

Tax Hotline

August 28, 2000

TAX RATES OF FOREIGN TELECASTING COMPANIES TO BE REVISED

Foreign telecasting companies in India are subjected to withholding tax on remittances made to them by Indian residents based on a presumptive profit rate of 10% of the gross remittances. This resulted in effective rate of tax at source of 4.8% for these companies. It was made effective by a circular issued by the Central Board of Direct Taxes (CBDT) No. 742 dated May 2, 1996.

The Circular stated that such a rate of tax would be applicable until March 31, 1998 after which the position with regard to the reasonableness of the rate would have to be reviewed.

Sources in the Income Tax department are now of the view that this presumptive rate of profit results in unrealistically low withholding tax rate. With a dozen foreign channels setting shop in India and beaming news, views, music and entertainment into Indian homes, the department evidently smells additional revenue. It is therefore proposed to withdraw the said circular. The CBDT is looking at all possibilities including normal rate of tax, ie. 48% applicable to foreign companies to a more appropriate rate between the present 4.8% and the full rate of 48%. The foreign telecasting companies which have Indian subsidiaries would however be taxed at 38.5% (Including the 10% surcharge) on their net profit.

Source: The Economic Times, August 28, 2000

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