ISID Institute for Studies in Industrial Development
An institution of Indian Council of Social Science Research (Ministry of Education)
Policy Research to Foster India's Industrial Transformation

Azadi Ka Amrit Mahotsav

Related Party Trade and Transfers to Tax Havens: A Study of Select Manufacturing Foreign Subsidiaries in India

Swati Verma

Working Paper 242
January 2022

ISID Working Paper 242

Related Party Trade and Transfer to Tax Havens:
A Study of Select Manufacturing Foreign Subsidiaries in India

Swati Verma

ISID Institute for Studies in Industrial Development
An institution of Indian Council of Social Science Research (Ministry of Education)
4, Vasant Kunj Institutional Area, New Delhi - 110 070
Phone: +91 11 2676 4600 / 2689 1111;
E-mail: info@isid.org.in; *Website:* https://isid.org.in

January 2022

ISID Working Papers are meant to disseminate the tentative results and findings obtained from the ongoing research activities at the Institute and to attract comments and suggestions which may kindly be addressed to the author.

CONTENTS

Chart(s)

Tables(s)

Related Party Trade and Transfers to Tax Havens: A Study of Select Manufacturing Foreign Subsidiaries in India*

Swati Verma**

***Abstract**: Intra-firm cross-border transactions are highly susceptible to transfer pricing manipulation for profit shifting and tax evasion purpose by the MNC linked firms, and the risks of 'revenue' resource loss through these channels are particularly high for developing economies, as a range of recent global evidence indicates. An attempt is made in this study to estimate the extent of intra-firm transactions in foreign exchange transactions of a select set of foreign affiliated manufacturing firms in India by analysing the related party foreign transaction disclosures from company financial statements. Transaction heads like trade in goods, technology, finance, services, and other miscellaneous transfer channels are evaluated for 109 FDI linked manufacturing firms, covering mostly large-scale subsidiaries and unlisted firms for two recent years, 2014–15 and 2015–16. The outflows of foreign exchange directed to tax haven locations have been specifically identified to assess the vulnerability of these transfers to tax avoidance risk. The findings indicate that a majority of earnings and expense transfers in foreign exchange were conducted on an intra-firm basis by FDI linked firms in both study years. Also, major component of the intra-firm transfers for most expense transaction routes were tied up to the various tax haven locations, associated with varying levels of tax avoidance risk. Some parts of these outflows were directed to the worst tax haven jurisdictions having high tax avoidance risk. Several instances of firms having intra-firm import payments, services or financial transfers predominantly linked with the worst tax havens were noted. The findings emphasise the vital need for a careful and stringent tax scrutiny of each cross-border transfer to tax havens through diverse transaction channels by the foreign affiliates operating in India.*

* This paper presents the findings of an ICSSR sponsored research project titled "Understanding FDI-linked Trade through Related Party Transactions: A study of Manufacturing Foreign Subsidiaries in India" conducted at ISID, New Delhi. Dr Swati Verma, ISID was the project coordinator. The author is grateful to Prof K V K Ranganathan for his invaluable guidance and support in this research study. The author is especially thankful to Prof K S Chalapati Rao and Dr Smitha Francis, faculty at ISID, for their immensely valuable suggestions on various aspects of the paper. Special thanks to Dr Markus Meinzer, Director, Financial Secrecy, Tax Justice Network, for his valuable feedback and suggestions on an earlier draft of the paper. The author remains solely responsible for any errors that may have remained.

** Assistant Professor, Institute for Studies in Industrial Development (ISID), New Delhi, (swati@isid.org.in).

1. Introduction

A critical evaluation of the patterns of trade conducted within international production networks of transnational corporations is imperative in the current global context. This is primarily important for understanding the contemporary aspects of investment-trade nexus and its associated implications for development and industrial policy in various developing regions that are host to significant levels of foreign investments presently. In addition, this review is also essential from the perspective of appraising transfer mispricing[1] that is mainly conducted through intra-firm transaction routes, and is notoriously used as a popular mechanism to evade overall global corporate tax liability by several global corporations in recent times. The central role of tax havens as distinct locations that greatly facilitate such questionable activities as tax avoidance via profit shifting through their low corporate tax rates, financial secrecy, minimal regulation, or other incentives has been acknowledged in various contemporary research studies[2].

The global production and trade operations of multinational corporations (MNCs) are largely characterised by within-firm transactions between their affiliated branch entities operating in various countries. The flow of resources comprises goods, technology, financial as well as a range of services transactions. Disappointingly, the customs statistics for such trade is mostly lacking in the case of several countries including India (Dowlah, 2018). Even so, the significance of this phenomenon in current international trade has been highlighted by various macro- and firm-level studies covering select regions and time period.[3]

Notable volume of recent global literature has shown evidence on how intra-firm transactions are routed through the tax haven or low tax locations by large transnational corporations via transfer mispricing for avoiding taxes in several home or host countries of foreign investment and for minimising their total global tax liability. This entire process puts the developing world at risk of losing the much-needed capital resources[4], at the hands of a handful of large global corporations.

---

[1] Transfer pricing is the setting of a price for the trade of goods or services between independently operating units of an organisation or related parties. Transfer mispricing refers to setting of the price for such trade at a value that is lower (underpricing) or higher (overpricing) than the real market price of the good or service. This price has no relation to cost or value added. The purpose of mispricing is to shift profits across jurisdictions with different tax rates and for tax avoidance, and is widely used by global corporations that have subsidiaries or associates in different corporate tax jurisdictions.

[2] Studies by Hines and Rice (1994), Hebous and Johannesen (2015), and Jansky and Kokes (2016) find direct or indicative evidence of profit shifting by firms to tax haven locations. Also, See Eden (2009) and Sikka and Willmott (2010) for a discussion on the role of tax havens in profit shifting conduct of firms.

[3] Various studies [like World Investment Report (UNCTAD, 2013), OECD (2002) and other country specific studies] are discussed in section 2 of this paper.

[4] Refers to revenue loss and drain of foreign exchange reserves. The revenue resources lost due to transfer mispricing, profit shifting, and tax avoidance conduct can be used for financing development activities in resource-constrained developing economies.

Some recent studies focusing on India have found substantial losses of gross assets by the economy via trade mispricing[5] and few others studies have found evidence of profit shifting by MNC affiliated firms. However, the pattern of cross-border transactions of FDI-linked firms, especially connected to lower corporate tax rate locations and tax havens remains largely unexplored in the Indian context mainly owing to data insufficiency and complexities present in identification and analysis of the numerous intra-firm foreign transactions by foreign affiliated firms. An attempt is made in this study to evaluate the threads of the related party cross-border transactions of FDI invested foreign affiliates from the specific perspective of the location of the other related party in a low tax jurisdiction or tax haven. The component of the foreign exchange outflows through intra-firm transaction (trade and services) routes that are mainly directed to locations with low corporate tax rates or tax havens are approximated to gain an insight into the vulnerability of these cross-border transfers to tax avoidance risk.

Section 2 present a brief survey of literature on transfer pricing and intra-firm trade and present a review of some specific studies focusing on India. Sections 3 and 4 discuss the objective and methodology and data sources used in this study. Sections 5 presents the findings on pattern of intra-firm trade by studied sample of foreign affiliates over two recent years. The findings on the intra-firm transactions with tax havens by the sample firms are indicated in Section 6. Section 7 presents the concluding remarks.

2. Review of Literature

This sections presents a literature survey of various studies focusing on intra-firm or related party foreign trade, transfer mispricing and profit shifting for tax avoidance issues in context of various countries. Sub-section 2.1 covers studies focusing on different countries and regions other than India and sub-section 2.2 discusses specifically the studies focusing on the Indian case. Sub-section 2.2 also discusses the various issues (data and other aspects) faced in research on intra-firm trade and transfer mispricing in India.

2.1 Global Evidence on Intra-firm Trade and Transfer Mispricing

Some recent estimates indicate that the extent of intra-firm trade within TNC networks in global trade of goods and services is about 33 per cent, where 80 per cent of global trade is linked to the international production networks of TNCs (World Investment Report: UNCTAD, 2013). Some other rough estimates indicate that the figures for intra-firm trade stand at roughly thirty to seventy per cent of global trade. More than 60 percent of global trade was indicated as being conducted within multinational enterprises, based on extrapolation of trade data for USA and Japan (OECD, 2002).

---

[5] India has been one of the high corporate tax rate jurisdictions in the world (until 2018), and there has been a high risk of shifting of profit out of the country by global corporations through trade mispricing, mainly via overpricing of imports of goods and services. Their purpose is to report low value of accounting profit in the country.

A host of studies indicate that intra-firm trade is found to be highest in high-tech sectors like transportation equipment, computers, electronic products, chemicals and pharmaceuticals. In his study in 1977, Helleiner (1981) found that 48.4 per cent of all US imports were from related parties. The proportion was of the order of 23.5 per cent for primary products, 37.6 per cent for semi-manufactures and 53.6 per cent for manufactures indicating that high proportion of intra-firm trade were accounted for by products in the final stages of processing. For the US, Japan and Germany, 80 percent of technology flows were found to be intra-firm by UNCTAD (1997).

Zeile (1997) had found 36 percent of exports and 43 percent of imports by US multinational enterprises (MNEs) in 1994 to be of intra-firm nature. The shares were quite high for affiliates in motor-vehicles and machinery sectors (electrical, electronic, industrial machinery). Arriving at a similar conclusion, Casson and Pearce (1987) discovered that 83 per cent of US parents' intra-firm exports in 1977 comprised almost finished products in printing and publishing industry and this figure was 75 per cent in the case of motor industry.

Studies like Buckley and Casson (1976) and Buckley and Pearce (1979) indicated that intra-firm trade was highest in high-tech industries in US. In another study Siddharthan and Kumar (1982) found an overwhelming share (75 percent) of intra-firm trade in trade by US MNEs in high technology and skill-intensive industries in 1982. The shares of intra-firm exports by these US MNEs to their affiliates were as high as 73 percent in transport related equipment, 69 percent in drugs, and 84 percent in office and computing machinery[6]. Market failures due to problems in transfer of product specification and technology details to unknown parties and internalization incentives for better competitive edge were some of the factors that motivated such trade, according to this study.

More recently, Bernard *et al*. (2008) have studied 3-digit NAICS industries in the US in 2000 and found that about half of the imports in the case of machinery goods and electrical equipment and more than half of imports in transportation equipment, computers and electronics products and chemicals were conducted between related parties. Among the 6-digit NAICS industries in the manufacturing sector, more than 70 percent of all imports were dominated by intra-firm transactions in the case of autos and related equipment, medical equipment and pharmaceuticals, and instruments. Using the same data source but focusing on manufacturing sector only, Irarrazabal *et al*. (2013) found 33 percent and 53 percent of US exports and imports respectively to be intra-firm in 2004. The country-by-country reporting (CbCR) data (2018) by the US Internal Revenue Service (IRS) found one-third of trade by US MNE as intra-firm in 2016[7]. The intra-firm trade for USA corporations

[6] A study by the US Department of Commerce (2001) found very high intra-firm imports for some sectors like transportation, electronics and computers, chemicals, and various machinery goods.

[7] https://www.irs.gov/statistics/soi-tax-stats-country-by-country-report; Data are taken from Form 8975 - Country-by-Country Report and Form 8975 Schedule A - Tax Jurisdiction and Constituent Entity Information.

were estimated to have grown at roughly six percent a year from 2010–2014, that was much faster than trade between unrelated parties (World Bank, 2017).[8]

Focusing on Chinese firms, Hung and Chow (1997) found that 88 percent of the export-oriented foreign invested enterprises in China trade with their overseas related companies for more than 70 percent of their imports and exports. Chan and Lo (2004) found in their study that 80 percent of studied sample foreign firms had higher than 75 percent of their total trade as being intra-firm.[9] In a study focusing on Korean firms, Yun-Jong (2008) found shares to have risen for both intra-firm exports (19.4 percent to 30.1 percent) and intra-firm imports (7.8 percent to 12.6 percent) over the 2000 to 2006 period. They have also noted that the growth amount of intra-firm trade from 2000 to 2005 accounted for 55 percent of the total increase in exports in Japan.

In the more recent literature focusing on trade by foreign affiliates, this preference towards intra-firm trade has been typically linked to transfer pricing manipulation and many studies have found evidence of profit shifting through the manipulation of transfer prices. The susceptibility of these intra-firm transfers to mispricing practices and profit shifting for tax evasion to nil or low tax locations, referred to as Base Erosion and Profit Shifting (BEPS) is extremely high. Research undertaken since 2013 confirms the potential magnitude of the BEPS problem, with estimates indicating annual losses of anywhere from 4–10 percent of global corporate income tax (CIT) revenues – $100–240 billion annually (OECD/G20 BEPS Project Final Reports, 2015). As per OECD report, developing countries are the worst affected by this profit shifting.

It has been argued that due to differences in tax rates on corporate income in different countries, multinationals face incentives to reallocate accounting profits internationally to reduce their worldwide corporate tax liability. The scope for transfer mispricing is being increasingly shaped by the emergence of a number of microstates like offshore financial centres or tax havens that facilitate the tax evasion conduct of corporations. These centres provide special advantages like financial secrecy, minimal regulations, negligible taxes on profits, or low monitoring of domestic companies[10]. Mainly, tax havens facilitate profit shifting activities from the high tax to the low tax locations for the MNEs (Eden, 2009) by offering low taxation rates on corporate profits and high level of secrecy. Several corporations prefer to create offshore branches in single or multiple of such jurisdictions so as to park their transaction funds in shell or non-existent entities.

The corporate tax havens and secrecy jurisdictions differ in the way they facilitate tax evasion or avoidance. The distinction between corporate tax havens and financial secrecy jurisdictions has been discussed in a recent study by Ates *et al*. (2021).[11] The Financial Secrecy Index (FSI) published since 2009 by Tax Justice Network rank the various jurisdictions on the

---

[8] See Shaxson (2019).
[9] See Chan, Lo, and Mo (2014).
[10] See Sikka and Willmott (2010), pp. 345–346.
[11] See Ates *et al*. (2021), pp. 92–94.

basis of the level of financial secrecy provided by them and scale of offshore financial activities. The index identifies the world's most secretive tax havens and its indicators focus more on secrecy and portfolio financial flows than on corporate tax and FDI. Alternatively, the Corporate Tax Haven Index (CTHI), published for the first time in May 2019 by Tax Justice Network, focuses on measuring how intensely a jurisdiction attempts to procure profit shifting from elsewhere and how its tax system enables corporate tax avoidance. This measure (haven score) is combined with a measure of the scale of multinational corporate activity to create a measure of the risk of tax avoidance posed by the country.

Significant volume of recent global literature has shown evidence of how intra-firm transactions are routed through the tax haven locations by companies for avoiding taxes in several home or host countries of foreign investment. For example, Hines and Rice (1994) have found 31 percent of net profits of American multinational corporations to be located in tax havens. About half of world trade apparently passed through offshore financial centres that accounted for about 3 percent of global GDP, as pointed out by Christensen *et al*. (2005). Baker (2005) observed that about 2,00,000 new companies are formed in tax havens each year, and the cumulative numbers could be higher than three million.

A multinational can shift profits from high-tax countries to low-tax countries through a variety of techniques. First, a multinational can manipulate its transfer prices for international, intra-firm transactions. Specifically, the multinational can reduce accounting profits in a high-tax country by overstating the prices of imports into this country and conversely by understating the prices of exports. Several studies, mainly based on US data and surveyed by Hines (1999) and Newlon (2000), find evidence of profit shifting through the manipulation of transfer prices. Clausing (2003), for instance, reports some direct evidence that intra-firm trade prices deviate from outside, 'arm's length' prices in ways that are consistent with international tax minimisation. She analysed monthly data on US international trade prices between 1997 and 1999 to investigate the impact of tax influences on intra-firm trade prices, and found that there was substantial evidence of tax-motivated transfer pricing in US intra-firm trade prices. Controlling for other variables that affected trade prices, as country tax rates were lower, the US intra-firm export prices were lower, and the US intra-firm import prices were higher.

Evidence for transfer pricing manipulation has been found by some recent studies using trade data like Vicard (2015) and Davies *et al*. (2018) for French firms and Cristea and Nguyen (2016) for Danish firms. A number of studies have found evidence of misinvoicing in exports and import prices like Cuddington (1986), Zdanowicz *et al*. (1999), Pak and Zdanowicz (2002), and Baker (2005). Some studies like Biswas and Marjit (2005) have found evidence of misreporting of trade data by Indian traders over the 1960 to 1998 period.

The transfers of high value intangibles are especially prone to transfer mispricing as they are difficult to value, as various studies have highlighted.[12] The two types of intra-firm

[12] Various studies are discussed in Richardson, Taylor, and Lanis (2013).

transfers, namely cost-sharing arrangements and services transactions, have been pointed out as key sources of transfer pricing abuse by US tax authorities[13]. A study of firm level trade data by Hebous and Johannesen (2015) provide evidence of profit shifting to tax havens through services trade by German MNCs[14].

Among other methods of profit shifting, a multinational can affect the international allocation of accounting profits through its financial structure. Particularly, by assigning (high-interest) debt to high-tax locations the multinational firm can reduce its worldwide tax bill. A recent study by Jansky and Kokes (2016) has found that profit shifted from the Czech Republic to European tax havens via debt financing. The third method is that the multinational can aim to re-assign common expenses, such as R&D expenses or headquarter services, to high-tax countries, thereby reducing accounting profits in these countries.

Focusing on the link between tax rate and income or profit reporting by companies, Harris *et al*. (1993) found that the presence of affiliates in low tax countries is associated with lower tax liabilities. Grubert (1998) found a negative relation between reported subsidiary income and statutory corporate tax rate in host country. In a study of foreign subsidiaries in China, Chang (2013) has found evidence on extensive income shifting by them. The foreign firms whose home tax rates were high reported higher profits while those whose home tax rates were low reported lower profits, even while enjoying same special tax rates in the same economic zone according to this study.

Hence, various studies focusing on different countries have indicated the preference for intra-firm trade by foreign firms, especially in diverse manufacturing sub-sectors. Also, many studies have found evidence on trade or transfer mispricing and profit shifting by firms and some have identified the role of certain tax havens or low tax locations in the recent tax abuse conduct by firms.

2.2 Evidence on Intra-firm Trade and Transfer Mispricing in India

The evidence on profit shifting and transfer mispricing by MNC affiliated firms is much limited in the Indian case, even while some recent research studies have highlighted the scale of resource loss through trade mispricing and tax evasion conduct. Various reports by Global Financial Integrity (GFI) have focused on the scale of illicit financial flows through the international trading system of imports and exports, especially for the developing and transitional economies. The report focuses on the anomalies in the current account (via misreported or mispriced trade,) and in the capital account (through partially unrecorded capital movements). The trade-related illicit financial flows component is combined with estimates based on capital-account data to measure the scale of associated revenue losses. The estimates of trade-misinvoicing are based on the assumption that

[13] US Government Accountability Office, 2008, pp. 31–32 (discussed in Sikka and Willmott, 2010, p. 346).
[14] See Liu *et al*. (2017) for a discussion of some of these studies.

whatever exports or imports are reported by advanced economies but are not reported equally by developing countries are illicit financial flows[15].

Specifically for India, a study by GFI (2010) has estimated that the government has lost gross assets worth US$462 billion over the 1948–2008 period via tax evasion, crime, and corruption, where trade mispricing has been identified as a widely used technique[16]. The study also pointed out that deregulation and trade liberalisation have accelerated the outflow of money illicitly from the Indian economy by raising the opportunities for trade mispricing. In another recent report, GFI has estimated that the amount of illicit financial flows out of India was about $505 billion over the 2004–2013 period (Global Financial Integrity, 2015). For the year 2016, the GFI 2019 report has estimated that the Indian government had lost US$14.1 billion due to trade misinvoicing. This amount represented 5.9 percent of the total revenue collected in the study year, and the estimated value gap of all misinvoiced imports and exports was 12 percent of the total trade value of the country in the same year.

Among the very few studies examining intra-firm trade data, a study by Goyal *et al*. (2002) analysed the import consignments and found that one-third of imports by 77 foreign affiliates in 1994–95 in India were conducted on an intra-firm basis. Certain instances of transfer mispricing were also identified by the study in the case of specific product items. In a study that analysed financial and ownership data of about 1500 MNCs operating in India, Jansky and Prats (2013) found evidence of profit shifting among them. The study found that MNCs with tax haven links reported 1.5 percent less profits, and paid 17.4 percent less in taxes per unit of asset and 30.3 per cent less in taxes per unit of profit than MNCs with no such links.

Some recent studies have also highlighted the preference towards 'within group' transactions by Indian companies. A study of the extent of related party dealings of India's 500 largest listed companies conducted by *Business Line* (Acharya, 2014) found over 460 of these companies engaged in related party deals in one form or another in 2012–13. One hundred and fifty-eight companies reported high value dealings, putting through annual transactions amounting to over Rs 1,000 crores with their various related parties. Such deals were used quite extensively in the ordinary course of business by companies in some sectors. The study covered both foreign MNCs and domestic companies, and both types of companies showed high tendency towards such transactions[17].

---

[15] See Cobham and Janský (2020), pp. 27–45 and 64–69 for a detailed discussion on the methodology, data sources, and the reliability of methodology used in the GFI reports and other studies that use trade mirror statistics for country-level estimates for the current account anomalies and World Bank Residual Method and the Hot Money 'Narrow' Method for the capital account anomalies.

[16] Kar and Freitas (2012) also show that illicit flows of capital are mostly associated with trade mispricing (see Cobham *et al*., 2014).

[17] The main forms which these deals took were loan guarantee, loan and advance (given and taken), inter-corporate deposit, equity infusion, sale or purchase of goods, commission, fee and royalty,

Some evidence on transfer mispricing by Indian companies is provided by the tax audits conducted by the Directorate of Transfer Pricing in India since 2005–06.[18] Over the 2005–06 to 2014–15 period, the number of transfer pricing audits completed (1,061 to 4,290) and the number of tax adjustment cases (239 to 2,353) have risen considerably over the years, with the total amount of adjustment demanded showing a significant rise (Rs 1,220 crore to Rs 46,466 crore).

In light of these India-specific studies and a range of other global evidences, it is apparent that the cross-border trade, services and financial transactions conducted within multinational networks of foreign affiliated companies requires a far sharper scrutiny, which developing countries like India cannot afford to overlook. However, the pattern of cross-border transactions of FDI-linked firms remain largely understudied in the Indian context in terms of the extent of intra-firm transfer involving international production networks of MNCs, and their susceptibility to tax evasion practices. Empirical evidence on such aspects, particularly those exploring dimensions of within-firm cross-border transactions at the firm level, are apparently limited.

This arises, to a large extent, because of data insufficiency and complications present in identification and analysis of the threads of numerous firm level intra-firm foreign transactions. The details of foreign transactions and related party transactions are frequently underreported, ambiguously reported, or even unreported by many companies in their corporate disclosures in financial statements. The existing pattern of disclosure is not always conducive to easily assess the extent of intra-firm trade in the total trade of different transaction types for many companies. Various transaction heads are often clubbed together, and the disclosure layout is not uniform across companies or across years for the same company. A large number of foreign invested companies remain unlisted in India presently[19], and their corporate disclosures are insufficient in many cases. The reporting is particularly poor for the financial statements filed before 2011 in text format, where the location of related party was not mentioned in many instances, and a foreign transfer could not be identified[20].

---

interest payment or receipt, and expense shared or reimbursed. The study highlighted unusual deals where sizable amounts were transferred under murky heads like data sourcing fees, conference and travelling expenses, subcontracting work to relatives of key managers, aircraft charter payments, and machinery/helicopter hire charges by certain companies. Royalty payments to promoter entities were dubiously high, particularly for multinationals.

[18] Transfer pricing audits in India, Annual Reports 2013–14 and 2014–15, Ministry of Finance.

[19] The recent Census on Foreign Liabilities and Assets of Indian Direct Investment Companies 2017-18 published by the Reserve Bank of India (RBI) indicates that at least 17,648 foreign direct companies with only inward foreign investment are unlisted, representing about 99 percent of total 'inward investment' FDI companies covered in the Census.

[20] The new XBRL (eXtensible Business Reporting Language) format of reporting, introduced in 2011, has fixed layouts and taxonomies for disclosing the various details of the transactions, including details of related party transaction and location of other party.

Due to the lack of a comprehensive and precise database on foreign transactions of FDI invested companies in public domain in India, the flow of foreign exchange under intra-firm trade is difficult to be evaluated from the perspective of tax differentials on corporate profit at various foreign locations.

3. Objective of the Study

The present study attempts to address this research gap, and primarily aims to examine the intra-firm foreign trade pattern of foreign affiliates or subsidiary firms operating in the manufacturing sector of India from the specific perspective of location of the other related party for two recent years, 2014–15 and 2015–16. The related party foreign transactions covering trade, financial (interest), service and other miscellaneous transfers have been identified individually for a select set of foreign affiliated manufacturing firms to estimate the extent of intra-firm trade in their foreign exchange transactions. The pattern of intra-firm trade in various manufacturing industries or sub-sectors are evaluated. The location of related party is identified for every reported intra-firm foreign transaction. The shares of foreign exchange outflows that are directed to tax haven jurisdictions in total intra-firm foreign transaction by studied foreign affiliated firms are estimated to assess the vulnerability of their cross-border transfers to tax avoidance or tax evasion risk.

The cross-border transactions conducted within the network companies of parent multinational corporations by the foreign affiliates or subsidiaries are susceptible to mispricing, i.e. to overpricing or underpricing for the purpose of profit shifting and tax avoidance or evasion by the multinational corporations. These misreporting of transactions are likely to be influenced by factors such as low corporate tax rate or other aspects like financial secrecy, minimal regulations, etc., that are present in the other jurisdiction in which the related party is located. Since these factors of low taxation or regulations and other characteristics that facilitate tax avoidance are mostly present in the tax haven jurisdictions, the volume of intra-firm trade (outflow of payments) with low tax locations or tax havens are expected to be high for MNC linked foreign affiliates located in India, insofar as the foreign affiliates engage in mispricing of transactions. Since intangibles, financial and services intra-firm foreign transactions of various types are also susceptible to mispricing apart from the goods' transfer route, the outflows of foreign exchange through each of these routes are closely appraised as well.

This study mainly investigates the issue of the difference in the extent of intra-firm trade and the use of corporate tax havens or low tax locations in each of the main intra-firm transaction channels for foreign affiliates in India, with a special focus on transactions involving outflows.

4. Data source and Methodology

The study analyses a set of 109 foreign affiliated Indian firms in the manufacturing sector, where mainly large-scale subsidiaries and unlisted firms are covered. The manufacturing foreign subsidiaries are identified from databases like www.investmentmap.org and Prowess database of CMIE that provide information on companies having inward FDI option in recent years. Each of these selected sample companies reported at least one type of intra-firm transaction and reported a total turnover as higher than about Rs 200 crore in 2015–16.

The audited annual financial statements of selected foreign invested (FDI) manufacturing firms have been procured from the Ministry of Corporate Affairs (MCA) website which provides financial statement and company documents for all registered companies in India in the XBRL format for recent years. The information on the related party foreign transactions of sample firms has been obtained from their annual financial statements[21, 22]. For capturing the trade within the related global corporate entities, only related parties that belonged to categories like the holding company, ultimate holding company, fellow subsidiaries, joint ventures, promoters, subsidiaries, and associates are considered.[23] Individual foreign promoters and key management personnel were excluded from analysis. For many companies, the related party transaction disclosures were reported in text format only, and the information on the location of the other transacting party was not available. The locations of these related parties were individually searched on the web or respective company websites and the country was identified in each case.

The companies are mapped to an industrial group in this study based on their principal product or service category or main product contributing highest turnover in an accounting year. For this, the ITC-HS code (4 digit) of the principle product in the study year 2015–16 disclosed by companies in the annual financial statements is referred to. The industrial classification based on National Industrial Classification (NIC) code that represents main economic activity of the company could not be used mainly because this information was not reported by all sample firms in their financial statements, whereas ITC-HS Code of principle product was reported by each company in the sample. The study

---

[21] The related party transaction disclosures are provided by the companies for each 'material' transaction mainly in the 'notes to accounts' section in annual reports that has been made mandatory from January 4, 2004 onwards under Accounting Standard 18, AS 18 (issued by ICAI). 'Material transactions,' i.e. transactions in excess of 10 percent of the total related party transaction of the same type are required to be individually disclosed under the current disclosure norms, covering transaction values, name of related party, the transaction type, and the country of the related party.

[22] The new format of reporting, i.e. XBRL format, requires that the related party transaction should be reported in the case of each related party under a fixed set of transaction heads like Purchase of goods, Revenue from sale of goods, Purchase of tangible assets, Interest paid, Other income, Other expenses, Revenue from services rendered, Services received, Reimbursement of expenses incurred on behalf of company, and Reimbursement of expenses incurred by related party.

[23] Enterprises having significant control over the company were categorised as holding company if their shareholding was higher than 50 percent. Enterprises under common control were categorised as 'fellow subsidiary.'

uses the first two digit of the ITC-HS code (4 digit) of principle product in the study year 2015–16 to map a company to a representative industrial group.[24, 25] The studied firms are classified in twelve broad manufacturing industrial groups based on these two-digit chapter codes.[26] Some industries under different ITC-HS chapters with similar kind of products and/or with low number of companies have been clubbed together.

The number of related party foreign transactions (trade of goods, technology, interest, services and miscellaneous transfers) conducted by these firms that were traceable[27] were 2738 in 2014–15 and 2779 in 2015–16. Overall, about 5,517 individual related party foreign transactions conducted by foreign affiliated firms over two recent years have been identified and evaluated.[28] The share of these intra-firm transactions in the total foreign exchange transactions is calculated by using the information on foreign exchange transactions of these sample firms. The coverage of various foreign exchange transaction heads is not similar to the transaction head categories covered in related party transaction disclosures. Also, the coverage of transaction heads is not uniform across the companies or across years for the same company. Therefore, only certain broad transaction heads are evaluated wherein various similar transaction heads are clubbed together so as to cover each of the related party earnings and expense head reported (See Annexure Table 1).

The main five intra-firm foreign exchange transaction heads that are evaluated are export of goods, export of services or other earnings, import of goods, royalty or technical fees payments, and payments for services or other expenses. Total foreign exchange earnings represent the sum of earnings from export of goods and export of services or other earnings. Total foreign exchange expenses represent the sum of expenses on import of goods, royalty or technical fees

---

[24] Based on these first two digits, ITC-HS codes are divided into 98 chapters, which are further regrouped into 21 broad sections.

[25] The product classification (ITC-HS) combines the goods and services normally produced in only one industry as defined in ISIC [International Standard Industrial Classification (or NIC)]. Most headings/sub-headings in HS contain goods generally produced in only one ISIC industry category, with some exceptions. Hence, these two-digit headings of ITC-HS codes roughly represent an industrial group based on definition by ISIC (or NIC) codes. [See International Standard Industrial Classification of All Economic Activities, Revision 4, United Nations, 2008, p. 36].

[26] The 12 manufacturing industrial groups used in the study and their ITC-HS two digit codes are: Vegetable products, edible oil an foodstuffs *(11, 13, 15, 17–19, 21–24)*; Base metals and products *(72–74, 82–83)*; Chemical or allied industries *(28–29, 31–36, 38)*; Electrical machinery and equipment and Electronics *(85)*; Instruments and accessories *(90–92)*; Machinery and mechanical appliances *(84)*; Mineral, stone and glass *(25, 27, 68–70)*; Pharmaceuticals *(30)*; Rubber and plastic *(39–40)*; Vehicles and transport equipment *(86–87)*; Other manufacturing *(42, 48, 57, 61, 64, 94, 96)*; and, Diversified activity [manufacturing, trading , services *(99)*].

[27] These represent all transactions that could be identified separately, as miscellaneous transactions were clubbed together under the item head 'other expenses/earnings' in various instances in company reports.

[28] The information on Name of related party, Type of related party, Country of related party, Type of transaction, and Value of transaction was collected for each related party transaction. This involved data entry in about 22,167 cells. Also, for this study, various transactions having a value lower than Rs 1 crore were clubbed together as 'Others' and their value was aggregated for each company.

payments, and payments for services or other expenses. Total trade is calculated by adding total foreign exchange earnings and total foreign exchange expenses.

Information on interest earnings or payments in foreign exchange is not reported separately in the case of foreign exchange transaction disclosures in many instances, and is usually reported as a part of services or miscellaneous transactions. Hence, a broad category of 'export of services/other earnings' and 'payments for services or other expenses' is considered that clubs various services, interest, and other miscellaneous earnings or expenses in foreign exchange together.[29] Certain cases where interest payments are mentioned separately have been evaluated under a separate head as 'interest payments.' Foreign exchange was spent by the sample FDI firms on about 80 types of technology linked payments and about 150 varieties of services linked or other miscellaneous expenses while about 50 types of services linked or other earnings heads were identified (See Annexure Tables 2, 3, and 4).

The related party transaction disclosures were inadequate or vague in many cases. In various instances of studied companies, the type of transaction was not described for certain services related payments; the royalty payments were either unreported or reported under various vague heads like 'transfer under agreement;' transactions with holding company were not covered; and, location or relation with related party was missing. These issues may have possibly led to an underestimation in intra-firm trade values for certain sample companies.[30]

Out of the 5,517 intra-firm foreign transactions identified, the transfers involving 'outflows' of foreign exchange made in the form of payments to low tax/ tax haven jurisdictions are selected for further analysis. About 3,316 intra-firm transactions covering payments for import of goods, payments for services and other expenses (miscellaneous charges), royalty/technical fees payments (technology linked payments), and interest payments are evaluated. The share of transactions under each of these broad transaction heads that are linked to a related party located in a tax haven or low tax location are estimated.

4.1 Index for Identifying Tax Haven

A tax haven jurisdiction or low tax location is identified using three sources of information for this study. The first index used is the Corporate Tax Haven Index (CTHI), 2019 released on May 28, 2019 by Tax Justice Network. The CTHI index covers 64 jurisdictions and considers two measures for ranking tax havens, namely the Tax Haven Score (HS) reflecting how aggressively each jurisdiction uses tax cuts, loopholes, secrecy, and other mechanisms to attract

---

[29] Dividend transfers are not considered in this analysis, since these transactions are mainly conducted with related parties.

[30] Also, in many instances, the aggregate of intra-firm transactions was significantly higher than the total foreign exchange expenses reported for the company in a given year. The total transaction values were revised accordingly for that company in this study and intra-firm trade shares were reported as 100 per cent for those transactions.

multinational activity, and a Global Scale Weight (GSW), reflecting the countries cross-border activity level. The corporate Tax Haven Score is assembled from 20 different haven indicators, focusing on means used by MNCs to escape taxes. The two scores are combined to create a final Corporate Tax Haven Score for ranking the jurisdictions. The top 10 countries with highest tax haven scores are identified as the worst tax havens by this index. Apart from all the 64 tax havens covered by the CTHI index, the top 30 tax havens ranked in the 'Haven Score (HS)' of the CTHI index are specifically considered in this study for evaluating the transfers made to locations associated with a high risk of tax evasion or avoidance. The HS measures the potential risk for a jurisdiction to become a profit shifting destination.

The second index used for identifying tax havens is the list of world's 15 worst corporate tax havens published by Oxfam in December 2016[31]. This list assesses the extent to which a country uses the most damaging tax policies like zero corporate tax, and unfair tax incentives. The 15 countries covered in this list include the 10 worst tax havens[32] listed by CTHI 2019, namely Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Hong Kong, Jersey, Luxembourg, Netherlands, Singapore, and Switzerland. The other five countries included in the Oxfam list are also included in the CTHI 2019, namely Ireland, Curacao, Cyprus, Barbados, and Mauritius.

The third source of information is the KPMGs corporate tax rate tables (2019) that provide statutory tax rates on corporate profit for the two study years for different countries. Based on this list, countries having lower corporate tax rates than the Indian tax rate, i.e. 30 percent[33,34] are classified as 'lower corporate tax rate' jurisdictions in this study. Some countries having corporate tax rates as 30 (+/-1) percent are not considered[35].

The location of the foreign related party is analysed on the basis of these three lists. Where 'lower corporate tax rate' list focuses on the corporate tax rates only, the CTHI index 2019 considers various other aspects influencing tax evasion activity, like lowest available corporate tax rate and aggressiveness towards negotiating reduction in withholding tax rates in treaties among the overall 20 indicators. The findings of the study are discussed below.

---

[31] "Tax Battles: The dangerous global Race to the Bottom on Corporate Tax', Oxfam Policy Paper, December 12. Available at: www.oxfam.org

[32] These ten tax jurisdictions account for about 52 per cent of the world's corporate tax avoidance risks, as measured by CTHI.

[33] The KPMG list indicates the statutory corporate tax rate in India as 34.61 percent in 2015 and 2016. However, for this study, the corporate tax rate for India is considered as 30 percent, based on information from the webpage of Income Tax Department of India, https://www.incometaxindia.gov.in /Pages/charts-and-tables.aspx. The international corporate tax rate table 2013–17 provided by Deloitte also indicates 30 percent as the corporate tax rate in India.

[34] Of the 94 jurisdictions covered by the Organisation of Economic Cooperation and Development (OECD, 2019), India had the highest statutory tax rate of 48.3 percent in 2018. The OECD's calculation of combined corporate income tax includes headline tax, surcharge, cess, dividend distribution tax, and any other additional tax. The headline tax rate for domestic companies with revenue over Rs 250 crore is 30 percent. The analysis in this study is based on headline corporate tax rate in India.

[35] Includes countries like Australia, Costa Rica, Mexico, Honduras, Kenya, Malawi, Nigeria, the Philippines, and Tanzania.

5. Pattern of Intra-firm Trade by FDI Companies: Main Findings

The description of the studied sample of 109 FDI manufacturing companies is presented in Table 1. The sample companies are mainly large-sized firms with a turnover higher than Rs 200 crores, and the turnover was higher than Rs 500 crores for a significant number of firms. Some firms were very large sized, with turnover of higher than Rs 5000 crores. The sample firms were negative net foreign exchange earners on an aggregate in both study years. Majority of the sample firms were unlisted, although some large listed firms were also included. Except for three firms, the sample companies were mainly foreign subsidiaries with foreign promoter holding as higher than 50 percent. About 61 firms were wholly-owned subsidiaries.

Table 1. Description of Sample 109 FDI Companies having Intra-Firm Transactions

		2014-15	***2015-16***
1	Total Revenue earning *(in Rs. Crores)*	*428438.15*	*465581.14*
2	Number of companies with total revenue as :		
	(i) higher than Rs. 200 crore	*104*	*105*
	(ii) higher than Rs. 500 crore	*90*	*90*
	(iii) higher than Rs. 1000 crore	*67*	*69*
	(iv) higher than Rs. 5000 crore	*21*	*21*
3	No. of UNLISTED Companies / LISTED cos.	82 / 27	
4	*Companies with Foreign promoter shareholding as:*		
	(i) 0 to 50% (associate)	4	
	(ii) higher than 50% (subsidiary)	106	
	(iii) 100% (wholly-owned subsidiary; included in ii)	61	

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

The manufacturing foreign subsidiaries (106) covered in the sample accounted for 23.8 percent of the total exports, and 38.3 percent of the total imports by the 10,794 foreign subsidiaries present in India in 2015–16 that are reported by the Annual FLA Census of FDI invested companies in India published by RBI in 2016–17. The sample firms are thus fairly representative of the various foreign subsidiaries in India in the study year. [36]

Table 2 indicates that major shares of the sample firms reporting foreign exchange earnings or expenses of different type engaged in intra-firm foreign transactions. Highest number of related party transactions were for import of goods, while royalty/ technical fees payments and interest payments were reported by a fewer number of firms. Overall, 5517 related party foreign transactions are covered in this study.

[36] Only a rough comparison could be drawn between the two studies as FLA Census classifies a firm as manufacturing on the basis of ROC (Registrar of Companies) code in its Corporate Index number. The sample firms are classified as manufacturing sector firms on the basis of ITC-HS code of its main product contributing maximum share of revenue in the study year.

Table 2. FDI Companies Reporting Intra-Firm Foreign Transactions

	Type of Foreign Exchange Transaction	*2014-15*			*2015-16*		
		Companies reporting the transaction	*Companies reporting intra-firm transaction*	*Total number of Intra-firm transactions*	*Companies reporting the transaction*	*Companies reporting intra-firm transaction*	*Total number of Intra-firm transactions*
1	Export of Goods	101	97	586	102	99	621
2	Export of services/others earnings	90	89	528	90	84	540
3	**Total Foreign exchange earnings (1+2)**	**191**	**186**	**1114**	**192**	**183**	**1161**
4	Import of Goods	109	108	894	109	109	899
5	Royalty/ Technical fees payments	87	77	132	87	77	139
6	Payments for services/other expenses (incl. interest)	109	102	598	109	101	580
7	Interest payments (part of 6)	46	33	39	44	31	35
8	**Total Foreign exchange expenses (4+5+6)***	**305**	**287**	**1624**	**305**	**287**	**1618**
9	***TOTAL Trade (3+8)***			***2738***			***2779***

* Dividend payment have been excluded from total foreign exchange expenses.

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

When the share of intra-firm transactions in total foreign exchange transaction value for the main transaction categories was analysed (see Table 3), more than two-thirds (70–72 percent) of the total trade was found to be intra-firm in nature for the sample FDI companies. Majority of the export of goods, export of services or other earnings, and total foreign exchange earnings were found to be intra-firm. The intra-firm share in payments of royalty/technical fees and interest payments were quite high as well. Also, about three-fourths (73 percent) of the import of goods were from related parties. A majority of services or other expenses' payments were also made to related parties. Overall, nearly three-fourths of the total foreign exchange expenses could be traced to related parties.

Table 3. Share of Intra-Firm Transactions in Total Foreign Transactions of FDI Cos. (in %)

	Type of Foreign Exchange Transaction	*2014-15*	*2015-16*
1	Export of Goods	*64.5*	*56.9*
2	Export of services/ others earnings	*78.3*	*77.5*
3	**Total Foreign exchange earnings (1+2)**	***67.2***	***60.9***
4	Import of Goods	*73.0*	*72.8*
5	Royalty/ Technical fees payments	*96.3*	*95.9*
6	Payments for services/ other expenses (incl. interest)	*61.4*	*60.4*
7	Interest payments (part of 6)	*85.1*	*89.2*
8	**Total Foreign exchange expenses (4+5+6) ***	***74.0***	***73.9***
9	***TOTAL TRADE (3+8)***	***72.0***	***70.2***

* Dividend payment of Rs. 4960.76 crore in 2014-15 and Rs.4353.4 crore in 2015-16 have been excluded from total foreign exchange expenses.

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website

Majority of the trade shares for both total foreign exchange earnings and expenses were found to be intra-firm for two-thirds or more of the sample firms (see Table 4). At least two-thirds of the firms reported majority of export of goods, export of services/other earnings, royalty & technical fees payments, services/other expenses, and total foreign exchange expenses as intra-firm in both years, while nearly 60 percent of the firms reported majority of import of goods as intra-firm. About half or more of the sample firms engaged intensively (80 percent or more share) in intra-firm trade in the case of various foreign exchange earning heads and payments for royalty or technical fees and services or other expenses. Overall, the sample FDI firms engaged in related party trade of various intensity levels for different type of transactions.

Chart 1 indicates the intra-firm trade pattern of sample FDI firms by type of related party[37]. It is observed that only one-third of intra-firm transactions under 'total trade' were conducted with holding companies and majority of the trade was conducted with fellow subsidiaries. Where the payments for royalty/technical fees were largely made to parent companies, the other payments (import of goods, services/other expenses, interest) primarily involved fellow subsidiary and network companies under common control. Interest payments were predominantly made to fellow subsidiaries. Also, export of goods and export of services/other earnings mainly involved fellow subsidiaries.

Table 4. FDI Companies with significant Intra-Firm Trade (IFT) Share in Total Transaction*

	Type of Foreign Exchange Transaction	2014-15		2015-16	
		Cos. with IFT >50%	*Cos. with IFT >80%*	*Cos. with IFT >50%*	*Cos. with IFT >80%*
1	Export of Goods	67.3	50.5	66.7	49.0
2	Export of services/ others earnings	84.4	77.8	78.9	68.9
3	**Total Foreign exchange earnings (1+2)**	**79.6**	**56.5**	**77.8**	**52.8**
4	Import of Goods	57.8	32.1	57.8	34.9
5	Royalty/ Technical fees payments	80.5	79.3	81.6	77.0
6	Payments for services/ other expenses (incl. interest^)	70.6	50.5	71.6	48.6
7	**Total Foreign exchange expenses (4+5+6)**	**66.1**	**33.9**	**67.0**	**35.8**

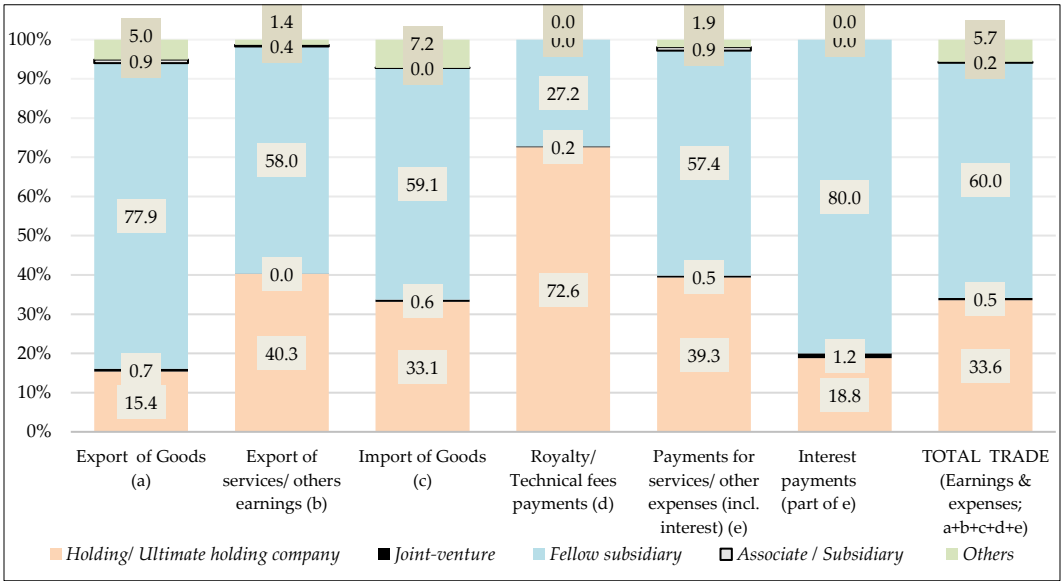
* Expressed as % of companies reporting such transaction.

^ Interest payments (part of 6) have not been considered separately due to a very low number of transactions.

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

[37] Some related parties were categorised as 'others' by companies, and they may be holding company or fellow subsidiaries.

Chart 1. Intra-Firm Trade by Type of Related Party, 2015-16 (As % share of total intra-firm transaction value)



Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

In Table 5, the intra-firm trade shares are indicated for the twelve manufacturing industry groups as aggregate for FDI companies in that group in the year 2015–16. Some main transaction heads are considered here. More than half of the export of goods were intra-firm in nature for FDI companies in eight manufacturing industries, and for the remaining four industries the intra-firm export of goods' shares was nearly half. The intra-firm export of goods' shares was quite high in the case of some industries like Chemicals or allied industries, Machinery and mechanical appliances, Other manufacturing, Rubber and plastic, and Diversified activity[38]. Also, a majority of the import of goods were of intra-firm nature for FDI companies in eight of the twelve manufacturing industries, the share being particularly high for some of the high-tech industries. These eight industries cover majority of the sample firms (80 percent). Except for Pharmaceuticals, and Rubber and Plastic industries, the royalty and technical fees payments were found to be predominantly intra-firm in the case of ten industries.

The findings are indicative of a significant involvement of FDI companies in the global production chain of their parent MNC networks as a buyer of input or finished goods or technology assets, and also as a supplier of goods in the case of certain industries. Annexure Tables 5 and 6 present a number of specific cases of FDI manufacturing companies having very high intra-firm import of goods and export of goods shares respectively. Some large companies appear in both the lists and are actively involved in intra-firm trade.

[38] The 'Diversified activity' firms shows very high intra-firm exports and import shares by firms possibly since it mainly comprises trading companies with some manufacturing activity.

Table 5. Intra-Firm Transaction Value as Share of Total Trade Value in Various Industry Groups
(In 2015-16, as %)

	Sectors/ Industry Groups	No. of cos.	Export of Goods	Import of Goods	Royalty/ Technical Fees Payments
1	Base metals and Products	**4**	*56.3*	*83.7*	*96.3*
2	Chemicals or Allied industries	**16**	*77.9*	*59.0*	*99.8*
3	Diversified Activity *(a)*	**5**	*97.9*	*94.2*	*100.0*
4	Electrical machinery and Equipments, electronics	**10**	*46.2*	*78.8*	*93.3*
5	Instruments and Accessories *(b)*	**5**	*64.2*	*78.0*	*93.6*
6	Machinery and Mechanical Appliances	**24**	*72.6*	*64.5*	*86.3*
7	Mineral stone and glass	**3**	*47.5*	*20.7*	*92.8*
8	Other Manufacturing *(c)*	**8**	*71.3*	*34.9*	*99.9*
9	Pharmaceuticals	**7**	*49.9*	*35.4*	*6.0*
10	Rubber and Plastic	**3**	*97.1*	*59.3*	*27.5*
11	Vegetable Products, edible oils, Foodstuffs	**5**	*56.4*	*37.0*	*96.6*
12	Vehicles and Transport equipment	**19**	*42.0*	*82.5*	*97.0*

Note: Industrial-group classification of company is based on ITC-HS Code (2-digit) of principle product/service category.

a. Companies engaged in manufacturing, having trading/services (code 99) as main activity
b. Optical, photographic, precision, medical, & surgical instruments/apparatus, clocks & watches, musical instruments
c. Leather, paper, carpet, apparel/clothing, footwear, furniture, miscellaneous manufacturing goods (code 96)

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

6. Intra-firm Trade with Tax Havens by FDI Companies: Findings

For the sample FDI companies engaged in intra-firm trade, their intra-firm trade pattern conducted with related party located in 'lower tax locations' compared to India, particularly 'tax havens,' has been further evaluated for the two study years. Only payments for imports of goods, royalty/technical fees payments, payments for services/other expenses and interest payments, and total foreign exchange expenses are considered for this analysis to assess the outflows of foreign exchange to tax havens on account of various intra-firm transfers.

An examination of the intra-firm transactions (outflows) conducted with related party located in tax havens included in the CTHI Index 2019 reveals that majority (nearly 60 percent) of the total intra-firm foreign exchange expenses and payments for import of goods were directed to tax havens (see Table 6). Also, very high shares (80–87 percent) of payments for services or other expenses and interest payments (94–97 percent) were made to these tax haven countries. The share of royalty/technical fees payments made to related party located in tax haven was slightly lower than half (42 percent). When the intra-firm 'non-import payments' comprising royalty/technical fees payments and payments for services or other expenses (including interest) are considered together, majority (55 percent) of these payments were made to the tax haven jurisdictions listed in CTHI 2019.

Table 6. Intra-Firm Trade with Tax Haven/Lower Tax Rate Jurisdiction (As share of total intra-firm foreign transaction value, in %)

	Type of Foreign Exchange Transaction	***2014-15***			***2015-16***		
		*CTHI 2019 ***	*OXFAM ^^*	*Lower Tax Rate Jurisdiction #*	*CTHI 2019 ***	*OXFAM ^^*	*Lower Tax Rate Jurisdiction #*
1	Import of Goods	*61.1*	*23.8*	*64.7*	*61.0*	*29.1*	*68.2*
2	Royalty/ Technical fees payments	*42.3*	*9.4*	*51.4*	*41.9*	*9.3*	*54.3*
3	Payments for services/ other expenses (incl. interest)	*80.6*	*33.8*	*51.0*	*87.0*	*36.7*	*55.9*
4	Interest payments (part of 3)	*93.8*	*79.9*	*83.3*	*97.1*	*82.8*	*89.4*
5	Total Foreign exchange expenses (1+2+3)	***60.3***	***22.9***	***62.8***	***60.3***	***27.4***	***66.1***

** Based on 64 corporate tax haven jurisdictions identified by 'Corporate Tax haven Index, 2019.'

^^ Based on 15 tax haven jurisdictions identified as world's worst corporate tax havens by OXFAM in 2016.

Based on Corporate tax rate table, KPMG, 2019.

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

Of the total intra-firm foreign exchange expense payments, nearly one-fourth (23–28 percent) were made to related parties in the worst tax haven countries included in the Oxfam list 2016. Almost 80 percent of the intra-firm interest payments were directed to these worst tax havens. Some part of the payments for intra-firm import of goods and services or other expenses were also found to be linked to these worst tax havens.

A majority of the intra-firm foreign exchange payments (import of goods, royalty/technical fees payments, services & others expenses, interest expense) were directed to related parties in a 'lower tax rate' jurisdiction, as compared to India (based on corporate tax rate tables, KPMG, 2019). Two-thirds of the total intra-firm foreign exchange expenses' transfers were made to these locations in 2015–16.

The findings indicate that major part of the intra-firm payments for goods' imports, non-imports (sum of royalty/technical fees and services/other expenses) and total foreign exchange expenses were tied up with the tax haven locations identified by CTHI index, representing a set of jurisdictions having varying levels of tax avoidance risk. Some portions of these outflows were directed to the worst tax haven jurisdictions associated with high tax avoidance risk. Interest payments and services or other expenses payments were primarily made to the tax haven locations. Also, a majority of the intra-firm payments of various types were observed to be directed to the 'lower tax rate' jurisdictions.

The intra-firm transaction payments made to tax havens are expressed as the share of the total foreign trade value in that transaction in Table 7. It is observed that slightly less than half of the total payments for imports, royalty/technical fees and foreign exchange expenses by sample firms were made to related parties in tax havens listed in CTHI 2019 index. The share of outflows to tax havens were about half for total services/other expenses and very high at 80 percent or more for the total interest payments. Some parts of these total trade outflows were also noted to be linked to the worst tax havens as per the OXFAM

2016 list for each transaction category. In 2015–16, about one-fifth of the total cross-border trade related outflows by FDI firms were made to worst tax havens, having high level of corporate tax avoidance risk.

Table 7. Intra-Firm Trade with Tax Haven (As share of total transaction value in foreign exchange, in %)

	Type of Foreign Exchange Transaction	***2014-15***		***2015-16***	
		CTHI 2019 **	OXFAM ^^	CTHI 2019 **	OXFAM ^^
1	Import of Goods	*44.6*	*17.3*	*44.4*	*21.2*
2	Royalty/ Technical fees payments	*40.7*	*9.0*	*40.2*	*9.0*
3	Payments for services/ other expenses (incl. interest)	*49.5*	*20.8*	*52.6*	*22.2*
4	Interest payments (part of 3)	*79.9*	*68.0*	*86.7*	*73.8*
5	Total Foreign exchange expenses (1+2+3)	***44.6***	***16.9***	***44.5***	***20.2***

** Based on 64 corporate tax haven jurisdictions identified by 'Corporate Tax haven Index, 2019.'

^^ Based on 15 tax haven jurisdictions identified as world's worst corporate tax havens by OXFAM in 2016.

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

Further, the top 15 countries to which the intra-firm payments under various heads were made by the sample FDI firms in 2015–16 have been identified. The type of transactions assessed both in terms of value of payments and number of transactions are intra-firm imports of goods (Table 9), intra-firm services or other expenses (Table 10), intra-firm royalty and technical fees payments (Table 11), interest payments (Table 12), and total intra-firm foreign exchange expenses (Table 8). The share of these top 15 countries in the total intra-firm trade value by sample firms are 94.8 percent for import of goods, 92.17 percent for services or other expenses, 99.39 percent for royalty and technical fees payments, 100 percent for interest payments. and 93.7 percent for all intra-firm foreign exchange expenses. These top 15 countries thus represent predominant portion of the intra-firm transaction values under each of the outflow heads.

The 64 jurisdictions ranked 1 to 64 in 'Haven Score' indicator by CTHI 2019 index are indicated in grey shaded cells in Tables 8 to 12. The top 30 tax havens (HS score 1–30) ranked by HS of CTHI 2019 Index are indicated in bold and italic fonts in these Tables. These 64 countries in HS score index of CTHI 2019 list are observed to account for at least ten or more of the top 15 positions in each of these lists. This indicates that the jurisdictions among the tax havens of CTHI have been the locations to which the intra-firm payments have mainly been made under various heads in 2015–16 by sample FDI firms, both in terms of value of transfers and the number of transactions conducted. A preference for intra-firm trade with countries having some level of tax avoidance risk (based on HS score) by FDI companies is hence observed.

Different countries among the top 30 tax havens ranked by HS score of CTHI Index (grey cells with bold and italic font) are also found to be present in each of these lists, indicating that certain fraction of payments have been made to these jurisdictions having high risk of

corporate tax avoidance. The number of non-tax haven countries is quite low in each of these lists, and these jurisdictions are Republic of Korea, Japan, Vietnam, Thailand, Indonesia, Canada, and Australia.

Table 8. Top Jurisdictions Linked with Intra-Firm Trade* ^
(Covers Total Foreign exchange expenses)

By Transaction Value		*By Number of Transactions*	
1	Republic Of Korea	1	United States
2	Japan	2	Germany
3	***Singapore***	3	China
4	Germany	4	Japan
5	***Hong Kong***	5	***Singapore***
6	United States	6	Republic Of Korea
7	Finland	7	United Kingdom
8	***United Arab Emirates***	8	***Switzerland***
9	China	9	Italy
10	United Kingdom	10	Thailand
11	***Switzerland***	11	France
12	***Netherlands***	12	***Netherlands***
13	France	13	***Belgium***
14	Vietnam	14	***Hong Kong***
15	Taiwan, Province Ofchina	15	Sweden

* Countries are Ranked from 1 to 15, 1 representing highest value
^ Grey shaded cells represent all 64 jurisdictions ranked (1-64) in 'Haven Score' indicator of the CTHI Index 2019,
Top 30 jurisdictions ranked in 'Haven Score' of CTHI Index 2019 are indicated in bold and italic fonts
Source: Same as Table 6.

Table 9. Top Jurisdictions Linked with Intra-Firm Import Payments* ^
(Covers Import of Goods)

By Transaction Value		*By Number of Transactions*	
1	Republic Of Korea	1	China
2	***Singapore***	2	United States
3	Germany	3	Germany
4	***Hong Kong***	4	Japan
5	Japan	5	***Singapore***
6	Finland	6	Republic Of Korea
7	***United Arab Emirates***	7	Thailand
8	United States	8	***Switzerland***
9	China	9	Italy
10	United Kingdom	10	France
11	***Switzerland***	11	United Kingdom

By Transaction Value		*By Number of Transactions*	
12	Vietnam	12	***Belgium***
13	France	13	***Hong Kong***
14	***Netherlands***	14	Indonesia
15	Taiwan, Province Of China	15	***Netherlands***

* Countries are Ranked from 1 to 15, 1 representing highest value
^ Grey shaded cells represent all 64 jurisdictions ranked (1-64) in 'Haven Score' indicator of the CTHI Index 2019, Top 30 jurisdictions ranked in 'Haven Score' of CTHI Index 2019 are indicated in bold and italic fonts
Source: Same as Table 6.

Table 10. Top Jurisdictions Linked with Intra-Firm Services/Other Expenses* ^

By Transaction Value		*By Number of Transactions*	
1	United States	1	United States
2	***Luxembourg***	2	Germany
3	Germany	3	Japan
4	Japan	4	***Singapore***
5	***Singapore***	5	United Kingdom
6	***Netherlands***	6	China
7	***Switzerland***	7	Republic Of Korea
8	***Mauritius***	8	***Netherlands***
9	United Kingdom	9	***Switzerland***
10	China	10	Italy
11	Sweden	11	Sweden
12	Czech Republic	12	France
13	France	13	Finland
14	Finland	14	Thailand
15	***Belgium***	15	Canada

* Countries are Ranked from 1 to 15, 1 representing highest value
^ Grey shaded cells represent all 64 jurisdictions ranked (1-64) in 'Haven Score' indicator of the CTHI Index 2019, Top 30 jurisdictions ranked in 'Haven Score' of CTHI Index 2019 are indicated in bold and italic font
Source: Same as Table 6.

Table 11. Top Jurisdictions Linked with Intra-Firm Royalty/Technical Fees Payments* ^

By Transaction Value		*By Number of Transactions*	
1	Japan	1	United States
2	Republic Of Korea	2	Germany
3	United Kingdom	3	Japan
4	United States	4	Republic Of Korea
5	***Switzerland***	5	***Switzerland***
6	Finland	6	United Kingdom
7	Germany	7	China
8	France	8	Italy

9	***Netherlands***	9	Australia
10	China	10	France
11	Denmark	11	***Netherlands***
12	Australia	12	Sweden
13	Sweden	13	Czech Republic
14	***Luxembourg***	14	Denmark
15	***Singapore***	15	***Singapore***

* Countries are Ranked from 1 to 15, 1 representing highest value
^ Grey shaded cells represent all 64 jurisdictions ranked (1-64) in 'Haven Score' indicator of the CTHI Index 2019, Top 30 jurisdictions ranked in 'Haven Score' of CTHI Index 2019 are indicated in bold and italic fonts
Source: Same as Table 6.

Table 12. Top Jurisdictions Linked with Intra-Firm Interest Payments* ^

By Transaction Value		*By Number of Transactions*	
1	***Luxembourg***	1	Japan
2	***Mauritius***	2	***Netherlands***
3	United Kingdom	3	Germany
4	***Netherlands***	4	***Luxembourg***
5	***Belgium***	5	***Singapore***
6	***Cyprus***	6	United Kingdom
7	Germany	7	Australia
8	Japan	8	***Belgium***
9	***Switzerland***	9	***Cyprus***
10	***Singapore***	10	France
11	Italy	11	Italy
12	France	12	Republic Of Korea
13	Republic Of Korea	13	***Mauritius***
14	Australia	14	***Switzerland***
15	United States	15	United States

* Countries are Ranked from 1 to 15, 1 representing highest value
^ Grey shaded cells represent all 64 jurisdictions ranked (1-64) in 'Haven Score' indicator of the CTHI Index 2019, Top 30 jurisdictions ranked in 'Haven Score' of CTHI Index 2019 are indicated in bold and italic fonts
Source: Same as Table 6.

Various individual cases of FDI companies with very high shares of intra-firm payments for import of goods, for services, or other expenses in foreign exchange tied up with the worst tax havens (based on Oxfam 2016 list) are presented in Annexure Table 7 and Annexure Table 8 respectively. Most transactions involve fellow subsidiaries. Annexure Tables 9 and 10 present various specific cases of FDI companies that have made significant intra-firm payments to tax havens (CTHI 2019) as royalty/technical fees payments and as interest payments. Many worst tax havens are part of these lists. Instances of multiple payments made to related parties located in the same or different tax havens by the same FDI company can be observed in each of these lists.

A number of intra-firm cross-border payments made by companies to a related party located in a tax haven (CTHI jurisdictions, 2019) that have faced transfer pricing tax scrutiny in recent years and are legally disputed in India have been identified from some legal databases like www.indiakanoon.org (see Annexure Table 11). The transactions include trade and services transfers including some "high risk" base eroding payments identified by OECD BEPS Project like technology and marketing intangibles, management fees and other intra-group services. Insofar as these transfers are directed to tax haven locations, the susceptibility to mispricing for profit shifting remains high.

7. Conclusion

A closer investigation of the trade pattern of a select set of large FDI manufacturing companies in a few recent years reveals that a major share of the export of goods and services/other earnings and import of goods, technology linked expenses, services or other expenses as well as interest payments involved intra-firm transactions. Nearly three-fourths of their import of goods and total foreign exchange expenses and more than two-thirds of their total trade flows in foreign exchange were linked to some foreign related party. The royalty/technical fees and interest payments were predominantly made on an intra-firm basis. This indicates that the foreign transactions of FDI firms involved related parties in a significant way.

Where payments for technology know-how and related intangibles were mainly made to parent companies, the other payments mostly involved fellow subsidiary and network companies under common control. A majority of the companies had intra-firm trade shares as higher than fifty percent in the case of each transaction head. The share was higher than eighty percent for nearly half or more of sample firms in the case of some transaction heads like export of goods and services/other earnings, and payments for royalty/technical fees and services or other expenses. This shows that quite many FDI companies in the sample were intensively engaged in intra-firm trade in the case of certain transaction categories.

The share of intra-firm import of goods was at least sixty percent in eight of the twelve manufacturing industrial groups, the share being particularly high in some of the high-technology industries. The intra-firm export of goods' shares was close to fifty percent or higher in most of the industries. The royalty and technical fees payments were found to be predominantly intra-firm in the case of ten industries. It is observed that the sample FDI companies in a number of high technology industries preferred to buy inputs and technology from their parent MNC network entities.

A closer appraisal of the location of the other related party in trade reveals that a major part of intra-firm payments for import of goods, non-imports, and total foreign exchange expenses by FDI firms were tied up with various tax haven locations identified by the CTHI index that covers 64 jurisdictions having varying levels of tax avoidance risk. Some components of these outflows were indeed directed to the worst tax haven jurisdictions associated with high tax avoidance risk. Intra-firm interest payments and services or other

expenses were primarily made to the tax haven locations. When the total trade values by studied firms are analysed, out of the total cross-border trade related outflows by foreign affiliates in year 2015–16, about half of the transfers involved corporate tax havens and one-fifth could be traced to the worst tax havens. Also, several instances were noted where high shares of intra-firm import of goods, services/other expenses, or interest payments by FDI companies are significantly tied-up to the network related parties in some or other of the worst tax havens. There is a high possibility that some or many of these transactions are indeed motivated by profit shifting or BEPS objective.

Further, when the top 15 countries to which the total intra-firm payments in foreign exchange under various main heads (import of goods, royalty/technical fees, services/other expenses, interest, total expenses) made by the FDI companies in 2015–16 are examined, the various tax havens jurisdictions of CTHI index that have some level of risk of corporate tax avoidance associated with them indicated by the HS scores are found to account for ten or more positions in each of these lists. This pattern is observed both in terms of the value of transfers and the number of transactions conducted. Hence, a tendency to prefer tax haven locations for intra-firm trade linked transfers through various modes is noted in the case of the sample FDI companies in some recent years.

These findings highlight that the intra-firm foreign transactions of MNC affiliated FDI companies in India involving outflow of resources from the country are indeed highly susceptible to tax avoidance or evasion conduct insofar as majority of intra-firm transfers under import of goods, non-imports, and total foreign exchange expenses are linked to jurisdictions having some level of tax avoidance risk. These specific transfers need much vigilant tax scrutiny, especially with respect to their largely undetected linkages with the 'tax haven jurisdictions located' related parties or parent-MNC network companies. Some highly vulnerable payment modes involving intangibles, services, and financial transfers with any link to tax haven locations should attract deeper tax investigations and audits. These policy measures are crucial to check any possible drain of capital resources from the economy via tax avoidance malpractices operating through such 'within-MNC-network' transaction routes.

Also, the reporting norms of the financial and foreign transactions by companies in their annual financial statements in India need to be improved by introducing robust corporate financial reporting standards through appropriate policy interventions. Each component of trade, foreign exchange transactions, related party transactions, and unrelated party transactions should be disclosed transparently and on a clearly specified unique format by companies. This shall help in understanding the intra-firm cross-border trade patterns of foreign affiliated companies in a much clearer way, especially for closely appraising the numerous transactions with the various tax havens. There is a lack of any comprehensive database on these related party transactions by companies presently in India, and the reporting on various unrelated party transactions and some smaller value related party transaction is not mandatory under the current reporting norms.

Most possibly, the observed linkage of outflow of resources via cross-border intra-firm trade with specific locations having varying levels of risk of corporate tax avoidance, may actually be pointing towards an ongoing hidden process of illegal transfer of capital and tax evasion conduct by MNC corporations operating in India. Eventually, the intensive use of tax havens and secrecy jurisdictions in such tax abusive conduct may leave a resource-constrained economy like India with a far more limited resource base for financing development activities and for applying measures to boost economic growth. Also, the income inequality situation may only worsen over time. It is in light of these crucial issues that any possible linkages of intra-firm trade by a MNC network company located in India with any tax haven jurisdictions needs vital attention and thorough tax inspection.

Annexures

Annexure Table 1. Coverage of Intra-firm Foreign Exchange Transaction Heads in the study

	Transaction heads reported in Related party trade disclosures in Annual Financial statements	*Transaction Heads included in the study*	*Serial no. (as used in study)*
i	Revenue from Sale of goods	**Export of Goods**	**1**
ii	Other Income*	**Export of services/ Other Earnings**	**2**
iii	Revenue from Services rendered*		
iv	Reimbursements of expenses (income)*		
v		**Total Foreign Exchange Earnings**	**3 [1+2]**
vi	Purchase of Goods	**Import of Goods**	**4**
vii	Purchase of Tangible assets		
viii	Expense from agency arrangement (etc.)/ transfer of R&D cost / License fees ^^	**Royalty / Technical fees payments**	**5**
ix	Other expenses**	**Payment for services / Other expenses (including interest)**	**6**
x	Services received**		
xi	Reimbursements of expenses (paid)**		
xii	Interest Paid **		
xiii	*Interest Paid (as separate head) #*	**Interest payments (part of 6)**	**7**
xiv		**Total Foreign Exchange Expenses**	**8 [4+5+6]**
xv	Amount payable/ receivable/ written off@	*(excluded)*	
		TOTAL TRADE	**9 [3+8]**

* : Covers transactions mentioned in Annexure 2 ^^ : Various technology linked payments mentioned under 'other expenses' or 'services received' are also covered under this head and such expenses are excluded from the category of 'payment for services/other expenses' for this study. List of such transactions is mentioned in Annexure 3. ** : Covers transactions mentioned in Annexure 4 # : Covers only those transactions of interest expenses that are mentioned separately. All interest transactions are included under 'export of services/ other earnings' for earnings or 'payments for services/ other expenses' for expenses. @ : Also, Dividend transfers are excluded from both earnings and expenses, as they are mainly conducted with related parties.

Source: Based on information from Company Annual Reports downloaded from MCA website.

Annexure Table 2. Types of Export of Services/Other Earnings (50)*

Business Process Outsourcing income	Recharge of other costs
Charges for shared services	Recharge of salary costs
Clinical research and data management recoveries	Recoveries from group companies
clinical trials/other support service	Recovery of Costs
commission	recovery of expenses
Contract Revenue	refinery income
Cost Sharing Recoveries	reimbursement against warranty service
Development Tooling Income	Reimbursement of custom duty
Discontinuation Facilitation Income	reimbursement of expense
Export of technical services	reimbursement of marketing/ business promotion
income from product development activities	Reimbursement on account of Employee activities
Income from Services	Reimbursements
income from site development activity	Reimbursements of salary
Indent Commission Income	Research & Development income
Indenting Commission	Revenue from agency arrangements
interest income	Reversal of Technical services including capitalized
IT consultancy	Royalty income
IT Fees	Service Charges recovered from Group Companies
Management fees income	Services sold
Marketing Service Income	services, management contract
marketing support services	software development
miscellaneous income	software exports
other income	Subvention Income
professional consultation fees	Support service cost
R & D services	Tooling services

Source: Based on information from Company Annual Reports downloaded from MCA website.

Annexure Table 3. Types of Technology Linked Payments (80) {covers royalty/technical fees, other expenses}

capital work in progress	IT charge/cost/expense/service/support	Royalty
computer expense	IT networking cost	sample testing charge/fees
computer maintenance	IT enabled services	software expenses
data service	Knowhow	software development services
Data processing & IT outsourcing expenses	lab supplies	Software development & procurement of license
database	license application	software implementation
design & development fees	license fee for use of knowhow	software mobile license
Design & drawing charges	license fee/revenue	Software Purchase
Design & engineering charges	maintenance of equipment	sterilisation
design & service charge	maintenance support cost for license & software	supervision fees
design cost	model fees	Supervision fees for asset installation
development of application technology	module purchases	system maintenance
engine development	mould expense	technical assistance
engineering service	payments for intangible assets	technical services/charges/fees
engineering site	Professional - technical consultancy fees	technical consultancy fee
engineering support charges	professional technical fees	technical guidance fee
erection charges	project expense	technical knowhow
expenditure in foreign currency for research & development	Project Management Costs for Capital Projects	technical support
expense on import of software master copy	quality inspection expense	technician fee
foreign service engineer fee	R & D charges/expenses	technology use fee
foreign technician expense	R & D recovery	testing & calibration expenses
information technology fees	R & D services	testing/trial charge
information technology services	repairs and maintenance	testing agency
intranet	repairs of machinery	Tooling purchases on behalf of customer
IT & communication	Research engineering	training cost/fees
IT & management information systems	research expenses/services	transfers under license agreement from enterprise
IT & support service	rework charge	

Source: Based on information from Company Annual Reports downloaded from MCA website.

Annexure Table 4. Types of Services/Other Expenses Payments (150)

administrative support/service fees	Demurrage Expenses	Legal and professional fees	Regional service charges
Advance for Capital goods	Development fees/expense	legal expense/fees	registration fee
advertisement/advertising	Discount, claims and rebates	Legal services	Reimbursement of Expenses
Advertisement & business promotion	employee benefit expenses	License/Registration of Trade Mark Fees	reimbursement of travel
Advertisement and Publicity	employee reimbursement	license fees	related party cross charge
Advertisement and sales promotion	employee related expense	loan repayment	relocation
advertisement fees	employee remuneration	maintenance	Rent
Advertising and marketing	employee scheme	management consultancy	Salaries and other Allowances
Advertising, marketing & promotion (AMP)	employment stock option	management fees	Salaries and other benefits
Advisory services	equipment rental	Management service fee	Salaries and wages
Agency Commission	expatriate cost	management support	SAP charges
assistance charges	expatriate salary	Marketing services	salaries/bonus
Back office support services	Expenditure on contracts at foreign sites	managerial charges	sales application
Bank Charges	expense recharged by other cos.	marketing	Sales commission
bank guarantee	export commission	Marketing Support	Sales promotion
Books and periodicals	finance charges	Membership	Sea Freight and Demurrage
brand fees	finance cost	Network & ERP Expenses	selling expense
brokerage	foreign bank charge	Other support charges	Seminar & Exhibition
Business Development Expenses, Fees, Subscription	Foreign Currency Transactions &Translation	Overseas Branch Office Expenses	service fees commission
Business process outsourcing expense	freight charge	Outside services	service fees/charge
business promotion	freight forwarding	Payment for deputation of employees	services availed/purchased/received
business support	F & A support	packing	shared service
business services	freight reimbursement	Post sales support services	staff cost
commission	freight transport	payment of common shared expenses	staff welfare
Commission and brokerage	group charge	personnel expenses	subcontracting
commission and travelling	group service fee	postage	Subscription Fees

commission on exports	guarantee as borrowing cost	printing stationary	support charge/fees
commission on sales	Guarantee commission	procurement fee	support service
communication charge	guarantee fees	product development	telephone communication
Communication costs	Headquarter & IT charges	product warranty	Trade-mark fees
conference expense	headquarter fees	professional and consultation fees	trademark license
consultancy service fees	hiring of services	Professional charges/fees	travel
container hire cost	HR services	professional consultancy	Travelling and conveyance
Corporate charge	Indenting Commission	Professional Services	Value added fees
Corporate overhead allocations	insurance charge	promotional expense	Warehouse charges
courier	Inter-company Service Charges	purchase of services	warranty
Customer Support Charges	interest	Recruitment expenses	
debt/bank charge	Intra-group services	regional management fee	

Source: Based on information from Company Annual Reports downloaded from MCA website.

Annexure Table 5. Some FDI Companies with High Share of Intra-firm Import of Goods**

	Name of Company	*2014-15*	*2015-16*
1	Samsung India Electronics Private Limited	*83.8*	*82.0*
2	HP India Sales Private Limited	*88.6*	*93.3*
3	Maruti Suzuki India Limited	*100.0*	*100.0*
4	Lenovo (India) Private Limited	*99.7*	*100.0*
5	Nokia Solutions & Networks India Pvt. Ltd.	*83.4*	*100.0*
6	Siemens Limited	*99.3*	*92.3*
7	Renault Nissan Automotive India Private Limited	*92.4*	*92.0*
8	Skoda Auto India Private Limited	*97.3*	*97.4*
9	Mercedes-Benz India Private Limited	*100.0*	*92.3*
10	BMW India Private Limited	*92.4*	*98.8*
11	Bayer Cropscience Ltd.	*86.6*	*87.4*
12	Posco- India Pune Processing Center Private Limited	*81.7*	*87.0*
13	Syngenta India Limited	*95.1*	*95.6*
14	DSM Sinochem Pharmaceuticals India Private Limited	*89.7*	*83.5*
15	Posco India Delhi Steel Processing Centre Private Limited	*77.7*	*83.0*
16	Kyungshin Industrial Motherson Pvt. Ltd.	*82.5*	*83.1*
17	Johnson Matthey India Private Limited	*82.5*	*84.6*
18	SKF India Limited	*100.0*	*100.0*
19	Cummins India Limited	*79.2*	*83.5*
20	Ricoh India Limited	*96.1*	*98.3*
21	Alcon Laboratories (India) Private Limited	*99.3*	*100.0*
22	Glaxosmithkline Pharmaceuticals Ltd.	*100.0*	*92.1*
23	Pfizer Limited	*83.1*	*74.2*
24	Gillette India Limited	*100.0*	*99.9*
25	Pernod Ricard India Pvt. Ltd.	*99.9*	*100.0*
26	MSD Pharmaceuticals Private Limited	*96.8*	*97.9*
27	Toyota Kirloskar Auto Parts Private Limited	*98.1*	*100.0*
28	Sumitomo Chemical India Private Limited	*90.6*	*93.6*
29	Bosch Chassis Systems India Private Limited	*100.0*	*94.2*
30	YKK India Private Limited	*99.1*	*88.3*

Note: Total import values have been revised in cases where intra-firm import value is higher than total import value reported by company ** : Intra-firm Imports expressed as share (in %) of total import value

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

Annexure Table 6. Some FDI Companies with High Share of Intra-firm Export of Goods**

	Name of Company	*2014-15*	*2015-16*
1	Nokia Solutions & Networks India Pvt. Ltd.	*98.0*	*100.0*
2	Siemens Limited	*100.0*	*100.0*
3	Cummins India Limited	*77.4*	*74.3*
4	Hubergroup India Private Limited	*82.9*	*90.8*
5	CNH Industrial (India) Private Limited	*92.2*	*86.0*
6	Syngenta India Limited	*99.9*	*100.0*
7	NCR Corporation India Private Limited	*99.6*	*100.0*
8	ABB India Limited	*91.4*	*73.3*
9	Cummins Technologies India Private Limited	*96.0*	*88.8*
10	GE BE Private Limited	*90.3*	*94.6*
11	Bayer Cropscience Ltd.	*98.3*	*94.8*
12	Nestle India Limited	*89.6*	*95.3*
13	Johnson Matthey Chemicals India Private Limited	*93.5*	*91.4*
14	BASF India Limited	*77.9*	*78.6*
15	Timken India Limited	*97.0*	*98.8*
16	ASB International Private Limited	*100.0*	*100.0*
17	Fairfield Atlas Limited	*96.8*	*96.9*
18	DIC Fine Chemicals Private Limited	*99.2*	*95.0*

Note: Total export values have been revised in cases where intra-firm export value is higher than total export value reported by company ** : Intra-firm Exports expressed as share (in %) of total export value

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

Annexure Table 7. Some FDI Companies with High Share of Intra-firm Import Payments to Tax Havens* *(In 2015-16)*

	Name of company	*Share of Intra-firm imports from Top Tax Havens in total intra-firm imports (as %)*	*Details of intra-firm transaction*			
			Name of Related party	*Country**	*Related party type @*	*Value of transaction (in Rs crore)*
1	Lenovo (India) Private Limited	*97.3*	Lenovo PC (HK) Limited	Hong Kong	FS	6880.1
2	MCPI(Materials Chemicals & Performance Intermediaries) Private Limited	*97.7*	MCC PTA Asia Pacific PTE Ltd.	Singapore	FS	3547.97
3	Syngenta India Limited	*100.0*	Syngenta Asia Pacific PTE Ltd	Singapore	FS	788.62
4	Philips India Limited	*99.7*	Philips Medical Systems Nederland B.V.	Netherlands	FS	254
			Philips Consumer Lifestyle B.V.	Netherlands	FS	340.9
			Philips Electronics Singapore Pte Ltd	Singapore	FS	136.1
			Philips Electronics Singapore Pte Ltd	Singapore	FS	2.8
5	Ricoh India Limited	*99.4*	Ricoh Asia Pacific Operations Limited	Hong Kong	FS	555.81
6	MSD Pharmaceuticals Private Limited	*100.0*	Merck Sharp & Dohme BV	Netherlands	HC	232.4
			Merck Sharp & Dohme Asia Pacific Services Pte Ltd.	Singapore	FS	225.96
7	Ineos Styrolution India Ltd.	*87.9*	I N E O S Styrolution APAC Pte. Ltd	Singapore	HC	437.01
			Ineos Europe Ag	Switzerland	FS	16.71
8	DSM Sinochem Pharmaceuticals India Private Limited	*82.8*	DSM Sinochem Pharmaceuticals Pte. Limited	Singapore	FS	253.9
			DSM Sinochem Pharmaceuticals Netherlands B.V	Netherlands	FS	196.12
9	Gillette India Limited	*88.2*	Procter & Gamble International Operations SA Singapore Br	Singapore	FS	388.56
10	Alcon Laboratories (India) Private Limited	*92.0*	A l c o n Pharmaceuticals	Switzerland	FS	267.09
			Novartis International AG	Switzerland	FS	60.21
11	Pfizer Limited	*88.5*	Pfizer Export Company, Ireland	Ireland	FS	226.57
			Pfizer Global Trading, Ireland	Ireland	FS	3.78
			P Fz Asia Manufacturing Pte Ltd	Singapore	FS	1.096
12	Hindustan Unilever Limited	*100.0*	Unilever Supply Chain Company AG	Switzerland	FS	175.18
			Unilever Asia Private Limited	Singapore	FS	54.4
13	Eli Lilly And Company (India) Private Limited	*100.0*	Eli Lilly Export S.A.	Switzerland	Oth	219.44

	Name of company	*Share of Intra-firm imports from Top Tax Havens in total intra-firm imports (as %)*	*Details of intra-firm transaction*			
			Name of Related party	*Country**	*Related party type @*	*Value of transaction (in Rs crore)*
14	NCR Corporation India Private Limited	*97.0*	NCR Global Solutions Ltd.	Ireland	FS	131.24
			NCR (Hong Kong) Ltd.	Hong Kong	FS	33.6
15	Givaudan (India) Private Limited	*91.5*	Givaudan International SA	Switzerland	FS	156.01
			Givaudan Singapore Pte Ltd.	Singapore	FS	26.6
			Givaudan Suisse SA	Switzerland	FS	14.51
16	SKF India Ltd.	*73.5*	SKF Asia-pacific PTE Ltd.	Singapore	FS	455.9
17	HP India Sales Private Limited	*57.2*	Hewlett-Packard Asia-Pacific PTE Ltd.	Singapore	FS	4530.7
18	BASF India Limited	*55.2*	BASF South-East Asia Pte. Ltd.	Singapore	FS	634.67

* Based on 15 Tax haven jurisdictions included in list of world's worst corporate tax havens by OXFAM in 2016 ; this list includes Top 10 and 5 other Tax haven jurisdictions identified by 'Corporate Tax Haven Index, 2019' @ : FS = Fellow Subsidiary ; HC = Holding company ; Oth = Others

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

Annexure Table 8. Some FDI Companies with High Share of Intra-firm Services/Other Expense Payments to Tax Havens* *(In 2015-16)*

	Name of company	*Share of Intra-firm payment to tax havens in total intra-firm foreign transactions (%)*	*Details of intra-firm transaction*				
			Name of Related party	*Country **	*Related party type @*	*Type of Transaction*	*Value of transaction (in Rs crore)*
1	ABB India Limited	***76.2***	ABB Asea Brown Boveri Limited	Switzerland	HC	services	15.72
			ABB Information Systems Ltd.	Switzerland	FS	services	91.23
			ABB Management Services Limited	Switzerland	FS	services	58.21
			ABB Capital B.V., Rotterdam	Netherlands	FS	interest	44.75
2	Johnson & Johnson Private Limited	***70.5***	Johnson & Johnson Pte. Ltd.	Singapore	FS	services	203.02
3	Philips India Limited	***100.0***	Koninklijke Philips N.V (KPNV)	Netherlands	UHC	services	9.10
			Koninklijke Philips N.V (KPNV)	Netherlands	UHC	other expense	16.60
			Philips Electronics Nederland B.V.	Netherlands	FS	services	88.10
4	Hindustan Unilever Limited	***98.4***	Unilever N.V.	Netherlands	FS	Reimbursements	54.57
			Unilever Supply Chain Company	Switzerland	FS	Reimbursements	37.06
			Unilever N.V.	Netherlands	FS	Maintenance & support costs for licences and software	6.07
5	Procter & Gamble Home Products Private Limited	***79.7***	Procter & Gamble International Operations SA Singapore Br.	Singapore	FS	Business Process Outsourcing expenses	24.11
			Procter & Gamble International Operations SA	Singapore	FS	other expense	38.90
6	Mondelez India Foods Private Limited	***74.5***	Cadbury Enterprises Pte. Limited	Singapore	FS	Reimbursements	134.24
			Mondelez Europe GmbH	Switzerland	FS	Reimbursements	9.95
7	Pernod Ricard India Pvt. Ltd.	***99.1***	Peri Mauritius, Mauritius	Mauritius	HC	services	126.18
			Pernod Ricard Hongkong Ltd	Hong Kong	FS	reimbursements	1.25
8	Akzo Nobel India Limited	***100.0***	Akzo Nobel N.V.	Netherlands	UHC	reimbursement	8.40
			Akzo Nobel N.V.	Netherlands	UHC	other expenses	9.40
			Akzo Nobel Functional Chemicals B.V.	Netherlands	FS	other expenses	3.00

	Name of company	*Share of Intra-firm payment to tax havens in total intra-firm foreign transactions (%)*	*Details of intra-firm transaction*				
			Name of Related party	*Country **	*Related party type @*	*Type of Transaction*	*Value of transaction (in Rs crore)*
			Akzo Nobel Decorative Coatings B.V.	Netherlands	FS	services	19.00
			Akzo Nobel Functional Chemicals B.V.	Netherlands	FS	other expenses	6.90
9	DSM Sinochem Pharmaceuticals India Private Limited	***88.9***	DSM Sinochem Pharmaceuticals Netherlands B.V.	Netherlands	FS	services	37.10
			Gist Brocades International B.V.	Netherlands	HC	interest	4.48
10	Syngenta India Limited	***93.9***	Syngenta Asia Pacific PTE Ltd	Singapore	FS	services	8.67
			Syngenta Asia Pacific PTE Ltd	Singapore	FS	Reimbursements	14.61
			Syngenta Crop Protection AG	Switzerland	FS	Charges for shared services	0.72

* Based on 15 Tax haven jurisdictions included in list of world's worst corporate tax havens by OXFAM in 2016 ; this list includes Top 10 and 5 other Tax haven jurisdictions identified by 'Corporate Tax Haven Index, 2019' @ : FS : Fellow Subsidiary; HC : Holding company ; UHC : Ultimate Holding company

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

Annexure Table 9. Some FDI Companies with Intra-firm Royalty/Technical Fees Payments to Tax Havens *(Value in Rs Crore)*

	Name of company / Related party name	*Country #*	*Type of Related party @*	*Type of Transaction*	***2014-15***	***2015-16***
1	***ABB India Limited***					
	ABB Technology Ltd.	Switzerland*	FS	royalty	218.23	274.67
	ABB Asea Brown Boveri Limited, Zurich	Switzerland*	HC	royalty , technical fees	63.76	66.93
	others		FS	royalty	19.23	17.47
	others		FS	royalty	1.19	1.5
					302.41	**360.57**
2	***Bosch Ltd.***					
	Bosch Technology Licensing Administration GmbH.	Germany	FS	Royalty & technical service	110.2	108.1
	Robert Bosch Licensing Administration C.V.	Netherland*	FS	Royalty & technical service	46.8	50.2
	Robert Bosch GmbH	Germany	HC	Royalty & technical service	25.5	
					182.5	**158.3**
3	***Colgate-Palmolive (India) Limited***					
	Colgate-Palmolive Company, U.S.A.	United States	UHC	royalty	**187.85**	**196.94**
4	***Nokia Solutions & Networks India Pvt. Ltd.***					
	Nokia Solutions and Networks Oy	Finland	FS	royalty	**449.9**	**769.75**
5	***Hindustan Unilever Limited***					
	Unilever PLC	United Kingdom	HC	royalty	**726.86**	**875.56**
6	***Johnson & Johnson Private Limited***					
	Johnson & Johnson, U.S.A	United States	HC	royalty	176.33	179.06
	Johnson & Johnson Pte. Ltd	Singapore*				32.78
					176.33	**211.84**
7	***Procter & Gamble Home Products Private Limited***					
	The Procter & Gamble Company	United States	UHC	royalty	248.38	239.81
	The Procter & Gamble US Business Services Co.	United States	FS	Computer Expenses	8.82	12.69
					257.2	**252.5**
8	***Nestle India Limited***					
	Societe Des Produits Nestle S.A.	Switzerland*	FS	General Licence fees	303.82	361.79
	Nestle Australia Ltd	Australia	FS	IT & other expense ^	54.23	64.61
	Servcom S.A.	Switzerland*	FS	IT & other expense ^	0.318	0.66
					358.37	**427.06**
9	***Reckitt Benckiser (India) Pvt. Ltd.***					

	Name of company / Related party name	*Country #*	*Type of Related party @*	*Type of Transaction*	***2014-15***	***2015-16***
	Reckitt Benckiser (Brands) Limited	United Kingdom	FS	Royalty	**181.67**	**211.81**
10	***Renault Nissan Automotive India Private Limited***					
	Nissan Motor Company Limited	Japan	FS	royalty	322.28	300.14
	Autech Japan	Japan	FS	royalty	0.015	0.016
	Nissan Motor Company Limited	Japan	FS	Technical Assistance Fee	0.943	8.489
	Renault SAS	France	FS	royalty	176.41	158.71
	Renault SAS	France	FS	production trial expenses	0.05	0.264
					499.698	**467.619**
11	***Castrol India Limited***					
	Castrol Limited	United Kingdom	HC	royalty	**93.09**	**104**
12	***Procter & Gamble Hygiene And Health Care Limited***					
	The Procter & Gamble Company	United States	FS	royalty	**100.31**	**107.73**
13	***Ambuja Cements Limited***					
	Holcim Technology Limited	Switzerland*	FS	royalty	***92.44***	***90.34***
14	***Givaudan (India) Private Limited***					
	Givaudan International SA	Switzerland*	FS	IT expense	***14.74***	***14.32***
15	***Akzo Nobel India Limited***					
	Akzo Nobel Coatings International B.V.	Netherland*	FS	royalty	***50.90***	***69.80***
16	***Samsonite South Asia Private Limited***					
	Samsonite IP Holding Sarl.	Luxembourg*	FS	Royalty	***42.74***	***43.10***
17	***NCR Corporation India Private Limited***					
	NCR Global Solutions Ltd.	Ireland*	FS	Royalty	***32.48***	***27.90***
18	***Syngenta India Limited***					
	Syngenta Crop Protection AG	Switzerland*	FS	Royalty & technical knowhow^^	***8.42***	***7.13***
19	***YKK India Private Limited***					
	YKK Holding Asia PTE Ltd.	Singapore*	FS	Technical fees & expenses	***6.17***	***5.72***

: Shaded cells represent jurisdictions that are included in list of tax havens by 'Corporate Tax Haven Index, 2019' * : Jurisdictions listed as world's worst corporate tax havens by OXFAM (2016) ^ : Information Technology & Management Information Systems expense ; ^^ : brand assistance @ : FS : Fellow Subsidiary; HC : Holding company ; UHC : Ultimate Holding company

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

Annexure Table 10. Some FDI Companies with Intra-firm Interest Payments to Tax Havens # *(Value in Rs Crore)*

	Name of company / Related party name	*Country #*	*Relation with Related party*	***2014-15***	***2015-16***
1	***Mylan Laboratories Limited***				
	Mylan Luxembourg 2 S.a.r.l	Luxembourg	Fellow Subsidiary	477.53	480.98
	MP Laboratories(Mauritius) Limited	Mauritius	Holding company	73.35	127.68
	Mylan Luxembourg S.A.R.L	Luxembourg	Fellow Subsidiary		99.60
				550.88	**708.26**
2	***Praxair India Private Limited***				
	Praxair Luxemburg *	Luxembourg	Fellow Subsidiary	**255.77**	**256.47**
3	***Mondelez India Foods Private Limited***				
	Cadbury Schweppes Finance Limited	United Kingdom	Fellow Subsidiary	**22.76**	**71.56**
4	***BASF India Limited***				
	BASF Belgium Coordination Centre Comm. V.	Belgium	Fellow Subsidiary	46.47	50.13
	BASF SE	Germany	Ultimate Holding company	0.006	
				46.47	**50.13**
5	***ABB India Limited***				
	ABB Capital B.V., Rotterdam	Netherlands.	Fellow Subsidiary	**15.31**	**44.75**
6	***Cosma International (India) Private Limited***				
	Magna Cyprus Holding Limited	Cyprus	Fellow Subsidiary	36.38	38.58
	Magna Financing Luxembourg SARL	Luxembourg	Fellow Subsidiary		0.56
				36.38	**39.14**
7	***Michelin India Private Limited***				
	Compagnie Financiere Du Groupe Michelin	Switzerland	Holding company	**29.10**	**26.00**
8	***Lanxess India Private Limited***				
	Lanxess Deutschland Gmbh	Germany	Holding company	**34.00**	**17.60**
9	***Johnson Matthey Chemicals India Private Limited***				
	Johnson Matthey Plc	United Kingdom	Ultimate Holding company	14.48	14.34
	Matthey Finance BV	Netherlands	Holding company	5.78	4.53
				20.26	**18.87**
10	***Fiat India Automobiles Private Limited***				
	FCA Italy S.p.A	Italy	Joint venture	**17.40**	**15.60**

All jurisdictions are included in the list of tax havens by 'Corporate Tax Haven Index, 2019' * Finance cost

Source: Author's compilation from Company Annual Financial Statements downloaded from MCA website.

Annexure Table 11. Some Cases of Transfer Pricing Disputes on Payments linked to Tax Havens

SN.	*Name of company*	*Type of Service*	*Case Number/ Place/ Year*	*Assessment Year*	*Value of Transaction / *Initial Tax adjustment by TPO/AO (in Rs.)*	*Country of Related party*
1	Ford India Pvt. Ltd.	AMP	ITA No. 2089/Madras/ 2011	2007-08	1,25,92,00,000	USA
2	Motorola Solution India Pvt. Ltd.	software development services	ITA No. 5637/DELHI/ 2011	2007-08	6,81,20,82,673	USA
3	Motorola Solution India Pvt. Ltd.	administrative and market support services	ITA No. 5637/DELHI/ 2011	2007-08	75,96,45,791	USA
4	Redington India Ltd.	trademark fees	ITA No.1155/Madras/2016	2011-12	1,81,51,501	Singapore
5	A. W. Faber Castell (India) Pvt. Ltd.	royalty	ITA No. 1018/Mumbai/2016	2011-12	1,76,02,005	Germany
6	Hindustan Unilever Ltd	royalty	ITA no. 7868/ MUMBAI/2010	2006-07	66,72,53,896	UK
7	Johnson Matthey India Pvt. Ltd.	royalty	ITA No. 1817/Delhi/2014	2007-08	2,45,57,629	UK
8	Syngenta India Ltd.	royalty/ tech fee	ITA No. 1373/Mumbai/2014	2009-10	4,79,44,806	Switzerland
9	Hughes Systique India Pvt. Ltd.	marketing support services	ITA No. 5420/Delhi/ 2011 & 6057/ Delhi/ 2012	2007-08	9,12,80,860	USA
10	DQ Entertainment International Ltd.	management consultancy services	ITA No. 62/ Hyderabad/ 2013	2008-09	3,19,23,085	Mauritius
11	Mastek Limited	Software Services	ITA No. 3120/Ahmedabad/2010	2006-07	2,99,33,35,552	UK
12	Mastek Limited	Software Services	ITA No. 3120/Ahmedabad/2010	2006-07	4,01,61,499	Germany
13	Mastek Limited	Software Services	ITA No. 3120/Ahmedabad/2010	2006-07	2,52,66,475	Singapore
14	Mastek Limited	Information Technology Enables servcies	ITA No. 3120/Ahmedabad/2010	2006-07	5,04,84,337	USA
15	Bombardier Transportation India Pvt. Ltd.	intermediary services	ITA No. 1626/Delhi/2015	2009-10	9,18,72,407	Germany

SN.	*Name of company*	*Type of Service*	*Case Number/ Place/ Year*	*Assessment Year*	*Value of Transaction / *Initial Tax adjustment by TPO/AO (in Rs.)*	*Country of Related party*
16	Bombardier Transportation India Pvt. Ltd.	intermediary services	ITA No. 1626/Delhi/2015	2009-10	7,71,82,897	Singapore
17	Dresser Rand India Pvt. Ltd.	cost contribution, field supervision	ITA No. 8753/Mumbai/ 2010	2006-07	10,59,70,009	USA
18	BMW India Pvt. Ltd.	AMP	ITA No. 5354/DELHI/ 2012	2008-09	*48,65,29,622	Germany
19	Sony India Pvt. Ltd	AMP	W.P.(C) No. 1235/2014 & 1178/2014	2009-10	*70,15,00,000	Sweden
20	Widex India Pvt. Ltd.	AMP	ITA No. 117/Chandigarh/2016	2011-12	*4,86,95,241	Denmark
21	Hyva India Pvt. Ld.	managemnet fees	ITA No.8249/Mumbai/2010	2006-07	*76,93,979	Netherlands
22	Ab Mauri India Pvt. Ltd.	management fees	ITA No.1970/Madras/2011	2007-08	*1,35,94,560	UK
23	Philips India Ltd.	Management Support Services	ITA No. 863 & 539/ Kolkata/2016	2011-12	*2,02,71,59,953	Netherlands
24	Timken Engineering & Research India Pvt. Ltd.	IT Services + R&D Services	ITA No. 974 & 983/Bangalore/2008	2004-05	*4,52,05,820	USA

Source: www.indiakanoon.org

References

Acharya, Bhavana (2014), "All in the Family," *The Hindu Business Line,* April 7.

Ates, Leyla *et al*. (2021), "The Corporate Tax Haven Index: A New Geography of Profit Shifting," in Brigitte Unger, Lucia Rossel, and Joras Ferwerda (Eds) *Combating Fiscal Fraud and Empowering Regulators. Bringing Tax Money Back into the COFFERS*, Oxford University Press, pp. 89–111.

Baker, Raymond W (2005), *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System*, John Wiley, New Jersey.

BEPS Monitoring Group (2014), "Transfer Pricing Comparability Data and Developing Countries," April 7. Available at: https://www.oecd.org/ctp/transfer-pricing/bmg-comparibility-data-and-developing-countries.pdf

Berkhout, Esmé (2016), "Tax Battles: The Dangerous Global Race to the Bottom on Corporate Tax," Oxfam Policy Paper, December 12.Available at: www.oxfam.org

Bernard, Andrew B *et al*. (2008), "Intrafirm Trade and Product Contractibility," *American Economic Review*, Vol. 100, No. 2, May, pp. 444-448.

Biswas Amit K and Sugata Marjit (2005), "Mis-invoicing and Trade Policy," *Journal of Policy Reform*, Vol. 8, No. 3, pp. 189-205.

Blanas, Sotiris and Adnan Seric (2015), "Foreign Affiliates With and Without Intra-firm Trade: Evidence from sub-Saharan Africa," *Working Paper 13/2015*, Inclusive and Sustainable Industrial Development Working Paper Series, Research, Statistics and Industrial Policy Branch, UNIDO.

Buckley, Peter J and Mark Casson (1976), *The Future of the Multinational Enterprise,* Palgrave Macmillan, United Kingdom.

Buckley, Peter J and Robert Pearce D (1979), "Overseas Production and Exporting by the World's Largest Enterprises: A Study in Sourcing Policy," *Journal of International Business Studies,* Vol. 10, No. 1, pp. 9-20.

Casson, Mark and Robert Pearce D (1987), "Multinational Enterprises in LDCs," in Norman Gemmell (Ed) *Surveys in Development Economics* , Blackwell, Oxford.

CBDT (2017), "CBDT Notifies Rules in Respect of Country-by-Country Reporting and Furnishing of Master File," Press Information Bureau, Ministry of Finance, Department of Revenue, Government of India, November 1.

_____ (2012), "*Black Money*," White Paper, Ministry of Finance, Department of Revenue, Central Board of Direct Taxes, New Delhi.

_____ (2016), "Instruction No. 3/2016, New Delhi, dated 10th March 2016, F. No. 500/9/2015-APA-II," Foreign Tax and Tax Research Division-I, Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, Government of India.

Chan, K Hung, and Agnes W Y Lo (2004), "The Influence of Management Perception of Environmental Variables on the Choice of International Transfer-pricing Methods," *International Journal of Accounting*, Vol. 39, No. 1, pp. 93–110.

Chan, K Hung, , Agnes W Y Lo, and Mo, Phyllis L L Mo (2015), "An Empirical Analysis of the Changes in Tax Audit Focus on International Transfer Pricing," *Journal of International Accounting, Auditing and Taxation*, Vol. 24, No. C, pp. 94–104.

Chang, Se-Jin (2013), "Appendix 10: Income Shifting Practices in China," in *Multinational Firms in China: Entry Strategies, Competition and Firm Performance*, Oxford University Press, First Edition.

Christensen, John, Pete Coleman, and Sony Kapoor (2005), "Tax Avoidance, Tax Competition and Globalisation: Making Tax Justice a Focus for Global Activism," in Jorma Penttinen, Ville-Pekka Sorsa, and Matti Ylönen (Eds) *More Taxes! Promoting Strategies for Global Taxation*, ATTAC, Helsinki, Finland.

Clausing Kimberly A (2001), "The Impact of Transfer Pricing on Intrafirm Trade," In James R Hines, Jr (Ed) International *Taxation and Multinational Activity*, University of Chicago press, Chicago, pp. 173–200.

_____ (2003), "Tax-motivated Transfer Pricing and US Intra-firm Trade Prices," *Journal of Public Economics*, Vol. 87, No. 9-10. pp. 2207–2223.

Cobham, Alex (2018), "Could the World Trade Organisation See a Challenge to Tax Havenry?" Tax Justice Network, July 4. Available at: https://taxjustice.net/2018/07/04/why-wto-tax-havens/

Cobham, Alex and Petr Janský (2020), *Estimating Illicit Financial Flows: A Critical Guide to the Data, Methodologies and Findings*, Oxford University Press, pp. 27–80.

Cobham, Alex, Petr Jansky, and Alex Prats (2014), "Estimating Illicit Flows of Capital Via Trade Mispricing: A Forensic Analysis of Data on Switzerland," *Working paper 350*, January, Center for Global Development. Available at: www.cgdev.org

Corcos, Gregory *et al*. (2013), "The Determinants of Intra-firm Trade: Evidence from French Firms," *The Review of Economics and Statistics*, Vol. 95, No. 3, July, pp. 825–838.

Cristea, Anca D and Daniel X Nguyen (2016), "Transfer Pricing by Multinational Firms: New Evidence from Foreign Firm Ownerships," *American Economic Journal: Economic Policy*, Vol. 8, No. 3, pp. 170–202.

Cuddington, John T (1986), *Capital flight: estimates. Issues and explanations,* Princeton University Press, Princeton.

Davies, Ronald B *et al*. (2018), "Knocking on Tax Haven's Door: Multinational Firms and Transfer Pricing," *The Review of Economics and Statistics*, Vol. 100, No. 1, March, pp. 120–134.

Deloitte and TaxSutra (2015), "Transfer Pricing Disputes Trends, Report 2015." Available at: http://www.tp.taxsutra.com/tptrendsreport2015.pdf

Deloitte (2017), "Corporate Tax Rates 2013-2017." Available at: https://www2.deloitte.com/content/dam/Deloitte /global/Documents/Tax/dttl-tax-corporate-tax-rates-2013-2017.pdf

Dowlah, Caf (2018), *Transformations of Global Prosperity: How Foreign Investment, Multinationals, and Value Chains are Remaking Modern Economy*, Palgrave Macmillan, New York, USA.

Eden, Lorraine (2009), "Taxes, Transfer Pricing and the Multinational Enterprise," in Alan M Rugman (Ed) *The Oxford Handbook of International Business*, Second Edition, Oxford University Press, Oxford, pp. 557–590.

Ernst and Young (2012), "Global Transfer Pricing Tax Authority Survey: Perspectives, Interpretations and Regulatory Change." Available at: https://www.eytax.jp/tax-library/thought-leadership/pdf/2012_Global_TP_Tax_ Authority_Survey_E.pdf

_____ (2015), "OECD Releases Discussion Draft on Hard-to-value Intangibles under BEPS Action 8," Executive summary, *EY Global Tax Alert*, June 8. Available at: www.ey.com

Financial Express (2015), "CBDT Announces Audit Relief for MNCs," March 17.

Global Financial Integrity (2019), *India: Potential Revenue Losses Associated with Trade Misinvoicing*, June. Available at: https://gfintegrity.org/wp-content/uploads/2019/06/GFI-India-2019.pdf

GoI (Undated), Income Tax Department. Available at: https://www.incometaxindia.gov.in/Pages/charts-and-tables.aspx

Goyal, Surinder K *et al*. (2002), *India's External Trade during the Nineties: Some Aspects – An Analysis of Customs House and Company Data*, ISID research team, ISID, New Delhi.

Grubert, Harry (1998), "Another Look at the Low Taxable Income of Foreign-controlled Companies in the United States," *Proceedings: Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association,* Vol. 91, pp. 157–175.

Grubert, Harry and John Mutti (1991), "Taxes, Tariffs and Transfer Pricing in Multinational Corporate Decision Making," *Review of Economics and Statistics*, Vol. 73, No. 2 pp. 285–293.

Harris, David *et al*. (1993), "Income Shifting in U.S. Multinational Corporations," in Alberto Giovannini, R Glenn Hubbard, and Joel Slemrod (Eds) *Studies in International Taxation,* University of Chicago Press, Chicago, pp. 277–307.

Hebous, Shafik and Niels Johannesen (2015), "At Your Service! The Role of Tax Havens in International Trade with Services," CESifo Working Paper No. 5414, CESifo Group, Munich.

Helleiner, G K (1981), "Intra-firm Trade and the Developing Countries: An Assessment of the Data," in Robin Murray (Ed) *Multinationals Beyond the Market*, Brighton: Harvester.

Hines, James R (1999), "Lessons from Behavioral Responses to International Taxation," *National Tax Journal*, Vol. 52, No. 2, pp. 305–322.

Hines, James R and Eric M Rice (1994), "Fiscal Paradise: Foreign Tax Havens and American Business," *Quarterly Journal of Economics*, Vol. 109, No. 1, pp. 149–182.

Hipple, F Steb (1990), "Multinational Companies and International Trade: The Impact of Intrafirm Shipments on US Foreign Trade 1977–1982," *Journal of International Business Studies*, Vol. 21, No. 3, pp. 495–504.

Huizinga, Harry and Luc Laeven (2008), "International Profit Shifting within Multinationals: A Multi-Country Perspective," *Journal of Public Economics*, Vol. 92, No. 5-6, pp. 1164–1182.

Hung, K and Lynne Chan Chow (1997), "International Transfer Pricing for Business Operations in China: Inducements, Regulation and Practice," *Journal of Business Finance and Accounting*, Vol. 24, No. 9-10 (October & December), pp. 1269–1289

Irarrazabal, Alfonso, Andreas Moxnes, and Luca David Opromolla (2013), "The Margins of Multinational Production and the Role of Intrafirm Trade," *Journal of Political Economy*, Vol. 121, No. 1, pp. 74–126.

IRS (2018), "Country-by-Country Report: Tax Jurisdiction Information," Tax Statistics, Internal Revenue Service, December 19. Available at: https://www.irs.gov/statistics/soi-tax-stats-country-by-country-report

Iyer, Monica (2017), "Transferring Away Human Rights: Using Human Rights to Address Corporate Transfer Mispricing," *Northwestern Journal of Human Rights*, Vol. 15, No. 1, pp. 1–31.

Jansky, Petr and Alex Prats (2013), "Multinational Corporations and the Profit-shifting Lure of Tax Havens," Christian Aid Occasional Paper number 9. Available at: http://www.christianaid.org.uk/Images/CA-OP-9-multinational-corporations-tax-havens-March-2013.pdf

Jansky, Petr and Ondrej Kokes (2016), "Profit-shifting from Czech Multinational Companies to European Tax Havens," *Applied Economics Letters*, Vol. 23, No. 16, pp.1130–1133.

Jones, Chris, Yama Temouri, and Alex Cobham (2018), "Tax Haven Networks and the Role of the Big 4 Accountancy Firms," *Journal of World Business*, Vol. 53, No. 2, pp.177–193.

Kar, Dev (2010), *The Drivers and Dynamics of Illicit Financial Flows from India: 1948–2008*, Global Financial Integrity. Available at: http://www.gfintegrity.org/report/country-case-study-india.

_____ (2011), *Illicit Financial Flows from the Least Developed Countries: 1990–2008*, UNDP-Commissioned Report, Global Financial Integrity. Available at: http://www.gfintegrity.org

Kar, Dev and Sarah Freitas (2012), *Illicit Financial Flows from Developing Countries: 2001-2010*, Global Financial Integrity, Washington, DC.

Kar, Dev and Joseph Spanjers (2015), *Illicit Financial Flows from Developing Countries: 2004-2013*, Global Financial Integrity. Available at: http://www.gfintegrity.org/wp-content/uploads/2015/12 /IFF-Update_2015-Final-1.pdf

KPMG (2019), "Corporate Tax Rate Tables." Available at: https://home.kpmg/xx/en/home/ services/tax/tax-tools-and-resources/tax-rates-online/ corporate-tax-rates-table.html

Liu, Li, Tim Schmidt-Eisenlohr, and Dongxian Guo (2017), "International Transfer Pricing and Tax Avoidance: Evidence from Linked Trade-Tax Statistics in the UK," *CESifo Working Paper No. 6594*, CESifo Group Munich.

Markham, Michelle (2005), *The Transfer Pricing of Intangibles*, Kluwer Law International, London.

Ministry of Finance (2014 & 2015), *Annual Report 2013-14* and *Annual Report 2014-15*, Budget division, Ministry of Finance, Government of India, http://mof.gov.in/reports

Mintz, Jack and Michael Smart (2004), "Income Shifting, Investment, and Tax Competition: Theory and Evidence from Provincial Taxation in Canada," *Journal of Public Economics*, Vol. 88, No. 6, pp. 1149–1168.

Morais, Richard C (2009), "Illicit Transfer Pricing Endangers Shareholders," August 28. Available at: https://www.forbes.com/2009/08/28/transfer-pricing-illegal-glaxo-dodging-taxes-personal-finance-transferprice.html?sh=463a2b363cd7

Murphy, Richard (2013), "Over Here and Undertaxed: Multinationals, Tax Avoidance and You," Kindle e-book, Vintage Digital, February 18.

Natke, Paul A and Richard Newfarmer (1985), "Transnational Corporations, Trade Propensities and Transfer Pricing," in United Nations Centre on Transnational Corporations (Ed) *Transnational Corporations and International Trade: Selected Issues*, ST/CTC/54.

Newlon, Timothy S (2000), "Transfer Pricing and Income Shifting in Integrating Economies," in Sijbren Cnossen (Ed) *Taxing Capital Income in the European Union: Issues and Options for Reform*, Oxford University Press, Oxford, pp. 214–242.

OECD (2002), "Intra-industry and Intra-firm Trade and the Internationalisation of Production," *OECD Economic Outlook 71*, OECD (2013), *Public Consultation: Draft Handbook on Transfer Pricing Risk Assessment*, April 30, p. 12. Available at: http://www.oecd.org/tax/transfer-pricing/Draft-Handbook-TP-Risk-assessment-ENG. pdf

_____ (2013), *Action Plan on Base Erosion and Profit Shifting*, pp. 14–24. Available at: www.oecd.org

_____ (2015), "Explanatory Statement," *OECD/G20 Base Erosion and Profit Shifting Project*, 2015 Final Reports. Available at: http://www.oecd-ilibrary.org/ docserver /download/2316341e.pdf

_____ (2015), "Executive Summaries," *OECD/G20 Base Erosion and Profit Shifting Project,* 2015 Final Reports. Available at: http://www.oecd.org/ctp/beps-reports-2015-executive-summaries.pdf

_____ (2015), "Measuring and Monitoring BEPS," *OECD/G20 Base Erosion and Profit Shifting Project*, Action 11 – 2015 Final Report. Available at: http://www.oecd.org/ctp/measuring-and-monitoring-beps-action-11-2015-final-report-9789264241343-en.htm

_____ (2017), *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration*, July. Available at: www.oecd.org

_____ (2019), Corporate Tax Statistics, First Edition. Available at: https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-database-first-edition.pdf

Pak Simon J and John S Zdanowicz (2002), "An Estimate of 2001 Lost US Federal Income Tax Revenues due to Over-invoiced Imports and Under-invoiced Exports," Working paper, Penn State University.

Plasschaert, Sylvain (1994), in (Ed.) *Transnational Corporations: Transfer Pricing and Taxation*, United Nations Library on Transnational Corporations, Vol. 14, Routledge, New York.

PricewaterhouseCoopers (2011), *Certainty in the uncertain world of Transfer Pricing*. Available at: www.pwc.com/india

Reuters (2014), "Trade Mispricing Costing Africa Billions: Study," May 12. Available at: https://www.reuters.com/article/us-africa-trade-idUSBREA4A0AH20140511

Richardson, Grant, Grantley Taylor, and Roman Lanis (2013), "Determinants of Transfer Pricing Aggressiveness: Empirical Evidence from Australian Firms," *Journal of Contemporary Accounting and Economics*, Vol. 9, No. 2, pp. 136–150.

RBI (various years), "Census on Foreign Liabilities and Assets of Indian Direct Investment Companies," RBI Bulletin. Available at: https://www.rbi.org.in

Shaxson, Nick (2019), "Over a Third of World Trade Happens Inside Multinational Corporations," Tax Justice Network, April 9. Available at: https://www.taxjustice.net/2019/04/09/over-a-third-or-more-of-world-trade-happens-inside-multinational-corporations/

Sheppard, Lee A (2014), "Twilight of the International Consensus: How Multinationals Squandered their Tax Privileges," *Washington University Journal of Law & Policy*, Vol. 44, p. 61.

Siddharthan, Natteri S and Nagesh Kumar (1990), "The Determinants of Inter-Industry Variations in the Proportion of Intra-Firm Trade: The Behaviour of US Multinationals," Weltwirtschaftliches Archiv, Vol. 126, pp. 581–591.

Sikka, Prem and Hugh Willmott (2010), "The Dark Side of Transfer Pricing: Its Role in Tax Avoidance and Wealth Retentiveness," *Critical Perspectives on Accounting*, Vol. 21, No. 4, pp. 342–356.

Sundaram, Jomo Kwame (2015), "Tackling Transfer Pricing," *Economic & Political Weekly*, Vol. 50, No. 20, pp.15–18.

Tax Justice Network (2019), "Corporate Tax Haven Index – 2019 Results." Available at: https://corporatetaxhavenindex.org/introduction/cthi-2019-results

Terra, Ben J M and Peter Jacob Wattèl (1993), *European Tax Law,* Kluwer Law, The Hague, pp. 596.

The Economic Times (2015), "Focus More on Curtailing Outflow of Black Money: US-based Global Financial Integrity to India," January 5.

UN (2008), "International Standard Industrial Classification of All Economic Activities," Revision 4, Series M No. 4/Rev.4, Department of Economic and Social Affairs, Statistics Division, United Nations Publications, New York, p. 36.

United Nations (2010), "Working Draft," Chapter of the Practical Manual on Transfer Pricing for Developing Countries. Available at: http://www.un.org/esa/ffd/tax/sixthsession/CRP4_Ch5.pdf

_____ (2017), *Practical Manual on Transfer Pricing for Developing Countries*, United Nations, New York, pp. 417–458.

_____ (1997), *World Investment Report 1997: Transnational Corporations, Market Structure, and Competition Policy*, United Nations, New York and Geneva, pp. 20–21.

UNCTAD (2013), *Global Value Chains: Investment and Trade for Development*, World Investment Report, United Nations, New York and Geneva.

Vicard, Vincent (2015), "Profit Shifting through Transfer Pricing: Evidence from French Firm Level Trade Data," Working Paper No. 555, Banque de France.

World Economic Forum (2015), *State of the Illicit Economy: Briefing Papers*, Available at: http://www3.weforum.org/docs/WEF_State_of_the_Illicit_Economy_2015_2.pdf

Yoder, Lowell D (2014), "Recent Transfer Pricing Cases," A note from the Editor-in-Chief, *International Tax Journal*, Vo. 40, No. 5, pp. 3–5, September-October.

Yun-Jong, Jang (2008), "Current Status of Intra-firm Trade among Korean Enterprises and Implications, Industrial Economic Information," Vol. 405, *KIET.*

Zdanowicz John, Simon Pak, and Michael Sullivan (1999), "Brazil–United States Trade: Capital Flight through Abnormal Pricing," *The International Trade Journal*, Vol. 13, No. 4, pp. 423–443.

Zeile, William J (1997), "US Intrafirm Trade in Goods," *Survey of Current Business*, February, pp. 23–38.

The Institute for Studies in Industrial Development (ISID) is a public funded, non-profit, autonomous institution dedicated to conducting policy research, advocacy, capacity-building and outreach activities to foster industrial transformation of India.

Registered on October 7, 1986, under the Indian Societies Registration Act 1860, ISID in 1988, became one of the institutions that are supported by the Indian Council of Social Science Research (ICSSR), Government of India, through grants-in-aid. Since 2006, the Institute operates from its own well-appointed campus located in the Vasant Kunj Institutional Area in South Delhi.

The policy research and other activities of ISID can be classified under six broad thematic areas, as follows:

1. Industrial Structure, Performance, and Policies for Responsible and ustainable Industrialization
2. Spatial Dimensions of Industrial Development and Industrial Infrastructure
3. Leveraging MSMEs and Start-Ups for Industrial Transformation
4. FDI, Trade Policies, Regional Value Chains, and Competitiveness
5. IPRs, Technology and Innovation
6. Sectoral studies on Competitiveness of Indian Manufacturing

ISID is recognized as a Scientific and Industrial Research Organization (SIRO) by the Government of India. It is also listed on DARPAN portal of NITI Aayog (India's Planning Agency) as a recognized think-tank. ISID's Databases and e-resources are accessed by the academic community across the country through the Information and Library Network (INFLIBNET) Centre of the University Grant Commission (UGC).

ISID Institute for Studies in Industrial Development
An institution of Indian Council of Social Science Research (Ministry of Education)
4 Vasant Kunj Institutional Area, New Delhi - 110070, India
Phone: +91 11 2676 4600 / 2689 1111; E-mail: info@isid.org.in; Website: https://isid.org.in