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**UNION FINANCE MINISTER CALLS FOR STRONG MEASURES TO REVERSE THE ONGOING TREND OF ILLICIT OUTFLOWS FROM DEVELOPING COUNTRIES AND EXPLOITATION OF THEIR NATURAL RESOURCES THROUGH ABUSIVE TRANSFER PRICING SCHEMES; INAUGURATES TWO DAY HIGH LEVEL INTERNATIONAL SEMINAR ON “ADOPTING TAX SYSTEM AND INTERNATIONAL TAX RULES TO THE NEW GLOBAL ENVIRONMENT: A SHARED CHALLENGE FOR INDIA AND THE OECD”; INDIA OECD TO STRENGTHEN ONGOING COOPERATION ON TAX RELATED ISSUES THROUGH THREE YEAR PARTNERSHIP PROGRAMME**

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The Union Finance Minister, Shri Pranab Mukherjee calls for strong measures to reverse the ongoing trend of illicit outflows from developing countries and exploitation of their natural resources through abusive transfer pricing schemes. Shri Mukherjee said that this abusive behavior is robbing developing countries of their scarce resources, which is required for financing of developmental programmes. The Finance Minister said that a recent report of global financial integrity outlines the illicit outflows from developing countries. The Union Finance Minister Shri Pranab Mukherjee said that we need to take strong measures to reverse this trend. He said that India and Organisation for Economic Cooperation and Development(OECD) can partner in this process. Shri Mukherjee said that transfer pricing continues to be an important tax issue due to high increase in cross border trade taking place within multinational enterprises located in developed, developing and undeveloped countries. He said that these challenges of new global environment will have to be addressed through bilateral and multi-lateral cooperation. Shri Mukherjee said that the emphasis of cooperation has to be on professional and skill up-gradation both in tax administration and in industry. He said that both India and OECD have been taking several steps to improve professional standard and competencies in these areas.

The Union Finance Minister, Shri Pranab Mukherjee was addressing the participating national and international delegates after inaugurating a high level two day International Seminar on “Adapting Tax Systems and International Tax Rules to the New Global Environment : A Shared Challenge for India and the OECD” in Vigyan Bhavan here today. This international Seminar is being organized jointly by the Ministry of Finance, Government of India and OECD. Mr. Angel Gurría, Secretary General, OECD, Ministers of State for Finance, Shri S.S. Palanimanickam and Shri Namo Narain Meena, Finance Secretary and Revenue Secretary, Shri Sunil Mitra, Chairman, CBDT, Shri Prakash Chandra alongwith senior officials of OECD and Ministry of Finance were present on the occasion.

In the aforesaid two days High Level International Seminar, discussions would be held in separate sessions on the issues pertaining to transfer pricing, global trends in tax

reform, implications for international tax arrangements, international dispute resolution and elimination of double taxation among others. This is for the first time that such a high level international Seminar is being organised in India in association with OECD. About 150 representatives from about 30 member countries of OECD along with those of International Monetary Fund (IMF), World Bank and tax officials from India are participating in this International Seminar.

Speaking on the occasion, the Union Finance Minister Shri Mukherjee said that we have focused our efforts on the administration of provisions of international taxation and transfer pricing by creating two separate Directorates i.e. Directorate of International Taxation and Directorate of Transfer Pricing back in the year 2001. He stated that in the last financial year i.e. 2010-11, Directorate of International Taxation has mobilized tax revenue of Rs. 22,697 crores and Directorate of Transfer Pricing has detected mis-pricing of Rs 22,838 crore, which is a reflection of effectiveness of the tax administration in the field of international taxation and transfer pricing in India.

Finance Minister Shri Mukherjee said that India is strengthening transfer pricing provisions to check misuse of the provisions and efforts to shift profit to another country. The Finance Minister said that the variety of inter-company transactions, increased global business restructuring and location of companies in various tax jurisdictions have brought various challenges to the tax administration on transfer pricing rules.

The Union Finance Minister Shri Mukherjee said that the new business order and intensely challenging economic climate have put existing transfer pricing guidelines under pressure. Shri Mukherjee said that in order to meet these challenges, OECD is in the process of revising its existing guidelines and the UN is currently developing a policy manual for the developing countries to establish fairer transfer pricing practices. He said that this may protect developing countries from losing profits from their tax base.

The Union Finance Minister Shri Mukherjee said that the rising disputes in international tax matters is another area of challenge, which requires due attention. He said that due to linkages in global economy, the tax disputes have assumed a multilateral character, involving multiple countries. The present scheme of Mutual Agreement Procedure (MAP) will be required to align to address this need, the Minister added. The Finance Minister Shri Mukherjee stated that we may also have to think of a multilateral tax convention to address this issue of multi-polarity. Our Indian experience shows that the non-resolution of disputes lead to unending litigation, Shri Mukherjee added.

The Union Finance Minister Shri Mukherjee said that tax competition driven by the presence of tax havens has created an unhealthy situation that has helped individuals to park substantial undisclosed income outside their countries. He said that this is also true in case of some Indian citizens and residents, in the process denying legitimate tax revenues to the country. The Union Finance Minister Shri Mukherjee said that the Government of India has committed to vigorously pursue all the necessary steps in coordination with countries concerned on this issue. He said that we are in the process of negotiation of exchange of information agreements with tax, no tax or low tax countries. Shri Mukherjee informed that India has also initiated process of re-negotiation with 65 countries to broaden the scope of provisions governing exchange of banking information and information without domestic interest. He told that we have finalized 14 Tax Exchange Information Agreements (TEIAs) and completed negotiations/re-negotiations of Double Taxation Avoidance Agreements (DTAAs) with 36 countries in last financial year(s).

The Union Finance Minister Shri Mukherjee said that there is a considered view that the tax havens and low tax jurisdictions were important actors in the global financial crisis. The opaque system in these jurisdictions and restrictions on exchange of information in these tax havens and their non-compliant behavior is a matter of serious concern, the Minister added. Shri Mukherjee further said that the concerns are not only on account of protecting revenue base but also linked to financing of activities which are detrimental to national security interest. Union Finance Minister Shri Mukherjee said that the Global Plan for Recovery and Reform, the statement of G 20 leaders in London issued in April 2009, gave a call to take action against non-cooperative jurisdictions, including tax havens. Shri Mukherjee said that it stated that we stood ready to deploy sanctions to protect our public finances and financial systems. He said that it further added that the era of banking secrecy was over. However, the Finance Minister Shri Mukherjee said that the spirit of this statement has not been respected. Shri Mukherjee said that we cannot say with certainty that the bank secrecy is over in all cases. Union Finance Minister Shri Mukherjee said while the countries have accepted to end bank secrecy in general, some countries have agreed to do so only from prospective date and are not willing to exchange past banking information. He said that this puts a question mark on the efficacy of present legal provisions for exchange of banking information. Union Finance Minister Shri Mukherjee said that there is an urgent need to revisit existing legal framework developed by OECD in this regard.

The Union Finance Minister Shri Mukherjee said that while there is a consensus that the tax havens need to adhere to the established norms of transparency standards, we have to remain vigilant to ensure that this wave of transparency in cross border transactions should continue. Shri Mukherjee said that the agreements signed by jurisdiction to improve their compliance rating should be monitored to ensure the intended outcome.

In the Seminar, the OECD and India announced plans to strengthen ongoing co-operation on tax related issues through the development of a three year partnership that will provide greater opportunities for structured dialogue and sharing of information. The three – year programme will broaden technical co-operation on tax matters, extend high-level policy dialogue between India , other emerging countries and the OECD, and deepen India's participation in the OECD Committee on Fiscal Affairs and it's subsidiary bodies, toward the eventual goal of becoming a full participant in the Committee. It will cover a range of issues over the coming three years, including improving tax administration , adapting transfer pricing and tax treaty rules to the new international environment and better understanding of the linkages between illicit flows and tax evasion. This programme will also enable India to input into our work on Tax and Inequality, on the application of VAT/GST to cross border services and looking at issues relating to aggressive tax planning and harmful tax practices.

In his concluding remarks, the Union Finance Minister Shri Mukherjee said that efforts of OECD in all these matters and to organize this conference at this juncture in India are an important and timely contribution. Shri Mukherjee said that he is confident that the participants will gain from the deliberations in this two day international conference. The Finance Minister Shri Mukherjee thanked the OECD for jointly hosting this International Conference in collaboration with Ministry of Finance and contributing to the success of this event. Shri Mukherjee said that he looks forward to the outcomes of the discussions in the conference.

**The text of the Speech of the Union Finance Minister Shri Mukherjee delivered by him on the aforesaid occasion is given below:**

“It is my pleasure to join you this morning. Let me extend a very warm welcome to all the delegates and speakers at this event. Ministry of Finance, Government of India and OECD have jointly organized this high level seminar on “Adopting tax system and international tax rules to the New Global Environment: A shared challenge for India and OECD”. I complement the organizers for focusing on this issue at a time, when the discussions on the shaping of the international financial architecture to reflect the new global economic realities are underway.

In a little more than a decade, the Indian economy has rapidly globalised and mid-way during that period, from around 2003-04, it has moved on to a higher growth path. Following the reforms in the 1990s and the gradual adjustment in India’s industrial sector, the economy grew at 9.5 per cent between 2004-05 and 2006-07. This helped in raising the trend GDP growth rate from 8.5 to 9 per cent per annum. Though the global financial crisis of 2008 lowered the GDP growth rate to 6.8 per cent in 2008-09, the economy rallied back with an 8 per cent growth in 2009-10.

The economic reforms in India, in early 1990s hastened the pace of liberalization starting with the industrial, trade and financial sectors. The focus of policy making shifted from control to facilitation with the objective of creating a conducive environment for industry, trade and services to grow in. This has helped in fostering competition in the markets for products and services. The outcomes from reforms are evident in the sustained improvement in growth of the economy and the efficiency gains realized in sectors that have been liberalized like telecom, and automobiles etc. Our telecom rates are, at present, the lowest in the world. The overall GDP growth in 2010-11 has now been revised to 8.5 per cent with agriculture growing at 6.6 per cent, services by 9.4 per cent and industry at 7.9. Though there is some slowdown in industrial growth, partly due to the base effect from the previous year, the growth drivers of the Indian economy remain broadly intact.

The medium term growth prospects of the economy remain buoyant. The savings and investment rates have reached levels that are reminiscent of the East-Asian high growth economies. As the demographic dividend begins to pay off in India, the savings rate is likely to rise further, provided we are able to create productive employment opportunities. Private enterprise, has flourished in the past decade and its growing competitiveness is opening new doors to Indian companies in the global market place. Indeed, I am confident that we are in a position to sustain high economic growth in the coming years and create a more inclusive outcome for our society.

More specifically, as we put ourselves to the task of preparing the Twelfth Five Year Plan, we need to aim at a GDP growth of 9 to 9.5 per cent for the Plan period. It would imply raising the average growth rate by at least one percentage point from 8.2 per cent, likely to be realised in the Eleventh Plan. However, we have to work towards ensuring that the incremental improvement in the growth rate comes essentially from States that so far have been lagging behind the national average. This will ensure that growth is truly inclusive and uniform across India.

We are now in the process of deepening policy reforms. Major steps have been taken to simplify and place the administrative procedures concerning taxation, trade and tariff and social transfers on electronic interface, free of discretion and bureaucratic delays. On the direct taxes, we have already introduced a Direct Tax Code in Parliament, which is under examination of Parliament Standing Committee. This Code is expected to become operational from April 1, 2012. It is based on the best International practices and aim to simplify the administration and implementation of Direct Taxes in India. For Goods and Services Tax (GST), we have moved the Constitutional Amendment Bill in the Parliament during the last Budget Session. The reforms on both direct and indirect taxation issues will provide the domestic as well as foreign investors a much simplified taxation regime, which will be easy to comply with and is expected to reduce compliance cost significantly.

In the present era of economic globalization and continued expansion of cross-border business dealings and electronic commerce have put international taxation and transfer pricing on spotlight. These sunrise areas of taxation are new focus areas for augmentation of tax collection, for protecting tax base and for harmonization of rules and tax rates between the tax regimes in different countries. We have focused our efforts in this area by creating Directorate of International Taxation and Directorate of Transfer Pricing. In the last financial year, Directorate of International Taxation has mobilized tax revenue of Rs.22,697 crore and Directorate of Transfer Pricing has detected mis-pricing of Rs.22,838 crore, which is a reflection of our progress in administering international taxation and transfer pricing in India.

The international tax issues connected to cross border transaction are complicated and tedious. These issues range from source of income, characterization of income, attribution of income to source or residence country and taxing right over income. Similarly, transfer pricing poses problems with increase in cross border trade including within multinational enterprises located in developed, developing and undeveloped countries. The variety of inter-company transactions, increased global business restructuring and location of companies in various tax jurisdictions have brought several challenges to the tax administration on transfer pricing rules. Indeed, the new business order and the challenging economic climate have put arm's length standard and existing transfer pricing guidelines under pressure. In order to meet these challenges, I understand that OECD is in process of revising its existing guidelines and the UN is currently developing a policy manual for the developing countries to establish fair transfer pricing practices. This would help protect developing countries from eroding their tax base. In India, we are strengthening transfer pricing provision to check misuse of the provisions and efforts to shift profit to another country.

As more countries introduce transfer pricing rules and tax authorities intensify tax scrutiny of transactions under transfer pricing rules, there is an increase in cost of compliance and litigation which are significant challenges before the business. Further, cross border transactions include mergers, acquisitions, joint ventures, which involves complex issues of international taxation and transfer pricing. The OECD transfer price guidelines on business restructuring would provide helpful guidance for tax administration as well as business.

Tax competition driven by the presence of tax havens has created an unhealthy situation that has helped individuals to park substantial undisclosed income outside their countries. This is also true of some Indian citizens and residents, in the process denying legitimate tax revenues to the country. The Government of India has committed to vigorously pursue all the necessary steps in coordination with countries concerned on this issue. We are in process of negotiation of exchange of information agreements with tax, no tax or low tax countries. India has also initiated process of re-negotiation with 65 countries to broaden the

scope of provisions governing exchange of banking information and information without domestic interest. We have finalized 14 Tax Exchange Information Agreements and completed negotiations/re negotiations of DTAAs with 36 countries in last financial years.

There is a view that the tax havens and low tax jurisdictions were important actors in the global financial crisis. The opaque system in these jurisdiction and restrictions on exchange of information in these tax havens and their non-compliant behavior is a matter of serious concern. The concerns are not only on account of protecting revenue base but also linked to financing of activities which are detrimental to national security interest.

The Global Plan for Recovery and Reform, the statement of G 20 leaders in London issued in April 2009, gave a call to take action against non-cooperative jurisdictions, including tax havens. It stated that we stood ready to deploy sanctions to protect our public finances and financial systems. It further added that the era of banking secrecy was over. However, the spirit of this statement has not been respected. We cannot say with certainty that the bank secrecy is over in all cases. While the countries have accepted to end bank secrecy in general, some countries have agreed to do so only from prospective date and are not willing to exchange past banking information. This puts a question mark on the efficacy of present legal provisions for exchange of banking information. There is an urgent need to revisit existing legal framework developed by OECD in this regards.

While there is a consensus that the tax havens need to adhere to the established norms of transparency standards, we have to remain vigilant to ensure that this wave of transparency in cross border transactions should continue. The agreements signed by jurisdiction to improve their compliance rating should be monitored to ensure the intended outcome.

The rising disputes in international tax matters are an area of concern, which will require our attention. Due to linkages in global economy, the tax disputes are not only bilateral in nature. They have assumed a multilateral character, involving multiple countries. The present scheme of Mutual Agreement Procedure will have to be aligned to address this need. We may also have to think of a multilateral tax convention to address this issue. Our Indian experience shows that non-resolution of disputes leads to unending litigation.

15. Another area, where I expect some inputs and suggestions to come from this conference relates to illicit outflows from developing countries and exploitation of natural resources through abusive transfer pricing schemes. This abusive behavior is robbing developing countries of their scarce resources, which is required for financing of developmental programmes. A recent report of global financial integrity outlines the illicit outflows from developing countries. We need to take strong measures to reverse this trend. India and OECD can partner in this process.

These challenges of new global environment will have to be addressed through bilateral and multi-lateral cooperation. The emphasis of cooperation has to be on professional and skill up-gradation both in tax administration and in industry. In this context, efforts of OECD to organize this conference are an important and timely contribution. I am confident that the participants will gain from the deliberations in this meeting.

Let me conclude by thanking the OECD for jointly hosting and contributing to the success of this event. I look forward to the outcomes of your discussions. I wish all the foreign delegates an enjoyable stay in New Delhi and a safe return to home.”

**DSM/SS/GN**