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PRACTICE QUESTIONS

CPA

TCPIN

Tax Compliance and Planning (International)

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for CPA TCPIN , each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, TCPIN
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

Under the OECD Model Tax Convention, which article generally allocates the right to tax business profits of an enterprise of one Contracting State to the other Contracting State?

- ☐ A Article 5 – Permanent Establishment
- ☒ B Article 7 – Business Profits
- ☐ C Article 10 – Dividends
- ☐ D Article 23 – Elimination of Double Taxation

ANSWER B

WHY Article 7 of the OECD Model Tax Convention provides that the business profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. Article 5 defines a permanent establishment, but the actual taxing right over business profits is allocated by Article 7.

QUESTION 2

SINGLE CHOICE

Under OECD Transfer Pricing Guidelines, what is the principal purpose of a Master File in a multinational enterprise's transfer pricing documentation?

- ☐ A To provide a detailed functional analysis of a single local transaction
- ☒ B To give an overview of the MNE group's global organisational structure, its intangibles, and its intercompany financial activities
- ☐ C To set the arm's length price for a specific controlled transaction between associated enterprises
- ☐ D To replace the local file and Country-by-Country Report

ANSWER B

WHY The Master File provides a high-level overview of the MNE group, including its organisational structure, a description of its business, its intangibles, intercompany financial activities, and its financial and tax positions. Detailed transaction-level analysis is contained in the Local File, not the Master File.

QUESTION 3

SINGLE CHOICE

An individual who is tax resident in Country A earns rental income from immovable property located in Country B. Under the OECD Model Tax Convention, which State has the primary right to tax that rental income?

- ☐ A Country A (the residence state) only, because individuals are taxed on worldwide income
- ☒ B Country B (the source state) has the primary right, with Country A providing relief for double taxation
- ☐ C Neither state, because immovable property income is excluded from both treaties and domestic law
- ☐ D Both states equally share the right to tax without any limiting clause

ANSWER B

WHY Article 6 of the OECD Model Tax Convention gives the source state (where the immovable property is located) the primary right to tax income derived from that property. The residence state must then provide relief under Article 23 (typically the credit method or, in some cases, the exemption method).

QUESTION 4

SINGLE CHOICE

Under Article 10 of the OECD Model Tax Convention, the maximum rate of withholding tax that the source state may impose on dividends paid by a company resident in that state to a resident of the other Contracting State is generally capped at:

- ☐ A 0% in all cases
- ☒ B 5% for portfolio dividends and 15% for substantial holdings, depending on the treaty
- ☐ C 25% in all cases
- ☐ D 35% for all cross-border dividend payments

ANSWER B

WHY Article 10 of the OECD Model permits the source state to withhold tax on dividends but limits the rate. A common formulation is 5% for substantial holdings (typically where the beneficial owner holds a defined percentage, e.g., directly at least 25% of the capital) and 15% in all other cases. The exact rates vary by treaty, but the 5%/15% split is the canonical OECD pattern.

QUESTION 5

SINGLE CHOICE

Under the exemption method for relieving international double taxation, foreign source income is generally:

- ☐ A Taxed in full in the residence state with no credit for foreign tax paid
- ☒ B Left out of the residence state's tax base, although it may be considered when determining the tax rate on remaining income
- ☐ C Subject to double taxation at the average of source and residence rates
- ☐ D Taxed only in the source state with the residence state surrendering all taxing rights

ANSWER B

WHY The exemption method (full or with progression) removes the foreign income from the residence state's tax base, although under the 'exemption with progression' variant the income is still taken into account when determining the marginal rate applicable to the remaining income. It is not taxed in full (that would be no relief), and the residence state does not entirely surrender its taxing rights in the progression variant.

QUESTION 6

SINGLE CHOICE

Under the OECD Model Tax Convention, which category of income is typically subject to a separate article that allows taxation in the state in which it arises, with a limitation on the tax rate?

- ☐ A Employment income of a resident individual
- ☒ B Royalties arising in one Contracting State and paid to a resident of the other
- ☐ C Capital gains on the sale of personal movable assets
- ☐ D Pensions paid to a former resident of a Contracting State

ANSWER B

WHY Article 12 of the OECD Model Tax Convention deals with royalties and permits taxation in the state in which the royalties arise, generally subject to a rate cap (under the OECD Model, the 2014 update moved toward exclusive residence-state taxation, but royalties remain a separately-allocated category). Employment income is governed by Article 15, capital gains on movable assets generally fall under Article 13, and pensions under Article 18.

QUESTION 7

SINGLE CHOICE

Where, under domestic law, a person is resident in both Contracting States to a tax treaty and is treated as a 'dual resident', Article 4(2) of the OECD Model Tax Convention provides that the competent authorities shall resolve the matter by mutual agreement. In doing so, they are required to have regard to which of the following factors?

- ☐ A The nationality of the individual and the location of their bank accounts
- ☒ B The location of the individual's permanent home, personal and economic relations (centre of vital interests), habitual abode, and nationality
- ☐ C The size of the individual's income in each state and the source of that income
- ☐ D The taxpayer's choice of residence, provided it is notified to both competent authorities

ANSWER B

WHY Article 4(2) of the OECD Model Tax Convention lays down a hierarchy of factors to determine residence for treaty purposes when an individual is dual-resident: permanent home, centre of vital interests (personal and economic relations), habitual abode, and nationality. If these do not resolve the issue, the competent authorities settle the matter by mutual agreement.

QUESTION 8

SINGLE CHOICE

Which of the following best describes the underlying policy rationale for Controlled Foreign Company (CFC) legislation?

- ☐ A To ensure that all foreign source income is taxed at a higher rate than domestic income
- ☒ B To neutralise the tax advantage of diverting passive or mobile income to a low-tax foreign subsidiary controlled by residents
- ☐ C To impose withholding tax on all outbound dividend payments from the CFC
- ☐ D To replace the source state's taxing rights with residence state taxation

ANSWER B

WHY CFC rules are designed to protect the domestic tax base by attributing the income of a foreign subsidiary that is controlled by residents back to those residents, particularly where the income would otherwise be taxed at a low rate abroad. They are not about withholding tax on outbound dividends (that is a separate treaty issue) nor about replacing source-state taxing rights.

QUESTION 9

SINGLE CHOICE

An individual is tax resident in Country A under domestic law because he spends 183 days there in the year. He is also tax resident in Country B because his permanent home (centre of vital interests) is located there. The two countries have concluded a tax treaty based on the OECD Model. Under the treaty's tie-breaker rules, which country has the primary right to tax him as a resident?

- ☐ A Country A, because the 183-day test is the first tie-breaker criterion
- ☒ B Country B, because the permanent home test is applied before the days-of-presence test
- ☐ C Both countries equally, with the individual required to elect his residency
- ☐ D Neither country, because dual residency cannot be resolved without a mutual agreement procedure

ANSWER B

WHY Article 4(2) of the OECD Model applies tie-breaker criteria in a strict hierarchy: (1) permanent home, (2) centre of vital interests (personal and economic ties), (3) habitual abode, and (4) nationality. The 183-day test only applies to an individual who has a permanent home in both states or in neither. Since Country B has the permanent home and is therefore first in the hierarchy, it has the primary right to tax the individual as a resident.