Treaty on double tax avoidance to kick in from Apr

IT expected to be 'biggest gainer' with savings up to $1 bn

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The double tax avoidance agreement (DTAA) ratified by Australian Parliament, along with its trade deal with India, may come into force on April 1 next year, the finance ministry informed the commerce ministry on Wednesday.

The DTAA is expected to eventually lead up to $1 billion in savings for Indian information technology (IT) companies operating in Australia, from the present-day $200 million.

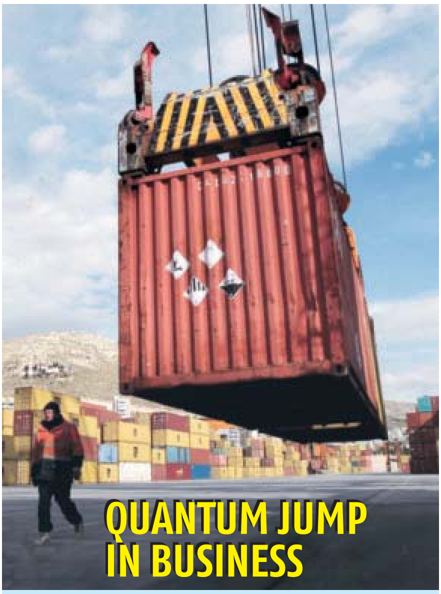
"The Australian government has communicated to us that the DTAA will likely come into effect on April 1, 2023. Our finance ministry has also agreed to it since our fiscal year begins from that date," said a government official.

DTAAs are tax treaties signed between two or more countries to help taxpayers avoid paying double taxes on the same income earned from the source country, as well as the resident country. "The IT sector is the biggest gainer from this free trade agreement. The IT industry has shared with us that if this tax goes away, its business in Australia will see a pronounced jump," observed the official.

The National Association of Software and Service Companies posits that the benefits will ultimately be as high as $1 billion, from the current $200 million. "I am sure the IT industry will be immensely pleased with this big achievement that has happened," commerce and industry minister Piyush Goyal said on Tuesday. Misusing the DTAA signed between India and Australia in 1991, the Australian authorities were taxing offshore income of Indian companies, claiming it to be royalty income.

For instance, if an Indian IT company had an Australian customer and 50 per cent of its work was getting done in Australia and 50 per cent in India, the Indian component was getting taxed both in Australia and India. Indian IT companies had already exhausted the legal challenges in Australia, with Tech Mahindra (TechM) losing a case in the Federal Court of Australia in 2018. The amendment to Australia's domestic laws will ensure any work done on its home turf is taxed by the country. For work done outside Australia, the company pays in accordance with the local norms in that country. Australia has already made similar changes to its domestic law for the US, China, and Poland.

Significant investments in infrastructure, human resources, new services, and the information and communications technology industry have been made by Indian companies since 2011, when the Australia government started to entreat Indian firms. According to industry estimates, Indian IT companies generate roughly $4-8-billion business income from Australia each year.



QUANTUM JUMP IN BUSINESS

- Double tax avoidance agreement is a tax treaty signed between two or more countries to help taxpayers avoid double taxation on the same income
- Move will stop the taxation on the offshore income of Indian firms engaged in providing technical support in Australia
- Indian IT companies generate roughly $4-8-billion business income from Australia each year

GCC to launch free trade pact negotiations today

India and the Gulf Cooperation Council (GCC) will announce the launch of negotiations for a free trade agreement on Thursday, which aims at promoting two-way commerce and investments between the regions, an official said. GCC is a union of six countries in the Gulf region — Saudi Arabia, the UAE, Qatar, Kuwait, Oman and Bahrain. **PTI**