

Tax Hotline

September 08, 2002

INDIA – US DOUBLE TAXATION AVOIDANCE AGREEMENT NOW PROVIDES FOR A STAY ON RECOVERY PROCEEDINGS FOR DISPUTED TAXES UNTIL THE COMPETENT AUTHORITIES SETTLE THE DISPUTE

The Indian and US tax authorities in a welcome move have in a joint meeting held in late September this year, agreed that the tax payer would not have to pay his disputed tax demand until the respective competent authorities ("CA") have decided on the disputed tax liability.

Thus now, US companies operating in India and Indian companies operating in the US will not have to pay tax in case of a dispute until the respective CA decides on the disputed tax liability. Further, the tax payers assessment will also be deferred until the CA takes a final decision.

The new provision however, requires the parties to furnish a bank guarantee for the disputed tax liability. Thus now under the new procedure, during a negotiation regarding a potential or actual tax assessments under the Mutual Agreement Procedure Article of the India-US Double Taxation Avoidance Agreement, the Indian and US tax authorities have agreed on a procedure to defer assessment or suspend collection of taxes, including any related interest or penalties.

Source: *The Economic Times*, September 28, 2002

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