Double Tax Avoidance Agreement (DTAA)

→ a.k.a Tax Treaty & Tax Convention

Countries tax income on basis of two rules

- ↓ Residence Rule
- ↓ Source Rule

☆ Types of Double Taxation Relief

- ↓ Unilateral Relief
  - ↓ No DTAA
  - ↓ Section 91
- ↓ Bilateral Relief
  - ↓ DTAA
  - ↓ Section 90 & 90A
    - ↓ Tax Exemption Method
      - ↓ Income taxed in one country & exempt in another
    - ↓ Tax Credit Method
      - ↓ Pay tax in one country & take credit of it in another

☆ Section 90 → Signing DTAA ~~with~~ with Foreign Countries or territories

For : (a) Granting of relief for Double taxed income

(b) Exchange of Information

☆ Provision of DTAA or IT Act } w.e is more beneficial to the assessee shall apply

☆ Provisions of GAAR always apply beneficial or not.

☆ Higher tax rate for Foreign Company compared to Domestic Compa

↓

Shall not be regarded as less favourable for Foreign Company.

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Meaning of Term in DTAA →

DTAA	IT Act	Take meaning given in
✓	✓	DTAA
X	✓	IT Act
X	X	CG by Notification

Taxability of Foreign Income

- Resident
  - DTAA
    - Not Taxable in India
    - Taxable in India
      ↓
      a. DTAA Rates
      b. IT Act rate
      w.e ↓
      ↓
      Tax Payable
  - No DTAA (Section 91)
    ↓
    Compute NTI & Gross Tax (Indian + foreign Income)
    ↓
    From Tax Payable reduce:
    Lower of:
    w.e ↓
    (a) Average Tax in India on Foreign Income
    (b) Tax in foreign Country
    ↓
    Tax Payable
- Non-Resident
  ↓
  Not Taxable

Eg. Mr. BB (QR) -

Indian Income → 7 lac
Foreign Income → 5 lac
(25% TDS)
Total → 12 lac

Computation of Tax Liability

(Slab) IT on ₹12 lac	172500
+ HEC @ 4%	+ 6900
Gross Tax	179400
(−) Rebate u/s 91 (5 lac × 14.95%)	(74750)
	104650

Only on foreign Income

Rebate u/s 91

(i) Tax Rate in foreign country = 25%

(ii) Average Tax rate in India $= \frac{179400}{1200000} \times 100 = \boxed{14.95\%}$

w.e ↓ 25% or 14.95% → 14.95%

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