

Tax Hotline

August 16, 2001

CBDT TURNS DOWN A NUMBER OF OECD SUGGESTIONS

With the introduction of transfer pricing regulations in the fiscal budget, Indian economy is gearing up to comply with this much-talked new regulation. In early June 2001, the Organization for Economic Co-operation and Development (OECD) had suggested certain modifications to the draft rules on transfer pricing in India. It then appeared that the Central Board of Direct Taxes (CBDT) would accept most of the suggestions of the OECD to enable India to be more or less on par with other developed nations in this regards, since the same were introduced quite late in India.

One of the main suggestions, which is in line with international practice, is to incorporate a provision to accommodate minor differences in the prices estimated by the tax authorities and the tax paying company, if the differences fall within the range of 10 – 15%. This has not been accepted by the CBDT. The incorporation of such a provision helps the tax authorities reduce the number of litigations. The customs authorities of India do allow a certain divergence in the estimation of prices. According to certain tax experts, such a provision would need the Parliament's assent and they expect that the same could figure in the budget for the next fiscal year.

Another OECD recommendation which has also been turned down by the CBDT was the one to allow Multi National Companies (MNCs) to evolve a transfer pricing method other than what has been prescribed in the relevant rules, provided the method was in tune with the established arm's length principal.

A good news for MNC's is that on the basis of OECD's recommendations the number of documents to be submitted by the MNCs to the tax authorities under the yet to be notified transfer pricing rules, have been reduced.

The transfer pricing rules are pending with the law ministry for clearance and are expected to be notified in two weeks.

Source: *The Economic Times* dated August 16, 2001

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