BLOGS

Sectional Test on Tax Avoidance, Tax Evasion & Tax Planning for CLAT PG

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1. Which of the following best distinguishes tax evasion from tax avoidance?

a. Tax evasion involves lawful arrangements to reduce tax liability

b. Tax avoidance involves illegal concealment of income

c. Tax evasion involves illegal means to escape tax liability

d. Tax avoidance and tax evasion are legally identical

2. Which of the following best describes tax planning?

a. Concealment of income to reduce tax burden

b. Structuring transactions within the framework of law to minimize tax liability

c. Fraudulent reporting of financial statements

d. Misrepresentation of taxable income

3. In McDowell & Co. Ltd. v. CTO (1985), the Supreme Court held that:

a. All tax planning is illegal

b. Tax avoidance through colourable devices should not be encouraged

c. Tax evasion is permissible if economically beneficial

d. Tax statutes must be interpreted liberally in favour of taxpayers

4. Which case clarified that legitimate tax planning is permissible and distinguished it from impermissible tax avoidance?

a. Azadi Bachao Andolan v. Union of India

b. Vodafone International Holdings v. Union of India

c. McDowell v. CTO

d. Godhra Electricity Co. Ltd. v. CIT

5. The “substance over form” doctrine in taxation implies that:

a. Legal form of a transaction is always decisive

b. Tax authorities must consider the economic substance rather than the formal structure

c. Only statutory interpretation matters

d. Tax planning is always illegal

6. Which of the following would most likely constitute tax evasion?

a. Claiming deductions allowed by statute

b. Routing investments through tax treaties permitted by law

c. Concealing business income from tax authorities

d. Choosing a tax-efficient corporate structure

7. Which of the following is an example of legitimate tax planning?

a. Falsifying invoices to reduce taxable income

b. Investing in tax-saving instruments permitted under law

c. Maintaining undisclosed foreign bank accounts

d. Underreporting income in tax returns

8. The General Anti-Avoidance Rules (GAAR) in India are primarily aimed at preventing:

a. Tax planning

b. Tax evasion through criminal acts

c. Impermissible tax avoidance arrangements

d. Tax exemptions granted by statute

9. Under GAAR, an arrangement may be declared impermissible if its main purpose is:

a. Business expansion

b. Reduction of tax liability

c. Compliance with statutory requirements

d. Increasing profits

10. Which doctrine allows courts to disregard artificial legal structures created solely to avoid taxes?

a. Doctrine of colourable devices

b. Doctrine of eclipse

c. Doctrine of severability

d. Doctrine of prospective overruling

11. Which of the following best reflects the principle established in Vodafone International Holdings v. Union of India (2012)?

a. All cross-border transactions are taxable in India

b. Tax planning through legitimate corporate structuring is permissible

c. Tax avoidance is always illegal

d. GAAR must apply retrospectively

12. Which of the following transactions would likely be treated as tax avoidance rather than tax evasion?

a. Concealing income from authorities

b. Falsifying accounts

c. Structuring a transaction to take advantage of a loophole in tax law

d. Filing false returns

13. The distinction between tax avoidance and tax evasion primarily depends on:

a. The amount of tax involved

b. Whether the conduct is lawful or unlawful

c. Whether the taxpayer is a corporation or individual

d. The jurisdiction where tax is paid

14. Which judicial approach was advocated in McDowell v. CTO regarding tax avoidance?

a. Courts should strictly follow the literal interpretation of tax statutes

b. Tax avoidance must always be allowed

c. Tax authorities cannot examine the purpose of transactions

d. Courts should discourage colourable devices designed to evade taxes

15. Which of the following best reflects impermissible tax avoidance under GAAR?

a. Investment in tax-exempt government bonds

b. Deduction of business expenses allowed by law

c. Claiming depreciation on assets

d. Creation of artificial entities solely to obtain tax benefits

Answers

1. (C)
2. (B)
3. (B)
4. (A)
5. (B)
6. (C)
7. (B)
8. (C)
9. (B)
10. (A)
11. (B)
12. (C)
13. (B)
14. (D)
15. (D)