



VAJIRAM & RAVI
Institute for IAS Examination

Smart Current Affairs 2025

DEMYSTIFYING CURRENT AFFAIRS

Tips & Tricks for Prelims & Mains 2025

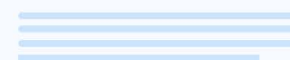


Smart Current Affairs
Toolkit for UPSC 2025

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TOPICS IN NEWS:

- ❖ TRANSFER PRICING
- ❖ ARM'S LENGTH PRICING
- ❖ ADVANCE PRICING AGREEMENT
- ❖ SAFE HARBOUR RATES
- ❖ BEPS
- ❖ VARIABLE CAPITAL COMPANY (VCC)
- ❖ ANGEL TAX

TRANSFER PRICING:

- * TP is the price that exists between associated companies. Transfer pricing (TP) provisions are aimed at ensuring that transactions entered into between related parties are carried out on arm's length basis.
- * Globally, TP has helped governments to address concerns of:
 - a. base erosion and profit shifting
 - b. keeping a check on possible tax leakages in cross border intra-group transactions

ARM'S LENGTH PRICE (ALP):

It is the price which prevails in transactions between unrelated companies.

INDIA AND TRANSFER PRICING

- * India introduced TP regulations in 2001.
- * With the passage of time, various disputes arose between the taxpayer and the Indian tax authorities, like calculation of ALP, TP rules etc. To avoid litigation, **Advance Pricing Agreement (APA) regime was introduced in 2012**, followed by **Safe Harbour Rules in 2013**.

ADVANCE PRICING AGREEMENTS (APA)

- * An APA is an agreement between a tax payer and tax authority determining the transfer pricing methodology for pricing the tax payer's international transactions for future years.
- * The methodology is to be applied for a certain period of time based on the fulfillment of certain terms and conditions (called critical assumptions).

INCOME TAX RULES AND APA:

- * APA provisions were introduced in the Income-tax Act, 1961 (Act) w.e.f. 1 July 2012.
- * Rules of the APA scheme have been notified by the Central Board of Direct Taxes (CBDT) by way of insertion of Rule 10F to Rule 10T and Rule 44GA in the Income-tax Rules, 1962 (Rules).

Benefits & scope of APA:

- a. Certainty with respect to tax outcome of the tax payer's international transactions
- b. Removal of an audit threat (minimize rigours of audit)
- c. Substantial reduction of compliance costs over the term of the APA
- d. For tax authorities, an APA reduces cost of administration and also frees scarce resources

- * However, determination of Arm's Length Price ("ALP") is often time-consuming, burdensome and costly. Further, there have been many litigations on TP issues.

SAFE HARBOUR RULES (SHR)

Meaning of Safe Harbour:

- * A "safe harbour" is defined in the Indian Income Tax Law (ITL) as **circumstances under which the tax authorities will accept the transfer price declared by the taxpayer**.
- * SH Rules **provide certainty to taxpayers** by ensuring that tax authorities will accept the price charged or paid by taxpayers with a limited scope of verification.

Timeline of SHR:

- * **Finance Act 2009** introduced provisions in the ITL that authorized the CBDT, to establish a TP SHR.
- * In July 2012, the **Rangachary Committee** was constituted to analyze the tax issues. The committee finalized the sector-wise SHR.
- * The committee had submitted specific sector reports: IT, Pharma, Financial Transactions, Auto
- * **In 2013, the CBDT issued the SHR**, applicable for five years from FY 2012-13 to FY 2016-17. It continues till date in its amended form.

Benefits of SHR:

- Reduce the risk of tax disputes
- Creating a more attractive investment environment
- Streamline the taxation process
- Makes it easier for foreign suppliers to operate in India without facing unexpected tax liabilities
- Attract more foreign raw diamond suppliers
- Simplify tax compliance for foreign mining companies

BASE EROSION AND PROFIT SHIFTING (BEPS)

- * Tax base erosion & profit shifting (BEPS) relates to tax planning strategies that multinational enterprises use to exploit loopholes in tax rules to artificially shift profits to low or no-tax locations as a way to avoid paying tax.
- * The OECD/G20 BEPS Project equips governments with rules and instruments to address tax avoidance, ensuring that profits are taxed where economic activities generating them take place and where value is created.

OECD/G20 BEPS PROJECT:

- * Under the OECD/G20 Inclusive Framework on BEPS, over 140 countries and jurisdictions are working together to implement 15 measures.
- * These measures aim to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment.

15 BEPS MEASURES:

- 1. Address the tax challenges of the digital economy**
- Neutralize the effects of hybrid mismatch arrangements
- Strengthen CFC rules
- Limit base erosion via interest deductions and other financial payments
- Counter harmful tax practices more effectively, taking into account transparency and substance
- Prevent treaty abuse
- Prevent the artificial avoidance of Permanent Establishment (PE) status
- 8. Transfer Pricing Rules (8-9-10)**
- Measuring and monitoring BEPS
- Require taxpayers to disclose their aggressive tax planning arrangements
- 13. Country-by-Country Reporting (CbCR)**
- Make dispute resolution mechanisms more effective
- Develop a multilateral instrument

VARIABLE CAPITAL COMPANY (VCC)

VCC is a new corporate entity structure that offers flexibility for fund managers and investors. It's a hybrid structure that combines the advantages of a company, partnerships, and trust.

Types of VCC: It is basically of two types (with both open and closed ended options):

VCC GLOBALLY:
Singapore, UK, UAE,
Luxembourg, Mauritius

1. **Standalone VCC:** It has only one type of fund structure
2. **Umbrella VCC:** It contains several sub-funds, with different asset class.

INDIA & VCC:

- * IN 2020, the International Financial Services Centres Authority (IFSCA), constituted **Krishnan Committee** to examine Variable Capital Company (VCC) in the International Financial Services Centre (IFSC) in India (Report in 2021).
- * This was followed by **Sahoo Committee Report (2021-22)**, for drafting a Legal Framework for allowing VCC Structure in the IFSCs.

Features of VCC based on recommendations:

1. Variable Structure: Standalone & Umbrella
2. Flexibility: It can accommodate various funds, like Mutual Funds, Hedge Funds, Gold based instruments etc
3. Ringfencing: Asset & Liability of each compartment is segregated
4. Easy to register: Because of single regulator
5. Economies of Scale: Pooling of funds
6. Investor Privacy: Investor information wouldn't be made public unless government demands so

BACKGROUND KNOWLEDGE:

- * GoI established **India's International Financial Services Centre (IFSC)** in 2020 under International Financial Services Centres Authority Act (IFSCA).
- * The regulatory powers of four financial services regulators have been vested in IFSCA, making it a unified regulator for the International Financial Services Centre in India:
 1. Reserve Bank of India (RBI)
 2. Securities & Exchange Board of India (SEBI)
 3. Insurance Regulatory Development Authority of India (IRDAI)
 4. Pension Fund Regulatory Development Authority of India (PFRDAI)

ANGEL TAX IN INDIA

- * Angel tax is a tax (under section (56(2)(viib)) of the Income Tax Act), levied on the premium amount received by Startups (unlisted companies) when they issue shares to angel investors. It was introduced in India in budget 2012.
- * This tax comes into play if the total investment value exceeds the company's FMV or Fair Market Value. Investment greater than FMV is categorised as "income from other sources", and the tax imposed on it is called angel tax.
- * Changes were made in 2016, 2019, 2023

Indian startups witnessed a nearly 73% decline in fundraising in 2023
35,000 Indian startups shut down due to funding Winters in 2023!

MULTIPLE CHOICE QUESTIONS (MCQ)

Question-1: Consider the following statements regarding India's Gold Consumption and imports:

1. India is the world's second-biggest gold consumer after China.
2. India is the world's fifth largest gold importer.
3. Switzerland, UAE & South Africa are the largest source of gold imports for India.

How many of the above statements are correct?

- a. Only one
- b. Only two
- c. All Three
- d. None of these

Question-2: Consider the following statements regarding Diamond Sector of India:

1. India is the world's largest importer of diamonds.
2. India is the world's largest exporter of diamonds.
3. Over 80% of diamonds imported to India are from Namibia.

How many of the above statements are correct?

- a. Only one
- b. Only two
- c. All Three
- d. None of these

Question-3: Which of the following taxes are applicable on Diamond Sector of India:

1. GST
2. Custom Duties
3. Equalisation Levy

How many of the above statements are correct?

- a. Only one
- b. Only two
- c. All Three
- d. None of these

Question-4: Government has proposed the expansion in coverage of Safe Harbour Rates (SHR) to diamond sector in Budget 2024-25. Which of the following statements are true regarding SHR in India?

1. Under a safe harbour system, tax authorities accept the transfer price declared by the taxpayer.
2. It would attract more foreign raw diamond suppliers
3. It would simplify tax compliance for foreign mining companies.

4. It would promote Base Erosion and Profit Shifting.

How many of the above statements are correct?

- a. Only one
- b. Only two
- c. Only Three
- d. All four

Question-5: Which of the following attributes are applicable to Variable Capital Company (VCC) in India?

- 1. Flexibility
- 2. Ringfencing
- 3. Economies of Scale
- 4. Investor Privacy

How many of the above statements are correct?

- a. Only one
- b. Only two
- c. Only Three
- d. All four

MAINS QUESTION

Q. Explain BEPS. How can Advance Pricing Agreement (APA) & Safe Harbour System (SHS) safeguard against MNC's unfettered quest for BEPS esp. in developing economies. [10M, 150 words]

Economics Module for General Studies *by*

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Commences on 20th September 2024



CLASSROOM & LIVE-Online



Around 4 Months



Batch Timing: 07:30 AM

This course will empower students to learn Economics as a General Studies subject from the basic to an advanced level. Special focus will be on the analysis part which is required to write effective answers in the IAS Mains Exam.

Admissions Open



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Introduction: 1 Minute

20-25 Words

Body :

- Define/Meaning/Agency
(2 Minutes)
- Steps/impact/Data
(2 Minutes)
- Flowchart (1 Minute)
- Examples

Conclusion: 1 Minute

20-25 Words

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SMART

Current Affairs Programme 2025



Date of Commencement
1st October 2024



Offline/Online



Course Time **5:30 PM**



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