

CBDT streamlines taxation rules for IT sector

Seeking to encourage Research and Development (R&D) activities in the IT sector, the CBDT today issued circulars to streamline the taxation rules in line with the recommendations of the Rangachary Committee.

The circulars, issued with relation to the applicability of Transfer Pricing rules for taxation of development centres in the IT sector, will help in providing certainty to tax payers, the finance ministry said in a statement.

The development centres, it said, should be treated as contract R&D service provider to their foreign principal if the risk attached to such centres is insignificant.

The Transfer Pricing officers, while deciding on taxation issues concerning development centres, it said, should look into the conduct of the parties and not on mere contractual terms.

With regard to the applicability of Profit Split Method (PSM), the circular said it should be considered as the most appropriate method for the purpose of computing tax liability under the Transfer Pricing.

In case of the non-applicability of the (PSM), the circular said the Transfer Pricing officer should record the reason in writing.

The PSM is one the methods to determine arm's length price for determining the tax liability in cases of sale of goods and services between related entities.

These clarifications are aimed at providing certainty with regard to taxation of IT development centres.

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