

**GOVERNMENT OF INDIA  
FINANCE AND COMPANY AFFAIRS  
LOK SABHA**

UNSTARRED QUESTION NO:820  
ANSWERED ON:22.11.2002  
REQUEST OF SOUTH KOREA FOR TAX INCENTIVE  
PUTTASWAMY GOWDA

**Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:**

- (a) whether the Government of South Korea have requested the Government of India for certain facilities including tax incentives;
- (b) if so, the details thereof; and
- (c) the reaction of the Union Government to a request from a foreign country on tax incentives and other facilities?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI GINGEE N RAMACHANDRAN )

(a) &(b) Government of South Korea have expressed their desire for revision of existing Double Taxation Avoidance Convention (DTAC) between the two countries and forwarded a revised draft of DTAC mainly on the grounds of differential tax treatment for branch office of foreign companies in India and taxation of income of South Korean shipping lines. Similarly the request of Indian authorities for extension of applicability of 'tax sparing' credit for another 10 years from 1995 onwards has been pending with the South Korean authorities. A bilateral meeting between the tax authorities of India and South Korea on the above issues was proposed to be held from 15 to 17th January, 2002 at New Delhi but was postponed due to unexpected reshuffle in the Korean Finance Ministry in the first week of January, 2002. This meeting was rescheduled to be held at Seoul, Korea from 5 to 7th November, 2002 but has been again postponed at the instance of South Korean authorities due to their National Assembly Session. South Korea authorities have now proposed that this meeting may be held in the month of July, 2003.

(c) The differential rates of income tax in India are applied to domestic companies who make arrangements for declaration and payment of dividends in India. Since the companies other than the domestic companies i.e. foreign companies do not declare and pay dividends in India, they attract a higher tax rate. As per Finance Act, 2002, rates of income tax chargeable from foreign companies has been brought down from 48% to 40%. As regards taxation of income from shipping enterprises, taxation rate of 50% of the internal tax rate as provided for in the treaty will become applicable only when a bilateral shipping agreement enters into force and till such time the rate of tax will be 90% of the tax imposed by the internal tax law of the either country. The bilateral agreement is being negotiated by the Ministry of Shipping with their South Korean counterparts.