

## **Transfer pricing rules with wider ambit soon**

### ***Changes in I- T Act likely to curb tax evasion by multinational companies***

The government might change transfer pricing provisions in Budget 201617 to ensure companies with overseas presence and consolidated revenue of more than Rs.5,000 crore comply with extensive data reporting and documentation. Legislative changes in the Income Tax Act would be in line with the Base Erosion and Profit Shifting ( BEPS) measures unveiled by the Paris-based think- tank, the Organisation for Economic Co- operation and Development( OECD), in October last year to curb tax evasion by multinational companies.

Called the new world order in taxation, BEPS will require Indian companies with overseas presence and consolidated annual revenue of more than Rs.5,000 crore in the previous financial year to furnish country- by country reports ( CBCR) to the Indian tax department as well as a master file and local file directly to the tax authorities of each country of operation.

The Indian tax department would have to share the CBCR documents with tax authorities of other jurisdictions. The three- tiered standardised approach is among the 15 action points listed by BEPS to plug loopholes that allow companies to shift their profits to low- tax countries and debt to high- tax countries.

“Country- by- country reporting is a minimum standard under BEPS,” said a government official.

“We will introduce it by making amendments in the I- T Act through the Finance Bill, 2016. Rules will follow that. It will mainly list the reporting requirements and those covered under these.” The increased data reporting legislation will cover close to 200 companies in India. These companies will have to furnish details related to revenue, capital and taxes paid on a country- by- country basis.

“With CBCR set to be introduced in the Budget this year, compliance requirements will go up,” said Jayesh Sanghvi, national leader- international tax services, EY India. “ It is possible that the structures prevalent within companies throw up red flags. Once the information is shared, companies might be on the receiving end of audits and demands. Companies will need to start remediating their structures to make sure they fall within the global system.” The government is also working to put in place procedures and practices to enable speedy resolution of tax disputes through the mutual alternate procedure ( MAP) route, via legislative and administrative changes in compliance with BEPS. India could also look at implementing best practices that facilitate effective MAP implementation, including suspension of collection of taxes during pendency of MAP proceedings, already covered under in tax treaties with the US, the UK, Canada and Denmark. “We are committed to a dispute resolution mechanism. We will put in place procedures and practices to enable speedy resolution of tax disputes through MAP. If administrative or legislative changes are needed, we will implement those as well,” said the official.

BEPS action recommends resolution through MAP in two years or more under bilateral tax treaties.

On the controlled foreign company ( CFC) provision, which was also in the Direct Taxes Code, the government would tread carefully and might not carry out policy changes that would drastically affect Indian companies.

CFC regulations pertain to taxing undistributed incomes of foreign entities, which are tax resident to flow tax jurisdiction but controlled by Indians ( distributed income is already taxed). It is one of the few Direct Taxes Code Bill provisions not yet introduced by the government.

### **BEPS THRUST IN BUDGET 2016- 17**

- Government likely to make amendment in the IT- Act for country- by- country reporting requirement for multinational enterprises with annual consolidated revenue of Rs.5,000 crore or more
- Government working on simplified and speedy resolution of tax disputes through mutual alternate procedure
- Controlled foreign company provisions unlikely to be introduced any time soon as it could drastically affect Indian companies.

*(Business Standard)*