

Business Standard

NITI proposes measures to ease foreign firms' operations in India

The recommendation appears in the think tank's latest Tax Policy Working Paper Series - 1 released on Friday

Monika Yadav | [New Delhi](#)



The working paper also recommends codifying PE and attribution rules within domestic law (in alignment with global norms), bolstering dispute resolution via binding arbitration and training tax officers for consistency in approach.

NITI Aayog has proposed an optional presumptive taxation regime for foreign companies operating in India, aimed at reducing litigation, bringing greater certainty, and easing compliance costs. The recommendation appeared in the think tank's latest Tax Policy Working Paper Series-1 released on Friday.

India has attracted cumulative foreign direct investment (FDI) inflows of about \$1.07 trillion between April 2000 and March 2025, but persistent ambiguity around permanent establishment (PE) and profit attribution has led to protracted disputes and compliance headaches for foreign investors, the paper noted.

Under the proposed scheme, foreign firms could opt in to a simplified mechanism where they pay taxes on a predefined, sector-specific percentage of their gross revenues from India. Firms choosing this route would benefit from safe harbour

protection as tax authorities would not separately litigate the existence of an PE for that activity, relieving them from maintaining exhaustive books locally. Importantly, the scheme would be rebuttable. Firms that believe their actual profits fall below the presumptive amount could instead file under the regular regime.

“The paper presents a compelling picture of the opportunities available in refining our approach to permanent establishments. By providing greater clarity and predictability in our tax regulations, India is poised to attract substantial new foreign investment and encourage existing multinational corporations to expand,” said B V R Subrahmanyam, CEO of NITI Aayog .

He also emphasised that the measure would address the issue of profit attribution for foreign digital and technology companies as most disputes in recent years have been concentrated in this sector. He noted that the optional presumptive route would help mitigate those disputes. Meanwhile, he also expressed confidence that the government would implement these proposals.

The working paper also recommends codifying PE and attribution rules within domestic law (in alignment with global norms), bolstering dispute resolution via binding arbitration, and training tax officers for consistency in approach.

According to Sandeep Jhunjhunwala, M&A Tax Partner at NangiaNXT, in the recent years, the ambit of PE-related contentions has expanded beyond conventional fixed-place establishments to encompass a spectrum of interpretations, ranging from agency and service PEs to digital and dependent agent models, each fraught with interpretive ambiguities.

With such a surge in tax litigation against the backdrop of a robust upswing in foreign direct investment, the working paper from NITI Aayog, showcases a forward-looking and pragmatic approach to policy-making.

“The proposed optional presumptive taxation scheme of levying income tax in the range of 5 to 30 per cent of India-sourced gross revenue, spread across industry verticals, with the option to opt out if a foreign company believes that its actual profits attributable to India, are lower than the presumptive figure, is a welcome proposition. The recommendation under the scheme that the Indian Tax Authorities would not separately litigate the existence of a PE, in case a foreign company opts for presumptive taxation, offers certainty by sidestepping the PE threshold debate, providing foreign investors with a clear path forward,” Jhunjhunwala added.

RBI to ease rules for foreign companies to open, shut offices

In an effort to improve operating conditions and attract foreign investment, the Reserve Bank of India (RBI) has proposed easing eligibility norms for setting up businesses in the country. It has also suggested a simplified process for closing non-compliant and inactive branches.

The draft proposals aim to provide greater operational flexibility by shifting to principle-based regulations, which the RBI said would result in enhanced freedom for businesses.

BS Reporter

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