



## Credit for overseas tax on way

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"Liberals say that high earners pay a high share of taxes only because they have high incomes", explains Chris Edwards, a tax policy expert at the Cato Institute. The CBDT has invited comments from stakeholders on the draft rules by May 2.

Sanjay Sanghvi, Tax Partner, Khaitan & Co said the Indian income-tax authorities could specify that withholding tax certificate may be issued by the payor in the foreign country concerned and not necessarily by that country's tax authorities.

The finance ministry had set up a committee under the Central Board of Direct Taxes (CBDT) to suggest ways of granting a foreign tax credit (FTC) after examining issues related to it.

The richest 20 percent of Americans pay the most in income taxes, shelling out nearly 87 percent of all the income tax collected by the government. These would include certificate from the tax authority or a tax deducted at source certificate, online acknowledgment of foreign tax payment and a declaration that the amount being claimed is not under any dispute. However, interest, fee or penalty imposed on the company or individual will not be credited against any foreign tax.

"However, there is still certain areas left unclarified, like carry forward of tax credits, underlying credits in certain foreign jurisdiction and tax refunds as it is allowed in other countries", she said. "This draft is a well thought out move to clarify the nature and conditions for availability of FTC to Indian taxpayers. Two points are noteworthy, namely, cess and surcharges in addition to tax will also be creditable and FTC will be available against MAT liability, too", he added.

These rules is also expected to give certainty for the claim made in the tax return and should reduce litigation. "The rules address a hotly-litigated issue by mandating that FTC will be allowed against levy of MAT for corporate taxpayers", Nangia said. The tax credit will be available to entities paying taxes in any country, including those with which India has Double Taxation Avoidance Agreement. "Time to time clarification, announcement and notifications from CBDT providing tax clarity and tax simplicity are taking India to the next level of a tax simplified and non-adversarial tax regime", said Nangia.