DIRECTORATE OF DISTANCE EDUCATION
NALSAR UNIVERSITY OF LAW, HYDERABAD

M.A. (International Taxation)

Academic Year: 2023-2024

Second Semester Examination (June, 2024)

Paper II - 1.2.5. Business Profits and Associated Enterprise and Transfer Pricing

1.2.7 Transfer Pricing and Allocation of Business Profits (Batches: 2022-2024 & 2021-2023)

Duration of the Examination: 2 ½ hours **Total Marks : 70 marks**

INSTRUCTIONS TO CANDIDATES

a) Read the instructions carefully and adhere to the same.
b) Please mention your DDE ID No., date of the exam, name of the programme & subject on the Answer Sheet and the Additional Answer Sheets, if any.
c) The questions to be interpreted as given and no clarification can be sought from the Invigilator.
d) Clearly indicate the question numbers while answering them. Answers without question numbers / wrong question numbers will not be evaluated.
e) Write the answers clearly and neatly. Answers in illegible handwriting will not be taken into consideration.
f) Candidates are prohibited to carry phones or any other electronic devices, books, material etc. in the Examination Hall.
g) Copying is strictly prohibited and is considered as a serious academic mis-conduct and the University will take action as it deems fit.

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1) Pepe Jeans (India) Pvt. Ltd.(PI) is a wholly owned subsidiary of Pepe International Inc., USA (PU). Pepe India facilitates sourcing of apparel merchandise from India for Pepe USA. In fact, majority of jeans and apparels sold by Pepe USA are manufactured in India. For this purpose, Pepe India has entered into contract with Puma Fashions Pvt. Ltd., a small company incorporated in India and located in Tiruchi. Puma Fashions is supplied with requisite design and cloth by Pepe India which in turn is dependent on Pepe USA. Puma Fashions thereafter stitches jeans and other apparels which are tagged with Pepe brand and sold in India and shipped abroad. By virtue of this contract, Puma Fashion is required to undertake work only for Pepe India and compensated accordingly.

The Transfer Pricing Officer intends to scrutinize compensation offered to Puma Fashions under the relevant Transfer Pricing Regulations of Income Tax Act. According to TPO, it is an international transaction which attracts aforementioned provisions. Pepe India and Pepe USA, however, claim that Puma Fashions is an unrelated party and hence no transfer pricing provision gets attracted.

Decide whether Puma Fashions forms an associated enterprise of Pepe USA.

(25 Marks)

2) UK Ltd., a UK company has a subsidiary, IND Ltd. in India. UK Ltd. sells mobiles to IND Ltd. for resale in India. UK Ltd. also sells mobiles to PMI Ltd., another mobile seller. It sells 40,000 mobiles to IND. Ltd. at Rs. 10,000 per unit. The price fixed for PMI Ltd. is Rs. 8,000 per unit. The warranty in case of sale of mobile by IND Ltd. is handled by IND Ltd. However, for sale of mobiles by PMI Ltd., UK Ltd. is responsible for the warranty for 2 months. Both UK Ltd. and IND Ltd. offer extended warranty at a standard rate of Rs. 1,000 per annum. On these facts, how is the assessment of IND Ltd. going to be affected? **(25 marks)**

3) Write a short note on any one method of arms length pricing and give examples.

(20 marks)

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