

## **Manmohan Singh sets up committee to review taxation of Development Centres and IT sector**

Prime Minister, Manmohan Singh has constituted a Committee to Review Taxation of Development Centres and the IT Sector.

The Committee will engage in consultations with stakeholders and related government departments to finalise the **Safe Harbour provisions** announced in **Budget 2010** sector-by-sector. It will also suggest the approach to taxation of Development Centres.

The Prime Minister had earlier set up an Expert Committee on GAAR under the Chairmanship of Dr. Partho Shome to engage in a widespread consultation process and finalise the GAAR Guidelines. The response has been overwhelmingly positive. While this committee would address concerns on GAAR provisions and would reassure investors about the predictability and fairness of our tax regime, it was felt that there is still a need to address some other issues relating to the taxation of the **IT Sector** such as the approach to taxation of Development Centres, tax treatment of "onsite services" of domestic software firms, and also the issue of finalising the Safe Harbour provisions announced in Budget 2010.

Many MNCs carry out activities such as product development, analytical work, software development, etc. through captive entities in India. They exist in a wide range of fields including IT software, IT hardware, Pharmaceutical R&D, other automobile R&D and scientific R&D. These are popularly called Development Centres. Over 750 MNCs have such centres at over 1100 locations in India. The reason for this large concentration of Development Centres in India is the worldwide recognition of India as a place for cost competitive, high quality knowledge related work. Such Development Centres provide high quality jobs to our scientists, and indeed make India a global hub for such Knowledge Centres.

However, India does not have a monopoly on Development Centres. This is a highly competitive field with other countries wanting to grab a share of the pie. There is need for clarity on their taxation. As far as Safe Harbor provisions are concerned, these were announced in Finance Bill 2010, but have yet to be operationalised with a wide application. Safe Harbour provisions have the advantage of being a good risk mitigation measure, provide certainty to the taxpayer.

The resolution of the above tax issues requires a comprehensive approach in which other government departments are consulted and industry bodies are taken on board. The overall goal is to have a fair tax system in line with best international practice which will promote India's software industry and promote India as a destination for investment and for establishment of Development Centres. Therefore, the Prime Minister has constituted a Committee consisting of experts from the Income Tax Department, both serving and retired, who will examine the issues in detail and submit proposals in a short time.

An arm's length exercise of this nature will allay a lot of concerns in addition to the immediate resolution of issues that is necessary. For this purpose, a Committee on Taxation of Development Centres and the IT sector has been constituted consisting of N. Rangachary, former Chairman CBDT & IRDA - Chairman, Anita Kapur, Director

General (IT) - Member, Rashmi Sahani Saxena, DIT (TP) - Member and any other officer from the **Income Tax Department** to be co-opted by the Chairman The Terms of Reference of the Committee will be to engage in consultations with stakeholders and related government departments to finalise the approach to Taxation of Development Centres and suggest any circulars that need to be issue, engage in sector-wide consultations and finalise the Safe Harbour provisions announced in Budget 2010 sector-by-sector.

The Committee will also suggest any necessary circulars that may need to be issued. It will also examine issues relating to taxation of the IT sector and suggest any clarifications that may be required. The Department of Revenue will provide all necessary support to the Committee to facilitate its work including office assistance and assistance to facilitate consultations.

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