

MCQ on International Trade- Income Tax & TP_ Class Date – 28-29.06.2025

1. Double taxation occurs when:

- a) **The same income is taxed by two different countries.**
- b) A company pays tax on profits and then again on dividends.
- c) Tax is imposed on income at both the federal and state levels.
- d) A company is taxed twice on the same income in the same country.

2. Which of the following instrument is commonly used to avoid double taxation?

- a) Arm's Length Principle
- b) Transfer Pricing
- c) **Tax Treaties**
- d) VAT (Value Added Tax)

3. The term "Permanent Establishment" (PE) in international taxation refers to:

- a) A temporary place of business in a foreign country.
- b) **A fixed place of business in a foreign country where business activities are conducted.**
- c) A subsidiary company in a foreign country.
- d) A branch office in the home country.

4. The OECD's Base Erosion and Profit Shifting (BEPS) initiative aims to:

- a) Encourage tax competition among countries.
- b) **Prevent companies from shifting profits to low-tax jurisdictions.**
- c) Promote tax exemptions for multinational corporations.
- d) Eliminate tariffs and customs duties.

5. A tax credit for foreign taxes paid is:

- a) **A reduction in domestic tax liability based on taxes paid to a foreign government.**
- b) A method of deferring domestic taxes on foreign income.
- c) A full refund of foreign taxes paid.
- d) A deduction from taxable income for foreign taxes paid.

6. Which of the following is a key feature of a territorial tax system?

- a) Taxation of worldwide income
- b) **Taxation only of income earned within the country's borders**
- c) No taxation on income from exports

d) Double taxation of foreign income

7. In the context of international taxation, a "Tax Treaty" between two countries is primarily intended to:

- a) Increase the overall tax rate for multinational corporations.
- b) Encourage companies to establish subsidiaries in low-tax jurisdictions.
- c) **Provide relief from double taxation and allocate taxing rights between the two countries.**
- d) Standardize tax rates across the two countries.

8. The concept of "Worldwide Taxation" refers to:

- a) Taxing only income earned within a country's borders.
- b) **Taxing a country's residents on their global income, regardless of where it is earned.**
- c) Applying the same tax rate to all countries around the world.
- d) Taxing income earned through e-commerce activities globally.

9. The concept of "Tax Residency" determines:

- a) **Which country's tax laws apply to a company or individual.**
- b) The amount of tax to be withheld on international payments.
- c) The rate at which foreign income is taxed.
- d) The eligibility for tax incentives in a foreign country.

10. While making cross border payment tax is withheld under which section of IT Act?

- a) 194
- b) 192
- c) 196
- d) **195**