Concerns with Secondary Adjustment Rules

What is the issue?

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- Multinational enterprises in India are concerned about secondary adjustment rules.
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- Union budget is expected to resolve issues of business community.
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What is Secondary adjustment rules?

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- Secondary adjustment rules was brought in in 2016, which aimed to support foreign exchange.
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- According to it if there was any adjustment during tax audit the Indian subsidiary of the foreign firm would be obliged to bring an equivalent amount of that adjustment from its foreign entity and then pay tax on that adjustment.
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- Earlier, the Indian subsidiary could pay for the higher tax demand, due to audit etc., from its own funds, and that meant a depletion of its funds.
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- Under this rule India also envisaged to impose penalties for not filing information on time, irrespective of whether the residence country of the Multinational Enterprise (MNE) has that requirement or not.
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What are the concerns with this rule?

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- The Indian rule considers any default in bringing in the money as a loan and

hence considers levy of interest.
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- Indian rule is like charging interest on interest and this is not in par with international practices.
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- Other countries, such as the U.S. and Australia, which also have similar rules, consider this a one-time levy attracting no interest.
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- This rule places extra compliance burden as well as fear in the mind of the Multinational Enterprises in India, which is certainly not in line with the government’s objective of improving ease of doing business.
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- Information requirements in India are much more than envisaged in OECD recommendations and put extra onus on MNEs.
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Source: The Hindu

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