MCQ on International Trade- Income Tax & TP_ Class Date – 20.12.2025

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