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SMILE'S BACK

Double treat: FM ushers in tax avoidance pacts among associations

THE Finance Bill '06 has introduced a new regime, in a sense, to battle double taxation and provide relief to taxpayers.

This mechanism will run parallel to the double taxation avoidance agreements (tax treaties) between the governments of two countries. The only difference is that the agreement is not between two governments but between two associations in the countries.

The Central government would notify specified associations which would enter into agreements on double tax relief with an association in another country. The association could be an institution, association or any other body functioning under any law in India and the agreement between the two associations would have to be notified as well.

The provisions of domestic laws (Income Tax Act, 1961) would apply only to the extent that they are more beneficial than the agreements between the two associations. These are the same provisions that apply to tax treaties.

The mechanism that is already in place are the double tax avoidance agreements (tax treaties) between the governments of two countries. "The purpose of such a parallel regime is the same as that of tax treaties: to provide double taxation relief. This would provide the much-needed boost to cross-border trade as tax treaties take more time and there could be other political considerations. This is quite a progressive step and does not exist in other countries," says Shefali Goradia, head, international tax practice group, Nishith Desai Associates.

• **Team ET**