ELECTIVE PAPER 6C: INTERNATIONAL TAXATION
SOLUTION TO CASE STUDY 4

I. ANSWERS TO MCQs (Most appropriate answers)

1. (a)
2. (c)
3. (d)
4. (a)
5. (d)
6. (c)
7. (a)
8. (d)
9. (c)
10. (b)

II. ANSWERS TO DESCRIPTIVE QUESTIONS

Answer to Q.1:

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

Particulars	Rs. In lakhs	
Income from house property		
Rent received [Rs.2 lakhs +Rs.3 lakhs]	5.0	
Less: Deduction u/s 24(a) at 30% of NAV	1.5	3.5
Profits and gains of business or profession		
Own business income [Rs.2.2 lakhs (Country E) + Rs.3.3 lakhs (Country F) + Rs.1.5 lakhs (India)]	7.0	
Loss from partnership firm in Country E [Rs.1 lakh] and Country F [Rs.1.5 lakhs]	(2.5)	4.5
[Share of profit from foreign firm is not exempt. Hence, loss can be set-off against business income]		
Capital gains		
Long-term capital gains on transfer of residential house in Mumbai	45.0	
Less: Exemption u/s 54 – Purchase of residential house in Jaipur in wife's name within two years from the date of transfer	37.0	
Net long-term capital gains	8.0	
Short-term capital gains on transfer of vacant site in Country E	15.0	23.0
Income from other sources		
Agricultural income in Country E and Country F [Rs.1.2 lakhs + Rs.1.8 lakhs]	3.0	
Agricultural income from lands in Bengaluru [exempt u/s 10(1) since earned in India]	-	3.0
Gross Total Income		**34.0**
Less: Deduction under Chapter VI-A: Section 80C – PPF		1.5
Total Income		**32.5**

Computation of tax liability of Mr. Arjun Batra for A.Y.2019-20	Rs.
Tax on Rs.35.7 lakhs, being non-agricultural income [Rs.32.5 lakhs] + agricultural income [Rs.3.2 lakhs]	
Tax on LTCG of Rs.8 lakhs@20%	1,60,000
(+) Tax on other income of Rs.27.7 lakhs	6,43,500
	8,03,500
(-) Tax on Rs.5.7 lakhs, being agricultural Income [Rs.3.2 lakhs] + Basic Exemption Limit [Rs.2.5 lakhs]	26,500
	7,77,000
Add: Health and education cess @4%	31,080
	8,08,080
Indian rate of tax = 8,08,080 x 100/32,50,000 = 24.864%	
Less: Rebate u/s 91 on income of Country E + Country F	4,49,179
Tax payable in India	**3,58,901**
Tax payable (Rounded off)	**3,58,900**
Computation of average rate of tax in Country E	**Rs. in lakhs**
Gross rental receipts from commercial property [No deduction is allowed from this in Country E]	2.0
Share income from partnership firm (loss) to be ignored	-
Business income	2.2
STCG from sale of vacant site on 1-11-2018	15.0
Agricultural income [Exempt in Country E]	-
Total income	**19.2**
Rates of tax in Country E	
Upto 3 lakhs Nil	-
3 to 6 lakhs 15%	0.45
Above 6 lakhs 22%	2.904
	3.354
Average rate of tax in Country E = 3.354 x 100/19.2 = 17.469%	
Doubly Taxed Income (in Country E)	**Rs. in lakhs**
Gross rental receipts form commercial property (Rs.2 lakhs – Rs.0.6 lakhs, being 30% of Rs.2 lakhs)	1.4
Share of loss from partnership firm	(1.0)
Business income	2.2
STCG from sale of vacant site on 1-11-2018	15.0
	17.6
Double Taxation Relief at India rate of tax or rate of tax in Country E, whichever is lower	17.469%
Double Taxation Relief = 17.469% of Rs.17.6 lakhs = Rs.3,07,454	
Doubly Taxed Income (in Country F)	
Gross rental receipts from commercial property [Rs.3 lakhs (-) 30% of Rs.3 lakhs]	2.1

Business income	3.3
Share of loss from partnership firm	(1.5)
Agricultural income	1.8
Total income	**5.7**
Rate of Tax in Country F	27%
Double Taxation Relief at Indian rate of tax (24.864%) or rate of tax in Country F (27%), whichever is lower	24.864%
Double Taxation Relief = 24.864% of Rs.5.7 lakhs = Rs.1,41,725	
Double Taxation Relief [Country E & Country F] = Rs.3,07,454 + Rs.1,41,725	4,49,179

Answer to Q.2:

As per section 3(1) of Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 ("BM Act"), every assessee would be liable to tax@30%, in respect of his undisclosed foreign income or foreign asset of the previous year. However, an **undisclosed asset located outside India** shall be charged to tax on its value in the previous year in which such asset comes to the notice of the Assessing Officer.

Any undisclosed foreign income will be taxed as the income of the previous year to which it pertains. Hence Rs.5 lakhs will be taxed as the income of the previous year 2017-18.

An undisclosed asset located outside India shall be charged to tax on its value in the previous year in which such asset comes to the notice of the Assessing Officer. Thus, the value of the undisclosed foreign asset will be taxed as the income of the previous year 2019-20.

The undisclosed asset is gold jewellery. The value of the same is the higher of:

(a) Purchase price (Rs 4.2 lakhs), and

(b) Value as on valuation date (1^{st} April of the previous year) as per report of a Valuer recognized by the Government (Rs 5.2 lakhs).

The tax consequences are as under:

Particulars	**P.Y. 2017-18**	**P.Y. 2019-20**	**Tax (@30%)**
Undisclosed income	Rs.5,00,000		Rs.1,50,000
Undisclosed jewellery		Rs.5,20,000	Rs.1,56,000

As per section 41, in case, where tax has been computed in respect of undisclosed foreign income and asset, the Assessing Officer may direct the assessee to pay by way of penalty, in addition to tax, if any, payable by him, a sum equal to three times the tax so computed.

As per section 43, if any person, being a resident other than not ordinarily resident in India, who has furnished the return of income for any previous year, fails to furnish any information in relation to an asset (including financial interest in any entity) outside India held as a beneficial owner or otherwise, or in respect of which such person was a beneficiary, or if such failure is in relation to any income from a source located outside India, at any time during such previous year, the Assessing Officer may direct such person to pay, by way of penalty, a sum of Rs.10 lakh.