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B.Com Honours | Semester V | Calicut University

PRINCIPLES OF TAXATION

Course Code: COM5EJ313 • Module 4 Notes

Module IV: Double Taxation and Tax Duplication

Covers international double taxation, source vs residence rules, relief methods (Exemption & Credit), OECD vs UN Model Tax Conventions, BEPS, and Indian double taxation relief under Sections 90 & 91.

Unit 13: International Double Taxation (Source vs Residence Rule)

Double Taxation: Taxing the same income in two countries.
1. Source Rule (Territorial): Income taxed where generated/earned.
2. Residence Rule (Worldwide): Income taxed where taxpayer resides regardless of source location.

Unit 14: Methods to Alleviate Double Taxation

1. Exemption Method: Residence country exempts foreign-sourced income.
2. Tax Credit Method: Residence country taxes worldwide income but grants credit for foreign tax paid.
3. Bilateral & Multilateral Treaties (DTAA): Double Taxation Avoidance Agreements between nations.

Unit 15: Model Tax Conventions (OECD vs UN Model)

OECD Model Convention: Favors capital-exporting developed nations (emphasizes residence-based taxation).
UN Model Convention: Favors capital-importing developing nations like India (emphasizes source-country taxation rights).

Unit 16: International Tax Avoidance, BEPS, & Indian Law (Sec 90/91)

Base Erosion and Profit Shifting (BEPS), Transfer Pricing regulations (Arm's Length Price). Indian Income Tax Act 1961: Section 90 (Bilateral DTAA Relief) & Section 91 (Unilateral Tax Relief for countries without DTAA).

Practical Solved Problem (Double Taxation Relief under Tax Credit Method): Resident Indian firm earns ₹10,00,000 in Country X (taxed at 20%) and ₹20,00,000 in India (taxed at 30%). Calculate Indian Net Tax Payable under Section 90/91.

DTAA Tax Credit Relief = Minimum of (Foreign Tax Paid vs Indian Tax on Foreign Income)

Step-by-step Solution:

1. Foreign Income = ₹10,00,000. Foreign Tax Paid in Country X (20%) = ₹2,00,000.
2. Total Worldwide Income = ₹10,00,000 + ₹20,00,000 = ₹30,00,000.
3. Indian Tax on Total Income (30%) = ₹30,00,000 × 30% = ₹9,00,000.
4. Indian Tax on Foreign Income = ₹10,00,000 × 30% = ₹3,00,000.
5. Tax Credit Allowed = Minimum of (₹2,00,000 vs ₹3,00,000) = ₹2,00,000.
6. **Net Indian Tax Payable** = ₹9,00,000 - ₹2,00,000 = **₹7,00,000**.

Practical Case Framework 2 (OECD Model vs UN Model Tax Convention Matrix): Compare primary focus, taxation rights emphasis, permanent establishment threshold, and target country bias.

Model Tax Conventions Comparison Table:

Convention Dimension	OECD Model Tax Convention	UN Model Tax Convention
Target Economic Bias	Capital-exporting Developed nations	Capital-importing Developing nations
Taxation Rights Focus	Residence Country Primacy	Source Country Primacy
Permanent Establishment (PE)	Higher time threshold (e.g. 12 months)	Lower time threshold (e.g. 6 months)