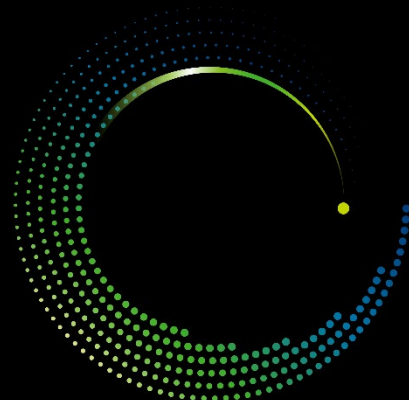


International Tax India Highlights 2024

Updated January 2024



Recent developments

For the latest tax developments relating to India, see [Deloitte tax@hand](#).

Investment basics

Currency: Indian Rupee (INR)

Foreign exchange control: There is a simplified regulatory regime for foreign exchange transactions and liberalized capital account transactions. Current account transactions are permitted unless specifically prohibited and are monitored by the Reserve Bank of India (RBI), the central bank. Foreign investment is permitted in most industries, although sector-specific caps apply to foreign investment in certain sectors, including defense, civil aviation, telecommunications, banking, insurance, pensions, and retail. The External Commercial Borrowing (ECB) framework permits all entities eligible to receive foreign direct investment to raise ECB.

Foreign investment may be made via various instruments classified either as debt or nondebt instruments as notified by the government. The RBI is responsible for regulating debt instruments, and the Ministry of Finance for regulating nondebt instruments, in accordance with the rules and regulations governing both types of instruments.

To regulate opportunistic takeovers and acquisitions of Indian companies by foreign investors as a consequence of the COVID-19 pandemic, prior government approval is required for investment from entities based in jurisdictions that share a land border with India or where the beneficial owner of an investing entity is situated in, or a citizen of, such a jurisdiction.

The rules for Indian residents investing overseas are set out in the overseas investment framework issued by the Ministry of Finance and the RBI.

Accounting principles/financial statements: India has initiated steps toward the convergence of its accounting standards with IFRS (subject to a few exceptions). These standards are called Indian Accounting Standards (Ind AS). Ind AS are mandatory for:

- All companies whose equity or debt is listed, or is in the process of being listed, either in India or outside India (other than small and medium-sized enterprises or companies listed on India's Institutional Trading Platform without an initial public offering);

- Unlisted companies with a net worth of at least INR 2.5 billion; and
- Holding, subsidiary, joint venture, or associate companies of the above.

Companies may opt to apply Ind AS voluntarily.

The schedule for implementing Ind AS for banks and insurance companies has been deferred until further notice by the RBI and the Insurance Regulatory and Development Authority of India, respectively.

Principal business entities: These are the public/private limited liability company; one-person company (owned by an Indian citizen who also is resident in India); partnership firm; limited liability partnership (LLP); sole proprietorship; trust established as a regulated investment vehicle; or branch office, liaison office, project office, or site office of a foreign corporation.

Corporate taxation

Rates	
Corporate income tax rate	15%/22%/25%/30% (domestic companies, maximum 34.944%, including surcharge and cess)/40% (foreign companies, maximum 43.68%, including surcharge and cess)
Branch tax rate	40% (maximum 43.68%, including surcharge and cess)
Capital gains tax rate	10%/15%/20%/30% (plus surcharge and cess in certain cases)

Residence: A corporation is resident in India if it is incorporated in India or if its place of effective management for the relevant tax year is in India.

A partnership firm, LLP, or other nonindividual entity is considered resident in India if any part of the control and management of its affairs takes place in India.

Basis: Residents are taxed on worldwide income; nonresidents are taxed only on Indian-source income. Indian-source income may include capital gains arising from the transfer of any share or interest in a company or entity registered or incorporated outside India if the share or interest directly or indirectly derives its substantial value from assets located in India. Foreign-source income derived by a resident company is subject to corporate income tax in the same way as Indian-source income. A branch of a foreign company is taxed as a foreign company.

Taxable income: Tax is imposed on a company's profits, which consist of business/trading income, passive income, and capital gains. Income resulting from the indirect transfer of certain assets located in India is included. Normal business expenses, as well as other specified items, may be deducted in computing taxable income.

Rate

General

There are two tax regimes in India, the regular taxation regime and the concessional tax regime.

Regular taxation regime

Under the regular taxation regime, the standard corporate income tax rate is 30% for domestic companies and 40% for foreign companies and branches of foreign companies. Taking into account the maximum applicable surcharge and cess, the highest effective rate is 34.944% for domestic companies and 43.68% for foreign companies.

A 25% rate (plus surcharge, if applicable, and cess) applies for a tax year to domestic companies with total turnover or gross receipts not exceeding INR 4 billion during the specified period (generally the tax year two years prior to the relevant tax year).

Noncorporate taxpayers, such as a partnership firm or an LLP, are subject to a standard rate of 30% (plus surcharge, if applicable, and cess).

Concessional taxation regime

Domestic companies that forgo claiming certain specified tax deductions and incentives may elect a concessional taxation regime with a reduced corporate income tax rate of 22% (plus applicable surcharge and cess), subject to certain conditions. Certain resident manufacturing companies (incorporated on or after 1 March 2016) may elect a 25% rate (plus applicable surcharge and cess) where the company does not claim certain specified tax deductions and incentives.

Domestic manufacturing companies incorporated on or after 1 October 2019 that commence manufacturing activities on or before 31 March 2024 may elect a reduced 15% corporate income tax rate (plus applicable surcharge and cess) on income derived from or incidental to manufacturing or production activities, provided certain conditions are fulfilled. Other income is subject to corporate income tax at 22% (plus applicable surcharge and cess) depending on the relevant tax regime.

Surtax

A 7% surcharge applies to domestic companies subject to the regular taxation regime with income exceeding INR 10 million and a 12% surcharge applies where income exceeds INR 100 million. For foreign companies, the corresponding rates are 2% and 5%, respectively. A 10% surcharge applies to domestic companies that elect a concessional taxation regime irrespective of the amount of income. A 12% surcharge applies to a partnership firm or an LLP with income exceeding INR 10 million.

An additional combined 4% cess is payable in all cases, comprising a health cess and an education cess.

Alternative minimum tax

Minimum Alternate Tax (MAT) is imposed at a rate of 15% (plus surcharge, if applicable, and cess) on the adjusted book profits of companies whose tax liability is less than 15% of their book profits. A credit is available for MAT paid against tax payable on normal income, which may be carried forward for up to 15 years for offset against corporate income tax payable. MAT does not apply to certain income of foreign companies, including capital gains on transactions involving securities, interest, royalties, and fees for technical services. Domestic companies including units set up in the International Financial Services Centre (IFSC) that elect a concessional taxation regime also are exempt from MAT.

Partnership firms and LLPs are subject to Alternate Minimum Tax (AMT) at 18.5% (plus surcharge, if applicable, and cess) of the adjusted total income where the normal income tax payable is less than the AMT.

AMT is also imposed on a person eligible for investment-linked incentives (other than companies). The adjusted total income is the total income before giving effect to the AMT provisions, as increased by certain deductions claimed in computing the total income, including the tax holiday claimed by units in a special economic zone (SEZ). A tax credit is allowed for AMT paid against the tax payable on normal income and may be carried forward for up to 15 years.

Global minimum tax (Pillar Two)

India is a member of the OECD/G20 Inclusive Framework on BEPS and has joined the Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy. As at 1 January 2024, no announcement had been made regarding the implementation of rules in India that generally are in line with the global anti-base erosion (GloBE) or “Pillar Two” model rules that are designed to ensure a global minimum level of taxation of 15% for multinational enterprise groups with annual consolidated revenue of at least EUR 750 million, but a statement from the Ministry of Finance is expected early in 2024.

Taxation of dividends: Dividends paid by domestic companies are not subject to dividend distribution tax but are taxed at the shareholder level.

Domestic companies generally are subject to corporate income tax on domestic and foreign-source dividends, although subject to certain specific conditions, a domestic company may deduct from its taxable income dividends received from another domestic company, a foreign company, or a business trust.

Capital gains: The tax treatment of capital gains depends on whether the gains are long- or short-term. Gains are long-term where the asset is held for more than three years (one year for listed shares and specified securities, and two years for unlisted shares and immovable property (land, buildings, or both)).

Gains on listed shares and specified securities that are not subject to securities transactions tax (STT) are taxed at the lower of 10% (plus surcharge, if applicable, and cess) without considering the benefit of an inflation adjustment or at 20% (plus surcharge, if applicable, and cess) with the benefit of an inflation adjustment. Long-term gains on listed securities that are subject to STT are taxed at the rate of 10% (plus any applicable surcharge and cess). Gains on long-term capital assets other than listed shares and securities are taxed at 20% (plus surcharge, if applicable, and cess), but with the benefit of an inflation adjustment.

The applicable tax rate on long-term capital gains derived by a nonresident from the sale of unlisted securities is 10% (plus surcharge, if applicable, and cess), without the benefit of foreign currency conversion and an inflation adjustment.

Short-term gains on listed shares and specified securities that are subject to STT are taxed at 15% (plus surcharge, if applicable, and cess); gains from other short-term assets are taxed at the normal tax rates (plus surcharge, if applicable, and cess).

A domestic company is liable to pay an additional tax of 20% (plus surcharge, if applicable, and cess) on income distributed to a shareholder on account of a buyback of the company’s shares.

Gains on the disposal of units in specified mutual funds acquired on or after 1 April 2023 and on market-linked debentures are considered short-term capital gains as from 1 April 2023 and taxed at the applicable rate(s) (plus surcharge, if applicable, and cess). No indexation is available.

Losses: Business losses and capital losses may be carried forward for eight years, with short-term capital losses offsetting capital gains on both long- and short-term assets, and long-term capital losses offsetting only long-term capital gains. Other than unabsorbed depreciation (which may be carried forward indefinitely), losses may be carried forward only if the tax return is filed by the due date. Unabsorbed depreciation may be offset against any income, whereas business losses may be offset only against business profits in subsequent years.

Losses incurred on the rental of domestic property may be offset against other heads (categories) of income up to INR 200,000 and any remaining losses carried forward for up to eight years for offset against income from domestic property rentals in subsequent years.

Eligible start-ups can carry forward and set off losses for up to 10 years irrespective of any change in shareholding.

Foreign tax relief: Foreign tax paid may be credited against Indian tax on the same income, but the credit is limited to the amount of Indian tax payable on the foreign income. Specific rules apply regarding the mechanism for granting a foreign tax credit.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

Incentives: A deduction of up to 100% is available in respect of capital and revenue expenditure (other than expenditure on land or buildings) on scientific research conducted in house by companies in specified industries (i.e., companies engaged in the biotechnology sector or any business of manufacturing or producing eligible goods) and for payments made to specified organizations for scientific research.

A 100% deduction is allowed for amounts paid to a company registered in India that is carrying on scientific research activities; to a research association; or to a university, college, or other institution engaged in research in social science or statistical research.

An investment-linked incentive in the form of a 100% deduction for capital expenditure other than expenditure incurred on the acquisition of land, goodwill, or financial instruments is available for specified activities.

An investment-linked incentive in the form of a 100% deduction is available for developing and/or maintaining and operating an infrastructure facility (e.g., a road, highway project, water-supply project, or port), subject to specified conditions.

A deduction of up to 100% is available for capital and revenue expenditure incurred on a “notified” agricultural extension or skill development project.

Certain capital expenditure for the right to use spectrum for telecommunication services is allowed as a deduction over the period of the right to use the spectrum.

Units established in the IFSC in GIFT City are eligible to claim a 100% deduction of income earned for 10 assessment years out of 15, and are subject to MAT at a concessional rate of 9%.

A taxpayer that is an eligible start-up may elect a deduction of 100% of the profits derived from an eligible business for any three consecutive assessment years out of the 10 years beginning from the year of incorporation (for companies/LLPs set up on or after 1 April 2016 and before 1 April 2024).

A concessional tax rate of 10% (plus surcharge, if applicable, and cess) applies on gross income arising from royalties in respect of a patent developed and registered in India by a person resident in India. No deduction is allowed for expenditure or an allowance in respect of such royalty income.

Compliance for corporations

Tax year: The tax year is the year from 1 April to the following 31 March.

Consolidated returns: Consolidated returns are not permitted; each company must file a separate return.

Filing and payment: Income received during a tax year usually is assessed to tax in the next tax year (the assessment year). All companies and all other taxpayers that are required to have their accounts audited must submit a final return by 31 October following the end of the relevant tax year and those that are required to file a certificate of international

transactions must submit a final return by 30 November. The due date for noncorporate taxpayers that are required neither to have their accounts audited nor to file a certificate of international transactions is 31 July. All taxpayers must provide details of income, expenses, tax due, and tax paid. Other required details depend on the applicable income tax return form. Taxpayers claiming tax holidays or carrying forward tax losses must file their return of income on or before the due date.

Taxpayers must make four advance payments of their income tax liability during the tax year, on 15 June (15% of the total tax payable), 15 September (30% of the total tax payable), 15 December (30% of the total tax payable), and 15 March (25% of the total tax payable).

Penalties: Penalties apply for failure to file a return, tax audit report, or certificate of international transactions; failure to comply with withholding tax obligations; and the underreporting and misreporting of income. Criminal proceedings also may be initiated for failure to file an income tax return.

Rulings: The Board for Advance Rulings issues rulings on the tax consequences of transactions or proposed transactions with nonresidents. It also can issue rulings in relation to the tax liability of residents in prescribed cases, and on whether an arrangement is an impermissible avoidance arrangement. Rulings are binding on the applicant and the tax authorities for the specific transaction(s). Advance pricing agreements (APAs) also are possible.

Individual taxation

Rates			
Individual income tax rate	Taxable income (INR)	Rate (standard regime)*	Rate (optional simplified regime)*
	Up to 250,000	0%	0%
	250,001—300,000	5%	0%
	300,001—500,000	5%	5%
	500,001—600,000	20%	5%
	600,001—900,000	20%	10%
	900,001—1,000,000	20%	15%
	1,000,001—1,200,000	30%	15%
	1,200,001—1,500,000	30%	20%
	Over 1,500,000	30%	30%
Capital gains tax rate		Varies	Varies

* All rates are subject to the 4% cess and, where income exceeds the relevant threshold, a surcharge applies.

Residence: Individuals are resident in India if they spend at least 182 days in the country in a given tax year, or at least 60 days provided they have spent at least 365 days in India in the preceding four tax years. For an Indian citizen leaving India for the purpose of employment or as a member of the crew of an Indian ship, and for an Indian citizen/person of Indian origin (PIO) working abroad who visits India while on vacation, the threshold of 182 days applies, instead of 60 days. Individuals who do not fulfill the above conditions are regarded as nonresident in India. Resident individuals are further classified as ordinarily resident or not ordinarily resident. Individuals are not ordinarily resident if they have been nonresident for nine out of the 10 preceding tax years or have been in India for less than 730 days during the preceding seven tax years. Individuals who do not fulfill either of the above two conditions are considered ordinarily resident.

An Indian citizen, or a PIO whose total Indian-source income exceeds INR 1.5 million and who is present in India for at least 120 days but less than 182 days during a tax year, qualifies as not ordinarily resident for that tax year.

Basis: An individual who is resident and ordinarily resident in India generally is taxed on worldwide income, subject to the provisions of an applicable tax treaty. A person who is not ordinarily resident generally does not pay tax on income earned outside India, other than income derived from a business controlled in India or a profession exercised in India. A nonresident is subject to tax only on Indian-source income.

Taxable income: Income from employment, including most employment benefits, is fully taxable after applicable deductions and exemptions. Profits derived by an individual from carrying on a trade or profession generally are taxed in the hands of the individual, after applying available tax exemptions and tax-free thresholds (see “Rates,” above). See “Corporate taxation,” above, regarding the taxation of dividends.

An individual owning more than two private residences for their own occupation will be taxed on a notional rent from the third and any subsequent residential properties.

Individuals may opt to compute their total income in accordance with the standard tax regime or the simplified tax regime. The simplified regime is considered the default regime, but taxpayers may choose the standard regime if that is beneficial, subject to certain conditions. Most of the exemptions or deductions generally available in calculating total income are not permitted under the simplified regime (see “Deductions and allowances,” below).

Rates: Rates are progressive up to 30%, plus a 4% cess. A surcharge of 10%, 15%, 25%, or 37% applies under the standard regime where income exceeds INR 5 million, INR 10 million, INR 20 million, or INR 50 million, respectively (subject to applicable marginal relief). Under the simplified regime, the highest surcharge rate is reduced from 37% to 25% on income exceeding INR 50 million. The first INR 300,000 is exempt for resident senior citizens (aged from 60 to 79 years) and INR 500,000 is exempt for very senior citizens (at least 80 years of age); for all other individuals, the exempt amount is INR 250,000 under the standard regime and INR 300,000 under the simplified regime.

A tax rebate of up to INR 12,500 is granted to resident individuals taxed under the standard regime with taxable income not exceeding INR 500,000. Under the simplified regime, a maximum rebate of INR 25,000 may be granted to resident individuals whose income does not exceed INR 700,000.

Marginal relief is available to taxpayers opting for the simplified regime whose income is above INR 700,000 and where the tax payable exceeds the amount by which the total income is in excess of INR 700,000.

See “Alternative Minimum Tax” under “Corporate taxation,” above. AMT does not apply to individuals, associations of persons (AOPs), and bodies of individuals (BOIs) whose adjusted total income does not exceed INR 2 million.

Capital gains: See “Capital gains” under “Corporate taxation,” above.

A deduction may be claimed where long-term capital gains are reinvested into a new residential property, limited to a maximum of INR 100 million, which is deemed to be the eligible investment in the new house where the actual cost is higher.

A maximum 15% surcharge applies on gains arising from the disposal of specified short-term capital assets and all long-term capital assets by individuals, Hindu undivided families, AOPs, BOIs, and artificial juridical persons.

Deductions and allowances: A standard deduction of INR 50,000 is available under both the standard and simplified regimes. Mortgage interest of up to INR 200,000 per year is deductible. Deductions are available in respect of certain payments and investments, such as contributions to the provident fund, pension funds, medical or life insurance policies, and some savings schemes, subject to applicable limits, but most of these deductions are not available where an individual opts for the simplified regime.

Foreign tax relief: A resident individual who has paid tax outside India may claim credit for the foreign tax paid against the tax payable in India. The credit is limited to the lower of the tax payable on the relevant income under Indian tax legislation, or the actual foreign tax paid where India has no tax treaty with the foreign jurisdiction. Relief also may be available under the terms of an applicable tax treaty. To obtain credit for foreign tax, the details must be provided electronically by filing Form 67 by the end of the relevant assessment year. Where an updated return is filed, Form 67 must be submitted on or before the date of filing the return.

Compliance for individuals

Tax year: The tax year is the year from 1 April to the following 31 March.

Filing status: Each taxpayer must file a return; the concept of joint filing does not exist in India.

Filing and payment: All individual taxpayers are required to file a tax return. The employer withholds tax on salary income.

Individuals must prepay 100% of the final tax due by the end of the tax year, either via withholding at source or by making advance payments in four installments (with interest payable on underpayments). Individuals generally must submit a final return by 31 July of the assessment year. Electronic filing of tax returns is mandatory where: (i) taxable income (without considering specified exemptions/deductions) exceeds the maximum amount not chargeable to tax under the chosen regime; (ii) the individual has foreign assets (including a financial interest in any entity or signing authority for any account); (iii) the individual is claiming any relief for foreign taxes; or (iv) any refund is claimed in the return.

Penalties: Penalties apply for failure to file a return, failure to comply with withholding tax obligations, and underreporting and misreporting of income.

Rulings: The Board for Advance Rulings issues rulings on the tax consequences of transactions or proposed transactions. It may issue rulings on whether an arrangement is an impermissible avoidance arrangement. Rulings are binding on the applicant and the tax authorities for the specific transaction(s).

Withholding tax

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	10%	10%	10%/20% (plus surcharge, if applicable, and cess)	10%/20% (plus surcharge, if applicable, and cess)
Interest	10%	10%	5%/10%/20%/40% (plus surcharge, if applicable, and cess)	5%/10%/20%/30% (plus surcharge, if applicable, and cess)
Royalties	2%/10%	2%/10%	20% (plus surcharge, if applicable, and cess)	20% (plus surcharge, if applicable, and cess)

Dividends: Dividends paid to an Indian resident generally are subject to withholding tax at 10%.

Dividends paid to a nonresident generally are subject to withholding tax at 20%. The rate is 10% for dividends paid on global depository receipts. The withholding tax rates on dividends paid to nonresidents are subject to any applicable surcharge and the cess and may be reduced under an applicable tax treaty.

Interest: Interest paid to an Indian resident generally is subject to withholding tax at 10%. This includes interest from listed debentures.

Interest paid to a nonresident on a foreign currency borrowing or debt generally is subject to a 20% withholding tax (plus surcharge, if applicable, and cess). Interest paid on foreign currency convertible bonds and foreign currency exchangeable bonds until the conversion option is exercised is subject to withholding tax at 10% (plus surcharge, if applicable, and cess). The rates may be reduced under an applicable tax treaty.

A 5% withholding tax (plus surcharge, if applicable, and cess) applies to certain types of interest paid to a nonresident, including: (i) interest paid on specific borrowings made before 1 July 2023 in foreign currency; and (ii) interest accruing before 1 July 2023 on investments made by a foreign institutional investor or a qualified foreign investor in a rupee-denominated bond of an Indian company, a government security, or a municipal debt security. The rate may be reduced under an applicable tax treaty.

Where a treaty applies, but the nonresident does not have a permanent account number (PAN) (i.e., a tax registration number), tax must be withheld at the higher of the applicable tax treaty rate or 20%; however, this does not apply if the payment is in the nature of interest and the foreign taxpayer provides the required documents to the payer.

Where the interest income derived by a nonresident does not fulfill certain prescribed conditions for concessional withholding tax rates, a withholding tax rate of 30% (for individuals and entities other than a foreign company) or 40% (for a foreign company) applies (plus surcharge, if applicable, and cess). The rate may be reduced under an applicable tax treaty.

Royalties: Royalties paid to an Indian resident generally are subject to withholding tax at 2% where the royalty is in the nature of consideration for the sale, distribution, or exhibition of cinematographic films; otherwise, the rate is 10%.

Royalties paid to a nonresident are subject to a 20% withholding tax (plus surcharge, if applicable, and cess), increased from 10% (plus surcharge, if applicable, and cess) as from 1 April 2023. The rate may be reduced under an applicable tax treaty. Where a treaty applies, but the nonresident does not have a PAN, tax must be withheld at the higher of the applicable tax treaty rate or 20%; however, this does not apply if the payments are in the nature of royalties and the foreign taxpayer provides the required documents to the payer.

Fees for technical services: Technical service fees paid to an Indian resident generally are subject to withholding tax at 2%. Fees for professional services paid to an Indian resident generally are subject to withholding tax at 10%.

Technical service fees paid to a nonresident generally are subject to withholding tax at 20% (plus surcharge, if applicable, and cess), increased from 10% (plus surcharge, if applicable, and cess) as from 1 April 2023. The rate may be reduced under an applicable tax treaty. Where a treaty applies, but the nonresident does not have a PAN, tax must be withheld at the higher of the applicable tax treaty rate or 20%; however, this does not apply if the foreign taxpayer provides the required documents to the payer.

Branch remittance tax: There is no branch remittance tax.

Anti-avoidance rules

Transfer pricing: The transfer pricing regime is influenced by OECD norms, although the penalty provisions in India are stringent compared to those in many other jurisdictions. The definition of “associated enterprise” extends beyond a shareholding or management relationship since it includes some deeming clauses. The transfer pricing provisions also cover specified domestic transactions with related parties where the aggregate value of those transactions exceeds INR 200 million in one year.

The pricing of related party transactions must be determined with regard to arm’s length principles, using methods prescribed under India’s transfer pricing rules, which are similar to the methods prescribed in the OECD guidelines, with an additional sixth method (i.e., an “other method”). The arm’s length price is determined based on multiple-year data and based on a range (between the 35th and the 65th percentiles of the data distribution) or the arithmetic mean (depending on certain prescribed conditions).

The taxpayer is required to maintain detailed information and transfer pricing documentation substantiating the arm’s length nature of related party transactions. Companies also are required to submit a certificate to the tax authorities (in a prescribed format) from a practicing chartered accountant that sets out the details of associated enterprises, international transactions, etc., together with the methods used to determine an arm’s length price. The certificate generally must be filed one month prior to the due date of filing the annual tax return, i.e., by 31 October of the assessment year.

Indian transfer pricing documentation requirements incorporate the specific reporting regime in respect of country-by-country reporting and the master file provided for under the OECD/G20 BEPS project.

Where the application of the arm’s length price would reduce the income chargeable to tax in India or increase a loss, no adjustment will be made to the income or loss.

Secondary transfer pricing adjustments also apply. The taxpayer is required to repatriate to India within a prescribed time cash equivalent to the amount of the transfer pricing adjustment. If not repatriated, the amount of the adjustment is treated as an advance to the associated enterprise, and subject to notional interest taxable in India. The taxpayer has the option to pay additional tax of 18% (plus surcharge, if applicable, and cess) on the value of the transfer pricing adjustment that is not repatriated to India, in which case notional interest is not charged.

If a taxpayer that benefits from a tax holiday is subject to a transfer pricing adjustment, the benefit is denied to the extent of the adjustment.

Safe harbor rules provide for the automatic acceptance of a taxpayer’s transfer price that is equal to or exceeds the safe harbors.

A taxpayer also may enter into a unilateral, bilateral, or multilateral APA.

The Indian safe harbor rules and APAs also cover profit attribution.

Interest deduction limitations: Where an Indian company or an Indian permanent establishment (PE) of a foreign company pays interest exceeding INR 10 million in respect of borrowings from nonresident associated enterprises, the deduction for interest paid when calculating taxable income cannot exceed 30% of the borrower’s EBITDA (earnings before interest, taxes, depreciation, and amortization) for the relevant tax year. Any disallowed interest may be carried forward and deducted over the next eight tax years (subject to the 30% of EBITDA overall annual interest limitation).

Controlled foreign companies: There are no controlled foreign company rules.

Anti-hybrid rules: There is no anti-hybrid legislation.

Economic substance requirements: These are relevant in the context of the general anti-avoidance rule (GAAR) (see “General anti-avoidance rule,” below). An arrangement is deemed to lack commercial substance where any one of the following criteria is met:

- The arrangement in its entirety differs significantly from the individual steps;
- The arrangement involves back-to-back financing, an accommodating party, or offsetting or canceling transactions, intended to disguise the true nature of the transaction;
- The location of an asset, transaction, or place of residence is determined solely for the purpose of obtaining a tax benefit; or
- The arrangement has no significant effect on the business risks or net cash flows of any party to the arrangement, other than any effect attributable to the tax benefit.

Disclosure requirements: A foreign company with a liaison office, branch office, or project office in India is required to prepare financial statements and annual activity certificates in respect of its activities and submit this information to the authorized dealer bank. Liaison and branch offices also must submit an annual activity certificate to the Director General of Income Tax.

Company law requires identification of a company’s significant beneficial owners (SBOs). An individual is considered an SBO if they, directly or indirectly, hold more than 10% of the shares, or voting rights, or rights to receive or participate in more than 10% of the distributable dividends of a company; or exercise significant influence over the company. There are detailed rules for determining an SBO and specifying the indirect holdings that must be taken into account. All SBOs are required to make timely disclosures regarding their holdings in an Indian company and any changes thereto to the company, and the company in turn must notify the Registrar of Companies. The identification of SBOs of LLPs is also required.

See also “Transfer pricing,” above.

Exit tax: There is no exit tax.

General anti-avoidance rule: The GAAR provisions empower the tax authorities to declare an arrangement as an impermissible avoidance arrangement if it is entered into with the main purpose of obtaining a tax benefit, and it:

- Creates rights or obligations that ordinarily would not be created between persons dealing at arm’s length;
- Results, directly or indirectly, in the misuse or abuse of provisions of the Income-tax Act, 1961;
- Lacks commercial substance or is deemed to lack commercial substance, in whole or in part; or
- Is entered into or carried out by means or in a manner not usually employed for bona fide commercial or business purposes.

The GAAR applies to arrangements where the tax benefit exceeds INR 30 million. Once the GAAR is invoked, tax treaty benefits may be denied for the arrangement.

Other: To discourage transactions with persons located in jurisdictions that do not effectively exchange information with India, transactions with persons situated in certain jurisdictions designated by the government are subject to the Indian transfer pricing rules, and income paid to persons in those jurisdictions is subject to a minimum withholding tax of 30%.

Goods and services tax

Rates	
General rates	0%/5%/12%/18%/28%
Special rates	0.1%/0.25%/3%

Taxable transactions: Goods and services tax (GST) is a destination-based consumption tax applicable to the supply of goods or services. GST also is a part of the aggregate customs duty imposed on imports. Exports and supplies to SEZs are zero-rated for GST purposes.

Central GST (CGST) and state GST (SGST) are imposed simultaneously on a common tax base on all intrastate transactions. In the case of interstate supplies of goods and services, integrated GST (IGST) applies at a rate that is an aggregate of CGST and SGST.

Rates: Goods and services are categorized under a structure with five different rates: 0%, 5%, 12%, 18%, and 28%. There is no standard rate per se, but the rate for most services is 18%. Special rates of 0.1%, 0.25%, and 3% apply on supplies to merchant exporters, rough precious and semi-precious stones, and gold, respectively.

As from 1 April 2023, GST compensation cess is imposed based on the specified rate that would apply on the retail sale price of relevant products (pan masala, tobacco and manufactured tobacco substitutes, including tobacco products). Prior to this date, the cess applied in addition to the 28% GST rate on an ad valorem basis.

Registration: Registration is state-specific. Two threshold limits of aggregate turnover (INR 2 million and INR 4 million) have been prescribed for exemption from registration and payment of GST for suppliers engaged exclusively in the supply of goods, and states may choose which to apply.

A threshold limit of aggregate turnover of INR 2 million (INR 1 million in certain special category states) applies to service providers. The threshold exemption does not apply in specific cases, including to interstate taxable supplies (other than to persons making interstate supplies of services with aggregate turnover of less than INR 2 million (INR 1 million for special category states)), persons who are required to pay tax under the reverse charge mechanism, and electronic commerce operators required to collect tax at source.

Filing and payment: GST compliance is an electronic process. Specific returns, filing obligations, and the time of payment are prescribed for different types of taxpayers, with most taxpayers being required to file monthly returns plus an annual return.

The monthly return in respect of outward supplies generally is due by the 11th day of the following month, with consolidated monthly returns (including information relating both to inward and outward supplies) and tax payments due by the 20th day of the following month.

Annual returns also must be filed by GST-registered persons on or before 31 December following the relevant tax year. GST-registered persons with aggregate turnover exceeding INR 50 million also must provide a self-certified reconciliation statement on or before 31 December following the relevant tax year.

Other than for a limited number of notified exceptions, e-invoicing (i.e., the generation of electronically authenticated invoices to effect GST supplies) is compulsory for taxpayers with turnover exceeding INR 0.05 billion.

A mandatory e-way bill system applies for the interstate and intrastate movement of goods above a certain value (except under certain specified circumstances).

Other: Alcohol for human consumption and certain petroleum products (petroleum crude, motor spirit (petrol), high speed diesel, natural gas, and aviation turbine fuel) continue to be taxed under the VAT regime (one of several indirect taxes replaced by GST in 2017). Interstate sales of these goods continue to be liable to central sales tax (CST). The standard rates for VAT and CST vary between states.

Registration for VAT and CST is mandatory for taxpayers dealing in the relevant goods if the business' sales turnover exceeds a threshold (INR 500,000 in most states), although certain state VAT laws also specify monetary limits of sales and/or purchases.

VAT and CST returns and payments generally are due either monthly or quarterly, based on the amount of the tax liability.

GST paid on procurements of goods and services cannot be offset against a VAT liability; similarly, a VAT credit cannot be offset against a GST liability.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: The employer generally contributes 12% of eligible wages per month to the provident fund. For employees joining the fund on or after 1 September 2014, the entire employer contribution is applied to the provident fund; otherwise 8.33% of the wages (up to INR 15,000) is applied to the pension fund, with the balance paid to the provident fund (except in the case of "international workers," where the INR 15,000 cap does not apply and the pension contribution by the employer is 8.33% of the wages).

A Supreme Court judgment in November 2022 permitted eligible employees to opt to pay an increased level of pension contributions based on a higher salary for a four-month period through 3 March 2023. The period was subsequently extended twice by the Employees' Provident Fund Organisation (EPFO) through 31 December 2023. The EPFO has also extended the deadline for employers to verify the wage details and approve the applications.

All employees (including international workers but not "excluded employees," as defined in the Provident Fund Act) contribute 12% of eligible wages per month to the provident fund. However, where India has entered into a social security agreement (SSA) with the relevant foreign jurisdiction, an inbound international worker (subject to certain conditions) is not liable to contribute to the provident fund in India upon obtaining a certificate of coverage (CoC). An international worker may be either: (i) a foreign employee working for an establishment in India to which the Provident Fund Act applies; or (ii) an Indian employee seconded to a jurisdiction with which India has entered into an SSA, who has not obtained a CoC, and is/will be eligible for benefits under the host jurisdiction's social security program.

The aggregate employer contribution to the provident fund, national pension scheme, and superannuation fund in excess of INR 750,000, as well as any annual return on the excess contributions (in the form of dividends, interest, etc.), is a taxable perquisite for the employee. Interest accrued on employee contributions in excess of INR 250,000 (INR 500,000 where no contribution is made by the employer) in a tax year to the provident fund is taxed under the head "income from other sources."

Payroll tax: There is no payroll tax but the employer is responsible for withholding tax on salary income.

Capital duty: There is no capital duty.

Real property tax: Municipalities impose property taxes (based on assessed value) and states impose land revenue taxes.

Transfer tax: STT is payable by the purchaser at the time of purchase, or by the seller at the time of sale of equity shares, derivatives, units in an equity-oriented fund, or units of a business trust listed on a recognized stock exchange in India.

Stamp duty: Transactions involving real estate and other specified transactions (including financial instruments and tribunal orders for amalgamation/demerger) in India attract stamp duty, which is imposed under the Indian Stamp Act and the stamp acts of the various states (with rates varying between the states).

Stamp duty on securities market instruments is imposed at uniform rates across India.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Other: An equalization levy of 6% on the amount of consideration in excess of INR 100,000 for specified services received by a nonresident without a PE in India must be withheld by a resident payer or a nonresident payer with a PE in India. The “specified services” include online advertising or the provision of digital advertising space, other related facilities or services, or any other service that may be notified by the central government.

An equalization levy of 2% applies on the consideration from e-commerce supply and services (other than specified services within the scope of the 6% levy) made or provided by an e-commerce operator without a PE in India, and whose sales, turnover, or gross receipts from the e-commerce supply and services are at least INR 20 million during the tax year.

Income subject to the 6% equalization levy is not taxed in the hands of the recipient. Income arising from e-commerce supply or services and subject to the equalization levy at 2%, is exempt from income tax.

The sale of goods or provision of services by an e-commerce operator to an e-commerce participant resident in India is subject to a 1% withholding tax.

As from 1 October 2023, remittances made outside India are subject to tax collected at source (TCS) at a rate of 20%. Remittances made for the purpose of education or medical treatment are subject to TCS at a rate of 5% on the amount exceeding INR 700,000.

Tax treaties: India has concluded around 100 tax treaties. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS MLI) entered into force for India on 1 October 2019.

For information on India’s tax treaty network, visit [Deloitte International Tax Source](#).

Tax authorities: Income Tax Department, Board for Advance Rulings

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