

the rate of withholding tax on dividends is reduced from 25 per cent to 15 per cent if the recipient is a company that owns at least 10 per cent of the shares of the company paying the dividends; however, this reduced rate applies only to dividends paid out of profits from investments made after October 31, 1985. With respect to royalties and fees for technical services, a rate of 30 per cent applies but only for technology transferred under arrangements made after October 31, 1985. A general rate of withholding tax of 15 per cent applies to interest. The agreement also provides for a limited number of exceptions in the case of interest.

It must be stressed that a host of concessions and incentives exist in India which, if used correctly, can reduce a company's tax burden considerably. These incentives include tax holidays for new industrial undertakings or for firms located in India's six Export Processing Zones (EPZ), substantial investment and depreciation allowances, tax concessions for locating in designated backward areas, deductions for scientific research, and concessions for export-oriented companies.