

India is to have a General Anti-Avoidance Principle and...

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[Now Indian entities abroad to be taxed.](#)

The Indian Express reports excellent news for ordinary people in that country:

Companies having entities abroad and circumventing laws for evading taxes will not be able to do so any more. The government is framing Controlled Foreign Corporation (CFC) rules for such companies that would discourage them from setting up entities in tax havens for avoiding tax payments.

“ We are introducing Controlled Foreign Corporation (CFC) rules. These rules would be for those companies who operate in multi-tiered structure where they set up offshore entities in low tax areas to avoid tax payment,” sources told The Indian Express. The sources said that the rules would form a part of the General Anti-Avoidance Rules in the proposed Direct Tax Code, which would be placed in public domain in the next 15 days.

There are many companies which set up offshore entities in jurisdictions with little or no tax (tax havens) and show that they are at arm's length with such entities. Now, income from any foreign source is taxed only after it is accrued or received as income in the resident country of the taxpayer. Many companies use such offshore subsidiaries established in tax havens to defer the tax payment by transferring dividends, interests to such entities. The deferment which means avoidance of tax in many cases leads to huge losses to the exchequer.

The CFC rules would prevent use of tax havens for deferring the taxability of foreign income as they effectively enable the domestic law to tax such foreign income, the sources said, adding that the committee which was formed for framing the rules has already submitted the report to the finance ministry.

It's a great news that an emerging economy is taking both these steps.

I warmly welcome both.

The next issue will, of course, be identifying with certainty the ownership of the tax haven entities they wish to bring into the tax net.

That's why increased pressure on tax havens to disclose beneficial ownership is essential.