

A welcome twist in the royalty tale

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Payments in the nature of royalty or fees for technical services (FTS) made to a foreign company will now be subject to a withholding tax rate in India of just 10%, as opposed to 20% or even 30%.

Shefali Goradia, head, international tax, Nishith Desai Associates states, "This will eliminate the need for foreign companies to route their contractual agreements for IPRs through favourable tax treaty jurisdictions such as Netherlands or Ireland. It is equally useful for foreign investors based in non-treaty countries, as the domestic tax rate is now aligned with most treaty rates."

Points out Sudhir Kapadia, partner, BSR&Co, "The existing conditions that the agreement between the foreign company and the Indian party should be approved by the Central Government or it must be in accordance with the Industrial Policy, if any applicable, continues. These conditions are now outlived and must be abolished."

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