

## **CBDT, BNP Paribas Sign APA to Steer Clear of Tax Issues**

The Central Board of Direct Taxes has signed a taxation rate agreement with BNP Paribas India Solutions, the local arm of the European bank, as part of efforts to reduce disputes with foreign companies over tax-related issues.

BNP Paribas Solutions is the first company in the information technology and information technology-enabled services sector to sign an APA. Industry officials said eight more such agreements could be signed by ITITeS companies by August end.

According to the unilateral advance pricing agreement signed between the company and the government, tax will be levied at 16-18%, people familiar with the matter said. "This tax rate is much lower than the earlier rates that the government has agreed upon with other firms," a tax official said. "This could become a benchmark rate that could be considered in dealing with other firms in the sector."

The finance ministry has asked CBDT to resolve transfer pricing disputes at a faster pace to help clear the perception that India is overly aggressive on taxation. Transfer pricing refers to the practice of maintaining arm's length in transactions between related entities such as a company and its overseas subsidiaries.

In response to ET's query, CBDT said, "Name of person (company) with whom the APA is signed is confidential information under the Income Tax Act."

"CBDT has given special emphasis to provide tax certainty through advance pricing agreement and has strengthened the APA team by increasing manpower. All efforts are being made to sign as many cases as possible in the near future," the board said in the statement. An email sent to Mumbai-based BNP Paribas India solutions remained unanswered.

Of 550 APA applications pending with the government, about 35% are from the ITITeS sector. ET had reported on May 21 that the first agreement in the ITITeS space would be signed in three months.

Transfer pricing disputes in this sector are mainly related to outsourcing and the calculation of profit made by companies. Many firms have gone to court challenging the government's transfer pricing adjustments. In July 2012, the government introduced the APA programme, which allows companies and the revenue authorities to negotiate the rate at which tax is to be paid and avoid disputes. Industry officials say the Modi government is pushing tax authorities to resolve about 120 transfer pricing disputes by the end of the financial year.

"That is too much to expect, but I think the revenue authorities would sign anywhere around 70-80 APAs, mainly in the ITITeS space," said a tax consultant.

APAs can be unilateral, bilateral or multilateral. A unilateral APA is signed with a company from a country with which India does not have a tax treaty and involves only the taxpayer and the revenue authority. Bilateral APAs involve the taxpayer, its local subsidiary, the Indian tax authority and the country in which the company is headquartered. Multilateral APAs involve the

taxpayer, two or more of its subsidiaries in different foreign countries, the Indian tax authority and the country where the company is headquartered.

*(Economic Times)*