India to blacklist tax havens not sharing info

If so, Switzerland, UAE, Hong Kong and Singapore will find it difficult to do business with Indians

The government is considering blacklisting foreign jurisdictions not sharing information on money parked by Indians in their country, despite a tax information exchange agreement with India.

Blacklisted countries would find it difficult to do business with Indian citizens. Besides a higher tax burden, Indian taxpayers dealing with such jurisdictions would be disallowed deductions in respect of expenditure, allowance or payment made to a financial institution in that country.

Officials said Switzerland, United Arab Emirates (UAE), Hong Kong, Singapore, Samoa and Seychelles are some of the countries which have been requested to share information but have not done so effectively. In fact, with Switzerland and UAE, India has tax agreements for sharing of information but it has not helped much.

In Budget 2011-12, the finance ministry had inserted Section 94A in the Income Tax Act to notify countries that were not cooperating in information exchange.

It said an Indian resident entering into transactions with such notified territories would be denied certain income tax benefits.

While the provision came into effect from June 2011, the government did not notify the rules in this regard as it just wanted to use this provision “as a threat” and did not want to jeopardise India’s trading relations with any of those countries. It is now planning to notify the rules, within a week and this may be seen as a precursor to blacklisting of one or two non-cooperating countries.

“We are expediting the notification of rules because a few countries may have to be notified as non-cooperating and blacklisted,” said a government official, who did not wish to be identified.

Another official said a small country might be blacklisted to send a signal but it would be difficult to take any action against important trading partners, like UAE, as it might spoil India’s relationship with the country.

He added a political will was required to take action against a large country.

India's trade with UAE constitutes 9.4 per cent of the country's total trade. Switzerland and Singapore have 3.9 per cent and 2.7 per cent share in India's total trade, respectively.

The trade with Seychelles is barely 0.01 per cent of total trade, while it is negligible with Samoa.

India is not the first country to have such blacklisting provisions. Some European countries like France too have it. There is a provision of all countries being blacklisted, unless they share information.

Recently, India approached half a dozen foreign jurisdictions, including Singapore, Samoa, British Virgin Islands, Cayman Islands and Cook Islands, for banking and other financial details of 500 individuals and entities that might have 'secret offshore accounts' at those places. The names and listed addresses of 505 India-linked entities were made public after a global expose on secret offshore accounts by US-based rights group, the International Consortium of Investigative Journalists.

India signs Double Taxation Avoidance Agreements (DTAA) and Tax Information Exchange Agreements (TIEA) with other countries to counter the menace of tax evasion and black money stashed in foreign banks by helping in collection of information regarding tax evasion and foreign bank accounts. Proposal to sign DTAAs with Albania, Croatia, Chile, Cuba, Fiji and Latvia is in process. Further, it is proposed to sign TIEAs with Congo, Marshall Islands and Sint Maarten.

DTAAs contain provisions for allocation of taxing rights between source country and resident country; for avoidance of double taxation and for prevention of fiscal evasion. DTAAs contain provisions for exchange of information for tax purpose. TIEAs are agreements for exchange of information for tax purpose.

(Business Standard)