

How to deal with tax havens - Indian style - from which...

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India is beginning to take the threat tax havens pose to it very seriously, partly because of the work my friends at [Global Financial Integrity](#) have done in exposing [the enormous costs to India](#) of tax haven abuse.

The [Hindu Business Line](#) reports just how seriously the issue is being taken in the 2011 budget:

Transactions with entities in “non-cooperative” jurisdictions that do not effectively exchange information with India may soon attract TDS (tax deduction at source) of at least 30 per cent.

This is one of the several “anti-avoidance” measures that the Finance Minister, Mr Pranab Mukherjee, has proposed in Budget 2011-12, to discourage residents from transacting with entities in “non-cooperative” jurisdictions.

Through the Budget, Mr Mukherjee has sought to put in place a “toolbox of counter measures,” against those jurisdictions that hesitate or do not want to enter into tax information exchange agreement (TIEA) with India. The Budget empowers the Centre to notify such jurisdictions.

Besides stipulating a stiff TDS rate, the Budget has also proposed that such transactions would be deemed to be an international transaction and attract transfer pricing regulations.

Also, payments made to any financial institution in such jurisdictions would be allowed as deduction for tax purposes only if an assessee furnishes an authorisation to the tax department to allow the Indian tax authorities seek relevant information from the financial institution.

The Finance Bill, 2011 has also proposed that no deduction (for tax purposes) in respect of any other expenditure or allowance (including depreciation) arising from a transaction with a person located in that jurisdiction would be allowed unless the assessee maintains other documents and furnishes information as may be prescribed.

Moreover, if a resident were to receive money from such jurisdiction, then the onus is on the assessee to explain “satisfactorily” the source of such money. Otherwise, the amount would be deemed as income of the assessee.

This is a very welcome range of measures. They look robust. The messaging is clear. Cheats will be tackled.

I warmly welcome this approach. It should be adopted in the UK and elsewhere. If tax haven cheating would reduce in scale, rapidly, if (and it's a big if) sufficient resource was dedicated to policing the activity and banks were made liable for facilitating transactions that may be in breach of the regulations.