type: none"> a) (i) and (ii) above b) (i) and (iii) above c) (i), (ii) and (iv) above d) (i), (iii) and (iv) above 	1
XXVI	<p>Mr. Sam (aged 40 years), a US football match referee, has earned income from football tournaments in India for A.Y. 2020-21. What are the TDS provisions applicable while making payment to him?</p> <ul style="list-style-type: none"> a) TDS @20.8% as per section 194E b) TDS @5.2% as per section 194E c) TDS under section 195 d) No tax is deductible at source 	1

Descriptive Questions

Q.2	<p>Chetan(P) Ltd. located in Special Economic Zone(SEZ) since April, 2012 is engaged in manufacturing activity by importing raw materials from its holding company Bada Inc. of UK. The following details are furnished:</p> <ul style="list-style-type: none"> → Chetan(P) Ltd. Imported goods for Rs. 60 crores during FY 2019-20 from Bada Inc. → Bada Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas for Chetan(P) Ltd. It provided a mark-up of 25% → Chetan(P) Ltd. was allowed to use the brand name of Bada Inc. without any payment & whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is Rs. 100 lakhs. → Chetan(P) Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Bada Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% p.a & the purchases were uniform throughout the year. → The Assessing Officer referred the matter to Transfer pricing Officer(TPO) for determination of Arm's Length Price(ALP). <ul style="list-style-type: none"> (i) Compute the ALP of the transaction & adjustments to be made to the income of Chetan(P)Ltd. (ii) What is the due date for Chetan(P)Ltd. for furnishing audit report under section 92E? (iii) If TPO had enhanced the income of Chetan(P) Ltd. by Rs.2 crores, will that enhanced amount of 	8
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	<p>income be eligible for deduction under section 10AA?</p> <p>(iv) Will Chetan(P)Ltd. become liable for penalty for under-reporting of income based on the report of the TPO?</p>																
<p>Q.3</p>	<p>Vishnu Polymers Ltd., is an Indian company having transactions which are subject to transfer pricing regulations. In June, 2019, the assessments for assessment years 2018-19 and 2019-20 were concluded after the due process under law:</p> <p>In both the years, in respect of the transactions with its associated enterprises, the ALP had been determined in Euro. For the assessment year 2018-19, the primary adjustment, as translated into INR was Rs.90 lakhs (for transactions with N Inc., Singapore) and for the AY 2019-20, the same being Rs.2.4 crores (for transactions with PK Inc., Melbourne). The assessment order was passed on 12/06/2019. The assessee is inclined to accept the same and not prefer any appeal.</p> <p>You are required to answer the following in the light of above:</p> <p>(i) How will the quantum of primary adjustment be treated in the books of the assessee vis-a-vis secondary adjustment? How will the aforesaid completed assessments impact the assessee?</p> <p>(ii) What steps are to be taken to prevent the secondary adjustment? Will there be any secondary adjustment in the hands of the assessee if the required steps are not taken? You are required to outline the concept involved.</p> <p>(iii) Calculate the secondary adjustment for PY 2019-20 assuming that money hasn't been repatriated during the period.</p> <p>(iv) Calculate the additional tax payable u/s 92CE(2A) assuming the Indian AE wants to exercise the one time settlement option as on 31/10/2020.</p> <p>(Note: Students should refer below Notification No. 76/2019, Dated 30.9.2019 while solving the above question.</p> <p>The CBDT has, vide this notification, amended Rule 10CB(1) which prescribes the time limit for repatriation of excess money or part thereof i.e., on or before 90 days from the specified date. The 90 days period is to be reckoned from the date specified in column (2) in the cases mentioned in column (1) of the table below. Further, the date from which interest is chargeable on the excess money or part thereof which is not repatriated in the cases mentioned in column(1) is given in column (3) in the table below:</p> <table border="1"> <thead> <tr> <th>Case</th><th>Time limit for repatriation of excess money or part thereof: <u>Within 90 days from</u></th><th>Date from which interest is chargeable on the non-repatriated excess money or part thereof within the specified time limit</th></tr> <tr> <th>(1)</th><th>(2)</th><th>(3)</th></tr> </thead> <tbody> <tr> <td>(i) Where primary adjustments to transfer price have been made suo-motu by the assessee in his return of income</td><td>the due date of filing of return u/s 139(1)</td><td>the due date of filing of return u/s 139(1)</td></tr> <tr> <td>(ii) If primary adjustments to transfer price as determined in the order of the Assessing Officer or the appellate authority has been accepted by the assessee</td><td>the date of the said order</td><td>the date of the said order</td></tr> <tr> <td>(iii) Where primary adjustment to transfer price is determined by an advance pricing agreement (APA) entered into by the assessee u/s 92CC in respect of a</td><td></td><td></td></tr> </tbody> </table>	Case	Time limit for repatriation of excess money or part thereof: <u>Within 90 days from</u>	Date from which interest is chargeable on the non-repatriated excess money or part thereof within the specified time limit	(1)	(2)	(3)	(i) Where primary adjustments to transfer price have been made suo-motu by the assessee in his return of income	the due date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)	(ii) If primary adjustments to transfer price as determined in the order of the Assessing Officer or the appellate authority has been accepted by the assessee	the date of the said order	the date of the said order	(iii) Where primary adjustment to transfer price is determined by an advance pricing agreement (APA) entered into by the assessee u/s 92CC in respect of a			<p>8</p>
Case	Time limit for repatriation of excess money or part thereof: <u>Within 90 days from</u>	Date from which interest is chargeable on the non-repatriated excess money or part thereof within the specified time limit															
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(iii) Where primary adjustment to transfer price is determined by an advance pricing agreement (APA) entered into by the assessee u/s 92CC in respect of a																	

	previous year -																						
	• If the APA has been entered into on or before the due date of filing of return for the relevant P.Y.	the date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)																				
	• If the APA has been entered into on or after the due date of filing of return for the relevant P.Y.	the end of the month in which the APA has been entered into	the end of the month in which the APA has been entered into																				
	(iv) Where option has been exercised by the assessee as per the safe harbour rules u/s 92CB	the due date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)																				
	(v) Where the primary adjustment to the transfer price is determined by a resolution arrived at under Mutual Agreement Procedure under a DTAA has been entered into u/s 90 or 90A	the date of giving effect by the A.O. under Rule 44H to such resolution	the date of giving effect by the A.O. under Rule 44H to such resolution																				
Q. 4	<p>A Co. Ltd. is an Indian company at Pune. It provides software development service to various customers and also to its associated enterprise B Co. Ltd. of Mumbai. It billed Rs.2crores for the software development services rendered to B Co. Ltd. during the year 2019-20. The total costs (direct and indirect) incurred for executing the work was Rs.175 lakhs. In the case of unrelated parties for similar services A Co. Ltd. earned a gross profit of 50% on costs.</p> <p>The following distinguishing features are observed between the transaction with the related party (i.e.) B Co. Ltd. and other unrelated parties:</p> <p>(i) B Co. Ltd. provided technology support to A Co. Ltd. in the software development project assigned by it. In the case of unrelated parties the value of technology support expenditure for similar project would be Rs.17,50,000.</p> <p>(ii) A Co. Ltd. gave discount of 10% to B Co. Ltd. and this benefit is not given to outside customers.</p> <p>(iii) A Co. Ltd. carried out marketing functions in respect of transaction with B Co. Ltd. and incurred Rs.13,12,500. This marketing function is not normally provided by A Co. Ltd. to outside parties.</p> <p>(iv) A Co. Ltd. provided extended credit period and the cost of credit period is estimated at 2.5% of its cost. This extended credit period is given only because B Co. Ltd. is its associated enterprise.</p> <p>State the most appropriate method to be adopted for determination of ALP and compute the arm's length gross profit mark up and how much of income has to be increased or decreased in the hands of A Co. Ltd. for the transactions carried out for B Co. Ltd.</p>				8																		
Q. 5	<p>For A.Y. 2020-21, the AO made reference to Transfer Pricing Officer u/s 92CA on June 3, 2021. The assessment proceedings are stayed by the Bombay High Court on December 20, 2022. The stay is however, vacated by the Supreme Court on January 29, 2023. Find out the due date of passing the order by TPO & AO.</p>				3																		
Q. 6	<p>VSL Ltd an Indian Company is a captive software development service provider of FSL Ltd, (a company resident of Singapore) which is the holding company of VSL Ltd. The VSL Ltd. has earned an operating margin of 4.16% on operating cost from the international transactions entered during financial year 2019-20 as under:</p> <p style="text-align: right;">(Rs. in crores)</p> <table><tr><td>Operating revenue (OR)</td><td>250</td></tr><tr><td>Operating Cost (OC)</td><td>240</td></tr><tr><td>Operating Profit</td><td>10</td></tr><tr><td>Operating profit on Operating Cost (OP/OC)</td><td>4.16%</td></tr></table> <p>Compute the ALP & the primary adjustment to be made based on the following data:</p> <table><tr><td>SI No.</td><td>Name of comparable</td><td>F.Y. 2017-18</td><td>F.Y. 2018-19</td><td>F.Y. 2019-20</td></tr><tr><td></td><td></td><td></td><td></td><td></td></tr></table>				Operating revenue (OR)	250	Operating Cost (OC)	240	Operating Profit	10	Operating profit on Operating Cost (OP/OC)	4.16%	SI No.	Name of comparable	F.Y. 2017-18	F.Y. 2018-19	F.Y. 2019-20						8
Operating revenue (OR)	250																						
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Operating profit on Operating Cost (OP/OC)	4.16%																						
SI No.	Name of comparable	F.Y. 2017-18	F.Y. 2018-19	F.Y. 2019-20																			

1	A	OC=100 OP=12	OC=150 OP=10	OC=225 OP=35
2	B	OC=80 OP=10	OC=125 OP=5	OC=100 OP=10
3	C	OC=180 OP=(-9)	OC=220 OP=22	OC=150 OP=20

The most appropriate method to determine the ALP in the given case in TNMM.

Q.7

Bharat Cellphones Ltd.(BCL) of Mumbai & Japan Mobiles Ltd.(JML) of Tokyo are associated enterprises. BCL imported 10,000 mobile handsets from JML for Rs.15,000 per handset which are sold to unrelated parties in India for Rs.20,000 per handset. BCL also imported similar mobile sets from Europe Ltd.(EL) of London which was sold with a gross profit margin of 25% on cost. JML offered quantity discount @ Rs.2,000 per unit & whereas EL offered discount @ Rs.800 per unit as quantity discount. The freight & customs duty paid for imports from EL had cost BCL Rs.1,500 per unit. In respect of Purchases from EL, the expenditure towards freight & customs duty was Rs.500 per unit. State the most appropriate method applicable in this case & determine the arm's length price & amount of increase in total income of BCL.

8**Q.8**

Narmada Ltd., an Indian Company has borrowed Rs.80 crores on 01-04-2019 from M/s. Thames Inc, a Company incorporated in London, at an interest rate of 10% p.a. The said loan is repayable over a period of 5 years. Further, loan is guaranteed by M/s Tyne Inc. incorporated in UK. M/s. Tweed Inc, a non-resident, holds shares carrying 40% of voting power both in M/s Narmada Ltd. and M/s Tyne Inc. Net profit of M/s. Narmada Ltd. for P.Y. 2019-20 was Rs.7 crores after debiting the above interest, depreciation of Rs.4 crores and income-tax of Rs.3 crores. Calculate the amount of interest to be disallowed under the head "Profits and gains of business or profession" in the computation of M/s Narmada Ltd., giving appropriate reasons.

4**Q.9**

What is meant by Thin Capitalisation? Why is it considered as an anti avoidance measure? Which action plan of BEPS addresses Thin Capitalisation? Explain the provision incorporated in the Income-tax Act, 1961 to address Thin Capitalisation.

2**Q.10**

RIL is an Indian Company engages in multifaceted business activities. Barabara Inc. a US Investment giant wants to get 20% stake in the Indian Company. Considering a favourable treaty position between India & Mauritius, the US giant floated a company in Mauritius by acquiring its shares on 01/01/2018 for Rs. 10 crores. The Mauritius company in turn acquired shares of RIL on 01/03/2019. The accounting period of the Mauritius company ends on 31st December. As on 31st December, 2019, its book value of total assets was Rs. 25 crores. On 31/03/2020, Barbara Inc. transferred the shares of the Mauritius Co. to another Investor in US (unrelated) at a price of Rs. 50 crores. The book value (after reduction of liabilities), FMV (after reduction of liabilities) as on 31/03/2020 is as below:

12

Particulars	Book Value (INR Crores)	FMV (INR Crores)	Liabilities (INR Crores)
Mauritius Co.	30	50	0
RIL	110	180	20

You are required to:

- Explain whether the capital gains on transfer of shares of Mauritius Co. shall be taxable in India?
- Calculate the amount of tax on Capital Gains on such transfer.

Q.11

Mr. Ajay, a resident individual in India (age 42) furnishes you the following particulars of income for the previous year 2019-20:

10

Particulars	Rs.
(i) Income from business in India (computed)	11,00,000
(ii) Dividend received from Company incorporated in Country X (gross)	2,00,000
(iii) Royalty income from writing text book for schools in Country Y	

	<div>(gross)</div> <div>(iv) Expenditure incurred for authoring text book</div> <div>(v) Business loss in Country Y (gross)</div> <div>(vi) Health insurance premium paid by credit card for his father (age 67) a resident in India (His father is not dependent on Mr. Ajay)</div>	<div>6,00,000</div> <div>50,000</div> <div>2,50,000</div> <div>31,000</div>		
	<p>The business loss in Country Y is eligible for set off against other income as per the Income-tax law of that country.</p> <p>Note : There is no DTAA between India and Country “X” and Country “Y” given above. The rate of tax in Country “X” and Country “Y” may be taken as 10% and 25% respectively (without any threshold exemption limit).</p> <p>Compute the total income and tax payable by Mr. Ajay in India for the Assessment Year 2020-21.</p>			
Q . 12	<div>(i) Under the provisions of the Income-tax Act, 1961 read with the Income-tax Rules, 1962, what is the meaning of Foreign Tax Credit (FTC) ?</div> <div>(ii) To whom is FTC allowed and in which year ?</div> <div>(iii) An assessee has to pay income-tax of Rs. 92 lakhs, surcharge of Rs.9.2lakhs, Education Cess& SAH CessRs.3,03,600 and interest under section 234B of Rs.9,78,700. Against which of these item/amounts is FTC available ?</div>			6
Q . 13	Answer the Following:			
	a) What are the differences between the OECD Model Convention and UN Model Convention in relation to;	<div>(i) the article on Permanent Establishment?</div> <div>(ii) the right of Source State to tax business profits of an enterprise?</div>		2
	b) Explain the meaning of “fees for technical services” and “professional services” under the relevant articles of the UN Model Convention, 2017. Does the Contracting State in which such income arises have the right to tax such income, and if so, what are the conditions/limitations for such taxability? Discuss.			2
	c) Which action plan of BEPS requires introduction of Limitation of Benefits clause in a tax treaty? Has India introduced Limitation of Benefits clause in its tax treaties in line with the BEPS Action Plan? Discuss.			2
	d) Explain the meaning of “significant economic presence”. Does “significant economic presence” constitute “business connection” for attracting deemed accrual provisions under section 9(1)? Examine, in line with which action plan of BEPS, has this provision been introduced in the Income-tax Act, 1961.			2
	e) Mr. Ganesh is a resident of the Contracting States, namely, Country “M” and Country “N”, as per the domestic tax laws of the respective countries. Explain the manner of determining the single status of residence of Mr. Ganesh as per the UN Model Convention.			2
	f) Explain the following terms in the context of interpretation of tax treaties:	<div>(i) Principle of Contemporanea Expositio</div> <div>(ii) Teleological Interpretation</div>		2
	g) Explain how the income derived by a resident of a Contracting State in respect of professional services is taxable as per the UN Model Convention. In this context, discuss the scope of professional services.			2
	h) Explain, with examples, the role of Protocol and Preamble in interpretation of tax treaty.			2
	i) What is the meaning of, and difference between, a hybrid mismatch and branch mismatch? Briefly mention the reasons why hybrid mismatch arrangements arise. Which Action Plan of BEPS gives recommendations in this regard?			2

<p>Q . 14</p>	<p>Joseph Clarke an US Resident, worked in India on a construction project which constituted a PE of the US employer in India. For the India work where he was present for 160 days, he earned a taxable salary of Rs.24,00,000. The US company paid to UAE based real estate portal Rs.5 lakhs for online advertisement of its Real estate project in India. The UAE Company does not have PE in India.</p> <p>(i) Based on the following provision of India-USA treaty, examine the taxability of salary earned by him under all options, if more than one? Also examine, if TDS has to be withheld on such salary payment?</p> <p>(ii) Whether the US company will be required to deduct equalisation levy in respect of the payment made to the UAE based online portal?</p> <p>Article 16 <u>Dependent Personal Services</u></p> <ol style="list-style-type: none"> Salaries wages and other similar remuneration derived by an individual who is a resident of one of the contracting state in respect of an employment shall be taxable only in that state unless the employment is exercised in the other contracting state. If the employment is so exercised such remuneration as is derived from that exercise may be taxed in that other state. Notwithstanding the provisions of paragraph (1), remuneration derived by an individual who is resident of one of the contracting states in respect of an employment exercised in the other contracting state shall be taxable only in the first mentioned state if: <ol style="list-style-type: none"> The recipient is present in that other state for a period or periods not exceeding in the aggregate 183 days in a year of income of that other state; The remuneration is paid by, on or behalf of, an employer who is not a resident of that other state; and The remuneration is not borne by a PE or a fixed base which the employer has in the other state. 	<p>10</p>
<p>Q . 15</p>	<p>Red Ltd., a non-resident foreign company, had entered into a collaboration agreement, approved by the Central Government, with Blue Ltd., an Indian company on February 21, 2003 and is in receipt of following payments during the previous year ending on March 31, 2020:</p> <p>(i) Interest on 8% debentures for Rs. 40 lakhs issued by Blue Ltd. on July 1, 2019 in consideration of providing of technical know-how, manufacturing process and designs (date of payment of interest being March 31 every year).</p> <p>(ii) Service charges @2.5% of the value of plant and machinery for Rs. 500 Lakhs leased out to Blue Ltd. payable each year before March 31.</p> <p>(iii) Apart from the above incomes, Red Ltd. received a long term capital gain amounting to Rs. 1.90 Lakhs on sale of debentures of Green Ltd., an Indian company, subscribed in US\$.</p> <p>(iv) \$ 1,000 received from Blue Ltd. as ex-gratia on 12/02/2020. The said amount was directly credited to its account in USA.</p> <ul style="list-style-type: none"> The TT buying rate as on 12/02/2020 is 1\$ = ₹ 55 The TT buying rate as on 31/01/2020 is 1\$ = ₹ 45 The TT buying rate as on 31/03/2020 is 1\$ = ₹ 51 <p>Compute the Total Income of Red Ltd. and determine its tax liability for the assessment year 2020-21.</p>	<p>12</p>
<p>Q . 16</p>	<p>In each of the following independent cases, whether the payer shall be obligated to deduct TDS? If yes, then at what value the TDS rate shall be applied?</p> <p>(i) Mr. Ziang Zemin is a Chinese resident who was put up in India by his Chinese employer for a project in India. The Chinese company is not engaged in any business in India. Mr. Zemin stayed in India for 88 days during the F.Y. 2019 – 20. He earned ₹ 12 lakhs for this assignment in India. The Chinese company has not claimed any deduction of such remuneration in computing its income under the Income Tax Act of India.</p> <p>(ii) Asia Satellite Company based in Singapore was the owner of Satellite which was placed in geostationary orbit. It entered into a transponder leasing agreement with Star TV Hong Kong who desired to utilize the transponder capacity available on its satellite to relay their signals in</p>	<p>3</p>

	<p>South East Asia. For its Indian operations, Star TV Hong Kong paid ₹ 50 lakhs to Asia Satellite Company for F.Y. 2019 – 20. Asia Satellite does not have any physical presence or place of business in India. Asia Satellite continued ₹ 25 lakhs to PM National Relief Fund on 24/03/2020.</p> <p>(iii) Aakash Builders has appointed Woha Architect LLP Singapore to provide architect service for their construction projects in India. It has provided both on-shore and off-shore Architect Service for which it raised its invoices of ₹ 30 lakhs and ₹ 20 lakhs respectively. The firm does not have any physical presence in India. As per the agreement, TDS on such payment, if any, shall be borne by Aakash Builders.</p>	3 3																					
Q . 17	<p>Whether in the following independent cases, is the income chargeable to tax in India?</p> <p>(i) Mitsubishi Japan is engaged in the business of supplying of car battery. It appoints Mr. Alok as an agent in India for its South East Asia operations. Mr. Alok negotiates the contract with the customers and Mitsubishi Japan is bound by price and other conditions negotiated by Mr. Alok. However, after finalizing terms and conditions of contract with customers, Mr. Alok sends such contract for formal approval and signature by Mitsubishi Japan. The goods are supplied by Mitsubishi Japan to the customers on receipt of the payment directly to its account in Japan. The profit for P.Y. 19 – 20 for its South East operation was ₹ 80 crores.</p> <p>(ii) Jupiter Ply. Ltd. London (JPL), a non-resident company, has set up a liaison office at Kolkata, with the permission of the RBI. Indian customers, who are briefed of the products of JPL by the liaison office, Interact directly with JPL for placing and processing of their orders.</p>	3 2																					
Q . 18	<p>(i) Xylo Inc., a US company, received income by way of fees for technical services of Rs.2 crore from Alpha Ltd., an Indian company, in pursuance of an agreement between Alpha Ltd. and Xylo Inc. entered into in the year 2012, which is approved by the Central Government. Expenses incurred for earning such income is Rs.8 lakhs. Examine the taxability of the above sum in the hands of Xylo Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Xylo Inc does not have a permanent establishment in India.</p> <p>(ii) If Xylo Inc. has a permanent establishment in India and the contract/agreement with Alpha Ltd. for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided:</p> <table border="1"> <thead> <tr> <th></th><th>Particulars</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>(1)</td><td>Fees for technical services received from Alpha Ltd.</td><td>Rs. 2 crore</td></tr> <tr> <td>(2)</td><td>Expenses incurred for earning such income</td><td>Rs. 8 lakhs</td></tr> <tr> <td>(3)</td><td>Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2005 to 2010</td><td>Rs. 4 crore</td></tr> <tr> <td>(4)</td><td>Expenses incurred for earning such income</td><td>Rs. 15 lakhs</td></tr> <tr> <td>(5)</td><td>Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above]</td><td>Rs. 6 lakhs</td></tr> <tr> <td>(6)</td><td>Amounts paid by the PE to Head Office (not being in the nature of reimbursement of actual expenses)</td><td>Rs. 12 lakhs</td></tr> </tbody> </table> <p>What are the other requirements, if any, under the Income-tax Act, 1961 in this case?</p>		Particulars	Amount	(1)	Fees for technical services received from Alpha Ltd.	Rs. 2 crore	(2)	Expenses incurred for earning such income	Rs. 8 lakhs	(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2005 to 2010	Rs. 4 crore	(4)	Expenses incurred for earning such income	Rs. 15 lakhs	(5)	Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above]	Rs. 6 lakhs	(6)	Amounts paid by the PE to Head Office (not being in the nature of reimbursement of actual expenses)	Rs. 12 lakhs	10
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Q . 19	Mr. Kalpesh, aged 56 years, a resident individual furnishes the following particulars of income earned by him in India and country "T" for the previous year 2019-20. India has not entered into double taxation avoidance agreement with country "T".		10														
	<table><tr><th>Particulars</th><th>Amount (Rs.)</th></tr><tr><td>Income from profession carried on in India</td><td>6,00,000</td></tr><tr><td>Agricultural Income in Country "T"</td><td>75,000</td></tr><tr><td>Dividend from a company incorporated in Country "T"</td><td>1,20,000</td></tr><tr><td>Royalty income from a literary book from Country "T"</td><td>4,00,000</td></tr><tr><td>Expenses incurred for earning royalty</td><td>60,000</td></tr><tr><td>Business loss in Country "T"</td><td>75,000</td></tr></table>			Particulars	Amount (Rs.)	Income from profession carried on in India	6,00,000	Agricultural Income in Country "T"	75,000	Dividend from a company incorporated in Country "T"	1,20,000	Royalty income from a literary book from Country "T"	4,00,000	Expenses incurred for earning royalty	60,000	Business loss in Country "T"	75,000
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As per income-tax law of Country "T" Business loss is not eligible for set off against any other incomes. The rate of income-tax in country "T" is 20%.																	
Compute total income and tax payable by Mr. Kalpesh in India for A.Y. 2020-21 assuming that he satisfies all conditions for the purpose of section 91.																	
Q . 20	a)	An Indian company, X Ltd., is a closely held company and it is a subsidiary of company Y Ltd. incorporated in country C1. X Ltd. was regularly distributing dividends but stopped distributing dividends from 1.4.2003, the date when dividend distribution tax was introduced in India. X Ltd. allowed its reserves to grow by not paying out dividends. As a result, no DDT was paid by the company. Subsequently, buyback of shares was offered by X Ltd. to its shareholder company Y Ltd. Y Ltd. paid taxes on the capital gains arising on buyback of shares at the applicable rate. Can GAAR be invoked on the ground that there is a deferral of tax liability by X Ltd., the Indian company?	2														
	b)	In the above case (a), let us presume, there is a DTAA between India and Country C1 which provides that capital gains arising in India to a resident of country C1 shall not be taxed in India provided that the resident incurs \$200,000 annually as operating expenditure. The shareholder Y Ltd. incurs an operating expenditure above that limit and is entitled to the treaty benefit. Y Ltd. therefore does not pay any tax on capital gains. Can GAAR be invoked on the ground that accumulation of profits by company X Ltd. and subsequent buyback is an arrangement mainly to obtain tax benefit?															
	c)	Company X borrowed money from Company Y and used it to buy shares in three 100% subsidiary companies of X. Though the fair market value per share was Rs. 100, X paid Rs. 600. The amount received by the said subsidiary companies was transferred back to another company connected to Y. The said shares were sold by X for Rs. 100/ each and a short-term capital loss was claimed. This was set off against short-term capital gains from other sources. All the companies are Indian companies. Can GAAR be invoked?	2														
	d)	M/s Global Architects Inc is a company incorporated in country F1. It is engaged in the business of providing architectural design services all over the world. It receives an offer from Lovely Resorts Pvt Ltd, an Indian company, for design and development of resorts all over India. India-F1 tax treaty provides that architectural services are technical services and payment for the same to a company may be taxed in India. However, if such professional services are provided by a firm or individual, then payment for such services are taxable only if the firm has a fixed base in India or stay of partners/ employees in India exceed 180 days. M/s Global Architects Inc forms a partnership firm with a third party (director of the company) having only a nominal share in the F1. The firm enters into an agreement to carry out the services in India. The company seconded its trained manpower to the firm. Thus, the partnership firm claimed the treaty benefit and no tax was paid in India. Can such an arrangement be examined under GAAR?	2														

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**Next Test will be released on 10th
April, 2020 for the following topics:**

- Taxation of Individual,**
- Income from Salary,**
- House Property,**
- Clubbing of Income,**
- Chapter VIA Deductions.**