

## Research Paper

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A Strategic Reform for  
Simplified Compliance,  
Enhanced Competitiveness  
And Economic Growth

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A pioneering thought-leader and a community enabler, BCAS continues to play a pivotal role in strengthening the accounting, tax, finance and economic fibre of India.

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IIM Mumbai, under the dynamic leadership of Prof. Manoj K. Tiwari, Director IIM Mumbai, is the nodal hub for capacity building in Logistics and Supply chain Management to promote the PM Gati Shakti Master plan. IIM Mumbai students have regular interactions and sessions from industry leaders and leading researchers, especially in Supply Chain and Operations Management. At IIM Mumbai, we host eminent faculty from international institutes like the Massachusetts Institute of Technology (MIT), USA, and Kellogg School of Management at Northwestern University, USA to take courses for students and working professionals across industries.

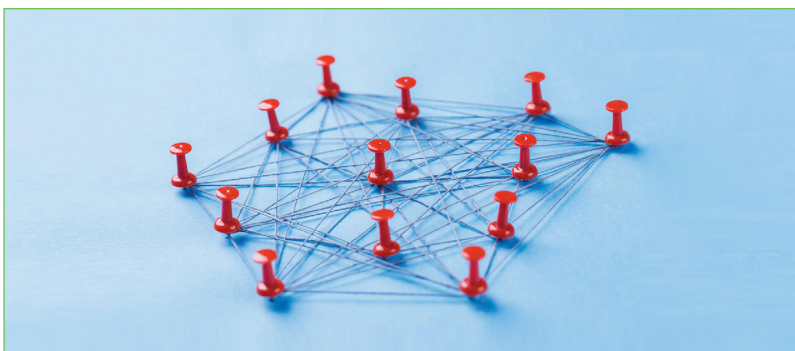
IIM Mumbai has established The Centre of Excellence in Logistics and Supply Chain Management. The center aims to conduct cutting-edge research, knowledge creation, and capacity-building programs to develop India's logistics sector through applied research and industry outreach to tackle real-time business scenarios.

IIM Mumbai also has a vibrant Student Exchange Programme with several partner universities across North America, South America, Europe, and South-East Asia.



## Executive Summary

The introduction of a Group Taxation Regime in India has been a subject of deliberation for years, yet actionable policy measures remain absent. As one of the fastest-growing economies, India's corporate sector is evolving rapidly, with complex multi-entity



business structures becoming the norm. However, the current tax framework, which treats each company within a group as a separate taxable entity, creates inefficiencies leading to higher compliance costs, tax leakage, and suboptimal resource allocation. In contrast, several advanced economies have implemented tax consolidation models that streamline tax administration, improve cash flow management, and enhance business competitiveness.

This report critically examines the global landscape of group taxation and presents a strategic model for India, balancing tax efficiency with fiscal responsibility. The proposed Modified Pooling Model with Attribution Flexibility enables group-wide loss adjustments, simplifies compliance, and fosters a more business-friendly tax environment while safeguarding against potential tax avoidance. By leveraging best practices from countries such as Australia, the UK, and Germany, this model ensures that taxation aligns with economic substance rather than rigid legal structures.

Despite its merits, the transition to group taxation presents regulatory and operational challenges. Defining eligible corporate groups, managing intra-group transactions, and enforcing anti-avoidance measures requires a carefully structured policy framework. To address these concerns, the report outlines a three-phase implementation roadmap:

**Phase 1 :** Introducing tax consolidation for 100% subsidiaries to establish a controlled framework.

**Phase 2 :** Expanding the model to large listed corporate groups with a 75% ownership threshold, allowing for strategic tax planning.

**Phase 3 :** Extending coverage to cross-border transactions under global tax treaties, aligning India with international standards while ensuring revenue neutrality.

A well-designed Group Taxation Regime can serve as a catalyst for economic growth, investment, and Ease of Doing Business in India. By adopting a structured and phased approach, India can mitigate risks, enhance tax certainty, and create a competitive corporate tax system that fosters domestic business expansion and foreign investment.

This reform is not just a tax policy shift but a transformative step towards a globally competitive, transparent, and efficient tax ecosystem.

This study presents a financial and qualitative analysis of group taxation in India, integrating data from 14 holding companies and their subsidiaries across various sectors, with financials sourced from the CMIE Prowess database. Companies were selected based on significantly negative total profit after tax, with exclusions made for missing data or negative debt-equity ratios. The final sample included 14 holding companies and their subsidiaries, with data systematically extracted for analysis. Additionally, qualitative insights were obtained from seven senior finance professionals (CFOs, partners, directors) with over 20 years of experience operating in complex, multi-subsidiary structures. These experts expressed broad support for a Group Taxation Regime, particularly a consolidated tax return model, citing potential for business growth and GDP contribution, while also highlighting concerns about administrative complexity and risks of tax evasion.

This study has certain limitations. The industry sample is relatively narrow, and the qualitative analysis is based on a small number of expert respondents, which may limit the generalizability and breadth of the findings.

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## Abbreviations

National Stock Exchange	NSE
Bombay Stock Exchange	BSE
Confederation of Indian Industry	CII
Federation of Indian Chambers of Commerce & Industry	FICCI
Direct Taxes Code	DTC
Goods and Services Tax	GST
Foreign Direct Investment	FDI
Corporate Income Tax	CIT
European Union	EU
European Economic Area	EEA
Profit and loss pooling agreement	PLPA
Global Intangible Low-Taxed Income	GILTI
Base Erosion and Anti-Abuse Tax	BEAT
CbC	Country-by-Country
Anti-Tax Avoidance Directive	ATAD
Base Erosion and Profit Shifting	BEPS
Double Taxation Avoidance Agreement	DTAA
Advanced Pricing Agreement	APA
Earnings Before Interest, Taxes, Depreciation, And Amortization	EBITDA
Controlled Foreign Corporation	CFC
Limitation of Benefits	LoB



*“A tax consolidation regime would align India’s tax framework with global standards and foster a business-friendly environment, crucial for Atmanirbhar Bharat (self-reliant India).” – ICAI (2022)*

## Introduction

India, one of the fastest-growing major economies in the world, has a robust and expanding corporate sector. The National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) together constitute the third-largest stock market globally in terms of the number of companies listed, with a combined market capitalization of approximately \$4.9 trillion as of January 2025<sup>1</sup>, representing around 3% of the global market. India has debated introducing a Group Taxation Regime for several years. Despite the pressing need for such a regime, the discussion has largely been theoretical, with little empirical research on the use of corporate group structures in India.



While there is considerable research on corporate group structures globally and their tax implications in other countries (e.g., Australia, the UK, and Japan), India lacks a comprehensive analysis of how corporate group structures are utilized domestically. This paper aims to address this gap by examining the prevalence and characteristics of corporate groups in India. Table 1 gives an overview of registered companies in India.

**Table 1: Types of Companies Registered in India**

Public Companies	Private Companies	Foreign Companies	Total No. of Registered Companies
72,247	16,19,248	3,288	16,91,495

*Source: Compiled by Author*

Globally, tax systems have evolved to address the complexities of corporate groups by adopting the enterprise doctrine through Group Taxation Regimes. These regimes vary from group loss relief systems to full tax consolidation regimes. Tax consolidation regimes redefine the concept of a “taxpayer” by treating a group of companies under common control as a single entity for tax purposes. This allows for filing consolidated tax returns, intra-group loss offsets, and tax-free asset transfers, significantly enhancing operational efficiency and reducing administrative burdens.

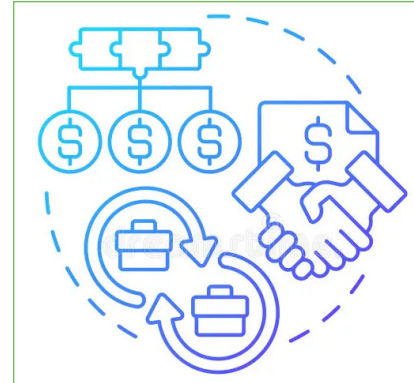
In India, corporate groups are defined under various frameworks, including company law, accounting standards, and tax law. Under the Companies Act 2013, a corporate group includes holding companies, subsidiaries, and associate companies. However, the

1 Market cap of BSE-listed companies hits \$5 trillion for the first time. *Business Standard*. [https://www.business-standard.com/markets/stock-market-news/market-cap-of-bse-listed-companies-hits-5-trillion-first-time-ever-124052101387\\_1.html](https://www.business-standard.com/markets/stock-market-news/market-cap-of-bse-listed-companies-hits-5-trillion-first-time-ever-124052101387_1.html)



tax system still adheres to the separate entity doctrine, treating each company within a group as a distinct taxpayer. This approach often results in double taxation, higher compliance costs, and inefficient utilization of group resources.

CMIE Prowess database reveals that almost 75% of the companies operate within a group framework, involving intricate ownership structures and inter-company transactions. This fact strengthens the case for the Indian government to seriously consider implementing a Group Taxation Regime, particularly in the form of tax consolidation. Such a move would simplify tax compliance and improve the global competitiveness of Indian businesses.



Discussions on introducing a Group Taxation Regime in India date back several years but have not yet resulted in actionable policy. India's tax regime has resisted group taxation due to perceived complexity and concerns over revenue loss. However, as India continues to modernize its tax infrastructure and aims to enhance its global competitiveness, introducing a Group Taxation Regime whether in the form of group loss relief or full tax consolidation remains a viable and necessary reform for the future.

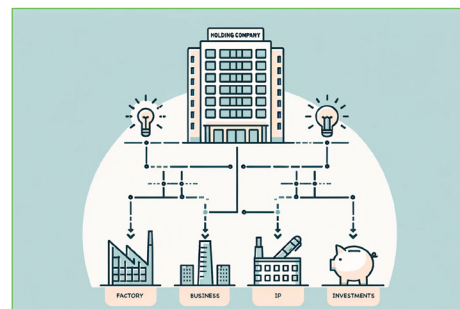
Concerns include potential revenue loss for the government, complexity in implementation, and challenges in addressing tax avoidance strategies. However, evidence from countries like Australia and Japan suggests that such regimes can promote economic growth, enhance corporate efficiency, and attract foreign investment.

In conclusion, introducing a Group Taxation Regime in India could represent a significant step toward aligning with global best practices, fostering a more business-friendly environment, and encouraging greater investment. Given India's pervasive use of corporate group structures, this reform could be a key driver of economic growth and corporate innovation.

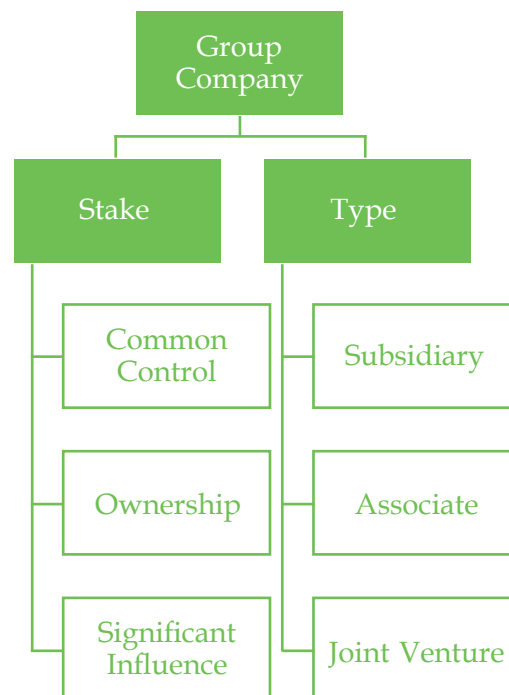
## Definition of Corporate Group in India

Under the Companies Act 2013, a corporate group can be understood through the definitions of Holding Company, Subsidiary Company, and Associate Company:

1. Holding Company (Section 2(46)): A holding company is defined as a company that:
  - a) Controls the composition of the board of directors of another company or
  - b) Exercises or controls more than 50% of the total voting power, directly or indirectly.



2. **Subsidiary Company (Section 2(87)):** a subsidiary company is one where:
  - a) Another company (the holding company) controls more than 50% of the total voting power, or
  - b) The holding company controls the composition of its board of directors.
3. **Associate Company (Section 2(6)):** An associate company is one in which another company has a significant influence, meaning control of at least 20% of total share capital or participation in business decisions under an agreement. However, it excludes a subsidiary company. Fig. 1, highlights the ownership and inter-company linkages.



*Figure 1: Group Company Structure and Overview*

### 1.1 Implicit Meaning of Group Company

Although the Companies Act 2013 does not define Group Company, the above definitions collectively outline the concept. A Group Company typically refers to:

- i. A set of companies under common control or ownership, including holding, subsidiary, and associate companies.
- ii. Entities linked through joint ventures or significant influences.

The term is also used in contexts like consolidated financial statements and related party transactions as per accounting standards (Ind AS 110 and Ind AS 24).

For specific situations, we may refer to SEBI regulations or the Competition Act of 2002, which address group structures in contexts like promoter groups or anti-competitive behavior.

## History of Proposals on Group Taxation Regime in India

India has witnessed several discussions and debates over introducing a Group Taxation Regime driven by calls from industry stakeholders and professional bodies. The Indian corporate sector, with its extensive use of holding, subsidiary and associate structures, has long emphasized the need for group taxation to simplify compliance, reduce tax burdens, and encourage foreign investment.



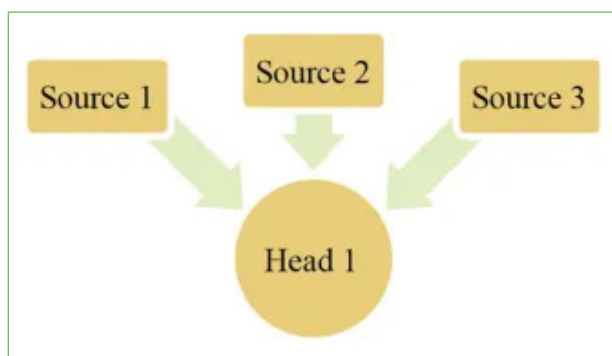
Trade and professional bodies, including the Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce & Industry (FICCI), have lobbied for group taxation. These organizations argue that the absence of such a regime places India at a disadvantage compared to nations like Australia and Japan, which offer group loss relief and tax consolidation regimes.

In its 2015 pre-budget memorandum, the CII stated: “The lack of group taxation mechanisms creates inefficiencies and hinders optimal use of resources within corporate groups. Introducing such a regime will enhance India’s competitiveness and Ease of Doing Business”

Similarly, KPMG India, in its 2020 report on taxation reforms, suggested that group loss relief would ensure fair taxation, allowing businesses to offset losses in one group company against the profits of another, thereby promoting innovation and risk-taking within group structures.

The Indian government has historically hesitated to introduce a Group Taxation Regime. The Kelkar Committee on Direct Taxes (2002) explored the idea but concluded that the regime might complicate India’s tax system and result in revenue leakage. In its report, the committee highlighted concerns about defining the scope of “group” and the potential misuse of such provisions.

The government revisited the issue during the discussions on Direct Taxes Code (DTC) in 2009. The draft DTC proposed provisions for group taxation, including consolidated tax filing and intra-group loss offsets. However, the proposal was dropped in the final version in 2010, with officials citing administrative challenges and risks of tax avoidance as primary reasons.



In 2019, the Finance Ministry again considered group taxation under its broader agenda to improve the Ease of Doing Business. However, the proposal was shelved, with concerns expressed over the complexity it could add to the system. A senior official remarked:

*“India’s tax system has made significant strides in simplification. Introducing group taxation might undo these gains by adding layers of complexity.”*

While the government has consistently rejected the idea of group taxation, certain structural reforms in India’s tax system such as the corporate tax rate cut in 2019, the faceless assessment scheme, and the Goods and Services Tax (GST) indicate a movement toward simplifying taxation. These changes could serve as a foundation for eventually introducing a Group Taxation Regime.

## **Advantages of Group Taxation in India**

This section outlines the potential benefits of introducing group taxation in India to different stakeholders.



### **i. Simplified Tax Administration**

India’s current corporate tax system requires each entity within a group to file separate tax returns, resulting in increased compliance burdens and significant administrative costs. This fragmented approach often complicates the tax process for corporate groups managing multiple entities. By implementing group taxation, the filing process would be streamlined by submitting a consolidated tax return. This change would significantly reduce administrative expenses, creating a more efficient system for both taxpayers and tax authorities. Additionally, integrating group taxation with India’s existing Goods and Services Tax Network (GSTN) would facilitate seamless digital compliance, ensuring that businesses can quickly adapt to the new framework while leveraging India’s robust digital infrastructure for tax administration.

### **ii. Boosting Foreign Direct Investment (FDI)**



India currently ranks 63rd on the Ease of Doing Business Index (2020), reflecting the challenges faced by corporations operating in the country. The introduction of group taxation could align India’s tax framework with global standards, making it an attractive destination for multinational corporations. By adopting practices

similar to those in developed economies, India would signal its commitment to creating a business-friendly environment. This could encourage global giants like Amazon, Google, and Toyota to expand their operations in the country, thereby boosting FDI inflows. Group taxation simplifies tax administration and provides flexibility, two particularly appealing factors to international businesses seeking operational efficiency and cost reduction in new markets.

### iii. **Enhanced Ease of Doing Business**

Large conglomerates in India, such as the Tata Group, which operates over 100 subsidiaries, face substantial compliance costs under the current tax regime. Similarly, companies like Reliance Industries encounter inefficiencies in managing intra-group transactions. Group taxation would address these challenges by streamlining tax processes, reducing compliance burdens, and eliminating redundant tax calculations for intra-group dealings.



Furthermore, group taxation could promote innovation by allowing startups within a corporate group to offset their losses against the profits of more established entities. This would provide emerging businesses with the financial cushion needed to grow and thrive, fostering a more dynamic and entrepreneurial business environment in India.

### iv. **Better Utilization of Losses**

Group taxation allows businesses to offset losses incurred by one group entity against the profits of another. This ensures better utilization of tax attributes such as carried-forward losses and unabsorbed depreciation. By enabling this cross-entity offset, businesses can maintain financial stability, which is especially beneficial during economic downturns or for groups with diverse portfolios across sectors.

### v. **Improved Cash Flow Management**

Under group taxation, consolidated tax liabilities can reduce the overall tax burden for the group, freeing up cash that can be reinvested in core operations or growth initiatives. For cash-intensive sectors such as infrastructure, technology, and manufacturing, this improved cash flow can accelerate project execution, enhance competitiveness, and stimulate overall economic growth.

### vi. **Encouragement for Business Expansion**

Group taxation can encourage Indian companies to diversify and expand into new sectors or geographies. By mitigating the tax risks associated with the financial volatility of new ventures, companies are more likely to take bold steps in



innovation and expansion. This can also make India an attractive hub for global conglomerates planning to diversify their operations in emerging markets.

### **vii. Reduction of Tax Disputes**

The current system of separate tax filings often leads to disputes over intra-group transactions and transfer pricing. Group taxation eliminates or reduces the need to account for such transactions, as they are disregarded within the group. This simplifies tax assessments and reduces litigation risk, allowing businesses and the government to focus resources on more critical areas.

### **viii. Enhanced Tax Certainty**

Group taxation provides businesses with greater predictability in tax planning and compliance. A uniform system for calculating tax liabilities at the group level removes ambiguity and ensures consistency. This certainty is particularly valuable for multinational corporations and large conglomerates managing complex operations.

### **ix. Alignment with Global Practices**

Many developed economies, including the United States, Australia, and several European nations, already have group taxation systems. Introducing a similar model in India would align its tax framework with international best practices, increasing its appeal as a destination for cross-border investments and enhancing its reputation as a globally competitive economy.

### **x. Promoting Long-Term Investments**

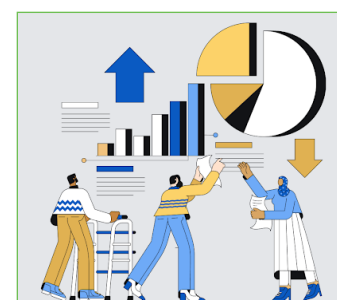
Group taxation incentivizes businesses to take a long-term perspective on investments. By sharing losses and tax credits within the group, companies can better weather short-term financial challenges and focus on sustainable growth strategies, contributing to overall economic stability.

## **Global Tax Consolidation Models**

This section discusses the different tax consolidation methods. Countries adopt varied tax consolidation models tailored to their fiscal policies, economic structures, and administrative preferences. These models determine how group entities are taxed collectively or individually. This will pave the way for the selection of a suitable group taxation method for India

### **1.1 Pooling Model**

The pooling model of group taxation combines all profits and losses of the group members into a single taxable income for the entire group. Each entity within the group





retains its identity but contributes its financial outcomes to a consolidated pool. The resulting group tax liability is then distributed among the entities based on pre-defined criteria, such as the proportion of profits contributed by each entity.

This model simplifies tax administration by treating the group as a single tax-paying unit, reducing the complexity of individual filings for each entity. Additionally, intra-group transactions are typically disregarded under this system to avoid double counting issues, further streamlining the tax process.

The Netherlands and Germany provide examples of the pooling model in practice. The Netherlands employs a “Fiscal Unity” system, where group companies can pool profits and losses and are treated as a single taxpayer. Similarly, Germany uses the “Organschaft” mechanism, which consolidates the gains and losses of group members while allowing them to maintain their separate legal identities.

The pooling model primarily promotes tax neutrality within a corporate group. It also facilitates the efficient use of losses across group entities, ensuring a fairer and more balanced approach to group taxation. Figure 2 illustrates taxable income distribution under the pooling method.



*Figure 2: Taxable Income Distribution across Entities using Pooling Method*

## 1.2 Absorption Model

In the absorption model of group taxation, the parent company absorbs all tax attributes of its subsidiaries, including profits, losses, and tax credits. The group files a consolidated tax return as if the parent company solely earned all income and incurred all expenses. This model often requires a high ownership threshold, typically between 90% and 100%.

Under this approach, the parent company becomes the sole taxpayer, and subsidiary-level tax attributes are disregarded in separate calculations. This centralization simplifies the tax process by consolidating all group taxation under the parent company.

Countries like Australia and the United States use the absorption model in their tax systems. Australia operates under a tax consolidation system known as the “Single Entity Rule,” where the parent company absorbs the tax attributes of its subsidiaries. Similarly, in the United States, consolidated returns are filed with the parent company serving as the central tax entity for the group.

The absorption model is particularly beneficial for large corporate groups, as it simplifies tax filings and reduces compliance burdens by centralizing taxation under the parent company. As shown in Figure 3 taxable income distribution under the absorption method.

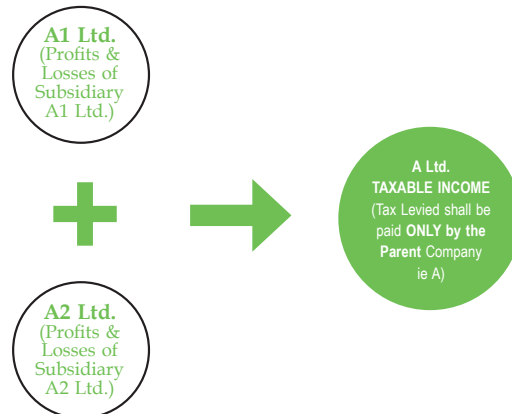


Figure 3: Taxable Income Distribution across Entities using absorption method

### 1.3 Attribution Model

The attribution model of group taxation allows the tax attributes of each group member, such as profits, losses, and credits, to remain separate while permitting their attribution or transfer between entities under specific conditions. This model often enables the transfer of losses from one group member to offset the profits of another, providing strategic tax benefits without requiring full income or loss consolidation. A key feature of this model is that it maintains the independence of each group member's tax filings while allowing for strategic offsets, such as loss transfers. This approach provides flexibility to corporate groups by enabling them to optimize their tax positions without fully consolidating their tax attributes.

An example of the attribution model is the United Kingdom's "Group Relief" system, where losses from one entity can be attributed to another within the group to offset profits for tax purposes.

The attribution model is particularly advantageous in jurisdictions that seek to retain the tax identity of individual entities while still offering flexibility for group taxation. It balances maintaining entity-level independence and enabling efficient tax management within the group. Figure 4 presents taxable income distribution using the attribution method.



Figure 4: Taxable Income Distribution across Entities using attribution method

## Country-Specific Group Taxation Mechanisms



Group taxation has been implemented in various countries, with each jurisdiction defining group companies based on its legal framework, tax policies, and corporate structures. While some nations emphasize strict ownership thresholds, others consider economic control, voting rights or fiscal integration to determine eligibility for tax consolidation. These varying approaches reflect different policy objectives, balancing tax efficiency, compliance, and corporate restructuring incentives. Some of the definitions of group companies used by other countries are:

### 1.1 United States - (1918)

In the United States, an affiliated group of ‘includible’ corporations, consisting of a parent company and its subsidiaries that are directly or indirectly 80% owned, may file a consolidated federal income tax return. This allows the group to offset one affiliate’s profits against another’s losses. However, a foreign-incorporated subsidiary cannot be included in the U.S. group except in specific cases such as

- i. Certain Mexican and Canadian incorporated entities,
- ii. Foreign insurance companies electing to be treated as domestic corporations, and
- iii. Foreign corporations considered ‘expatriated’ under anti-inversion rules and treated as domestic for tax purposes.

Partnerships, even those 100% owned by members of an affiliated group, are not eligible for consolidation as they are not classified as corporations. Nevertheless, the earnings passing through from a partnership are included in the consolidated group’s taxable income or loss. Some states may also impose specific requirements or prohibitions regarding filing consolidated returns.

### 1.2 United Kingdom - (1973)

To qualify for group relief, a company must be a 75% subsidiary of another, or both must be 75% subsidiaries of a third company. Specifically, the parent company must hold at least 75% of the ordinary share capital of the subsidiary, and those shares must entitle the parent to at least 75% of the subsidiary’s distributable profits and assets in the event of a winding-up. Additionally, companies that qualify for Group Payment Arrangement must be parent companies or their 51% subsidiaries. This arrangement allows companies in the same group to offset profits and losses.

### 1.3 France – (1988)

French corporations and their domestic subsidiaries, where at least 95% of the shares are owned, may opt to file a consolidated tax return. This allows for offsetting losses from one corporation against the profits of another within the group. A French subsidiary can be included in a tax-consolidated group even if its parent is based outside of France, provided the French company holds at least 95% of the subsidiary's share capital, directly or indirectly. The foreign company must also be subject to Corporate Income Tax (CIT), located in the European Union (EU) or European Economic Area (EEA), and bound by a tax treaty with France that includes mutual administrative assistance to combat tax fraud and evasion.

### 1.4 Germany – (1977)

In Germany, if a parent company holds more than 50% of the voting rights in a subsidiary managed in Germany, the two entities may enter into a formal profit and loss pooling agreement (PLPA). The PLPA must be registered with the courts and maintained for at least five years. For a tax group to be formed for corporate and trade tax purposes, the following conditions must be met:

- i. The parent must have held the subsidiary's shares continuously since the start of the subsidiary's financial year, granting it the majority voting rights.
- ii. The parent of an Organschaft (tax group) must be an individual, a trading partnership, or a non-tax-exempt corporation, association, or estate.
- iii. The subsidiary must be a corporation, with its place of management located in Germany or an EU/EEA member state with a registered seat.
- iv. A formal PLPA must be concluded between the parent and subsidiary for at least five years, stipulating that the subsidiary will surrender its entire income to the parent and be compensated for any losses.

### 1.5 Japan – (2002)

Japan's Group Taxation Regime allows domestic companies wholly owned by a domestic or foreign entity (or individual) to apply for group tax relief. A subsidiary does not qualify for group tax relief if a foreign corporation is interposed in a 100% ownership structure (Source: Grant Thornton). Unlike the group tax relief regime, the group taxation system automatically applies to group companies.

### 1.6 Worldwide Tax Consolidation Practices

Tax consolidation practices differ across countries. A brief overview:

#### i. **Australia: Consolidation Limited to Domestic Entities**

Australia excludes foreign subsidiaries from tax consolidation, enforcing strict transfer pricing and thin capitalization rules. The country also applies CFC rules to prevent profit parking in low-tax jurisdictions.

## ii. United States: Separate Taxation for Foreign Subsidiaries

The U.S. implements Global Intangible Low-Taxed Income (GILTI) rules to tax profits in low- tax jurisdictions. Additionally, the Base Erosion and Anti-Abuse Tax (BEAT) discourages excessive payments to foreign affiliates. The U.S. also enforces CbC reporting to track multinational tax liabilities.

## iii. European Union: Consolidation Limited to Domestic Operations

The EU's Anti-Tax Avoidance Directive (ATAD) ensures fair taxation of profits. Hybrid Mismatch Rules prevent companies from exploiting different tax treatments across jurisdictions, while exit taxes deter asset migration outside the EU.

## iv. Japan: Strict Eligibility for Tax Consolidation

Japan allows tax consolidation only for 100% domestic subsidiaries. It also imposes strict deduction limits on intercompany transactions to prevent tax leakage.

## 1.7 Application of Models

**Table 2: Group Taxation Models**

Model	Key Mechanism	Example Countries	Why Used
<b>Pooling</b>	Combines all profits/ losses for a single calculation	Netherlands, Germany	Promotes unity in taxation and simplifies intra-group tax adjustments.
<b>Absorption</b>	Parent company absorbs all tax attributes	Australia, United States	Centralizes tax responsibility, reducing compliance complexity.
<b>Attribution</b>	Allows selective transfer of tax attributes	United Kingdom, Ireland	Provides flexibility while maintaining entity-specific tax structures.

*Source: Compiled by Author*

## Global Practices in Group Taxation

Table 3: Group Taxation Practices

Countries & Models	Key Features	Challenges Faced	Lessons for India
<b>United Kingdom:</b> Group Relief System <b>Model:</b> Attribution	<ul style="list-style-type: none"> <li>Loss-making entities can transfer their tax losses to profitable group companies.</li> <li>Group members file individual returns but share tax attributes</li> </ul>	<ul style="list-style-type: none"> <li>Loss of revenue due to unrestricted loss transfers</li> <li>Complex administrative mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Restrict the percentage of losses transferable to maintain revenue neutrality.</li> <li>Simplify compliance mechanisms to suit India's digital tax infrastructure</li> </ul>
<b>United States:</b> Consolidated Returns <b>Model:</b> Absorption	<ul style="list-style-type: none"> <li>Parent company absorbs the tax attributes of subsidiaries</li> <li>Inter-company transactions are disregarded for tax purposes</li> </ul>	<ul style="list-style-type: none"> <li>High compliance costs due to tracking intra- group transactions</li> <li>Strict eligibility thresholds</li> </ul>	<ul style="list-style-type: none"> <li>Opt for simplified compliance frameworks to avoid administrative burdens</li> <li>Ensure transparency by integrating technology-driven tax filing systems</li> </ul>
<b>Germany:</b> Organschaft (Fiscal Unity) <b>Model:</b> Pooling	<ul style="list-style-type: none"> <li>Profits and losses are pooled, with the parent company being the tax- paying entity.</li> <li>High ownership threshold (95%)</li> </ul>	Exclusion of minority-owned subsidiaries limits group benefits	Implement a lower ownership threshold (75%) to include more entities
<b>France:</b> Fiscal Integration <b>Model:</b> Pooling	<ul style="list-style-type: none"> <li>Consolidation of profits and losses for tax purposes.</li> <li>Intra-group dividends are tax-exempt</li> </ul>	Frequent changes in group definitions caused inconsistency	Maintain clear and consistent definitions for group eligibility



Countries & Models	Key Features	Challenges Faced	Lessons for India
<b>Japan:</b> Consolidated <b>Taxation</b> Model: Pooling	Allows group companies to consolidate their taxable income	Resistance from local governments over perceived revenue losses	Demonstrate revenue neutrality through pilot projects before full-scale implementation

Source: Compiled by Author

## Empirical Approach

### Data Collection and Pre-Processing

The data for this study was obtained from the CMIE Prowess database. The data collection process began with the identification of 20 holding companies exhibiting significantly negative total profit after tax. Firms with negative debt-equity ratios or missing financial information were excluded from the sample, resulting in a final selection of 14 holding companies. Following that, the subsidiaries associated with selected holding companies were identified. Financial information pertaining to both the holding companies and their subsidiaries was systematically extracted from the database for subsequent analysis. Figure 5 illustrates the distribution of 14 companies across various industry sectors based on their primary line of business.



Figure 5: Sectoral Classification of the Companies

The qualitative insights gathered from a focused group of seven senior finance professionals comprising CFOs, partners, and directors (Average of over 20 years of experience) shed light on the current and prospective dynamics of group taxation in India. Respondents operate within complex business structures featuring multiple subsidiaries, often exceeding 20 entities, particularly in sectors such as Travel and Real

Estate. The existing tax system is perceived to impose a moderate increase in the tax burden for most business groups, although its impact is relatively neutral for those with centralized operational models. There is broad-based support for the introduction of a Group Taxation Regime, with respondents identifying it as a potential catalyst for business expansion and national GDP growth. The preferred framework among these leaders is a consolidated tax return model for the entire group. However, they also caution against administrative complexity and highlight the risk of potential tax evasion in the absence of adequate safeguards, underscoring the need for a balanced and well-regulated implementation strategy.

## Data Analysis

This financial analysis examines the performance of 14 diversified companies operating across seven key industries: Retail & Apparel, Infrastructure, Telecommunications, Renewable Energy, Real Estate, Media & Entertainment, and Industrial Manufacturing. A total of 127 subsidiaries (Average ~8 subsidiaries per company) were analysed, averaging approximately eight subsidiaries per company,



with financial data spanning a five-year period sourced from BSE filings. The analysis reveals a profitability distribution wherein 45% of the subsidiaries were profit-making, while 55% were loss-making, thereby enabling group-level tax optimization through setoffs. On average, these firms reported annual revenues of ₹ 2,15,511 crores and realized average tax savings of ₹ 1,814 crores per annum, equating to 0.85% of annual revenues. Over the five-year period, the total cumulative tax savings amounted to ₹ 9,073 crores, which, through a multiplier effect, contributed an estimated ₹ 22,229 crores to the national GDP. These findings underscore the strategic fiscal advantages of intra-group financial structuring and its broader macroeconomic implications.

However, the group taxation model is unlikely to cause negative impact for revenue in the long run due to the following factors:

- i. In profit making groups, group taxation is unlikely to result in tax savings and may only result in administrative ease in compliance
- ii. In loss making groups, the losses of subsidiaries may be set off against future profits, resulting only in timing differences in set off, thereby limiting the losses to revenue to a mere timing impact
- iii. In groups where some subsidiaries are making losses beyond the set off horizon, the set-off benefit may help in sustaining these entities that may be engaged in impactful activities for the group such as research or innovation

### 1.8 Impact of Tax Savings and the Multiplier Effect

When group consolidation reduces a corporate group's tax burden, the cash liberated can be reallocated to productive investment or distributed to shareholders. Macroeconomic simulations for India suggest that a one-rupee reduction in any major levy whether GST, personal income, or corporate tax yields an almost one rupee increase in nominal GDP, implying a short run multiplier of approximately -1.0. If part of those savings finances additional capital expenditure rather than immediate consumption, the effect magnifies: an incremental ₹ 1 crore of public capex is estimated to generate around ₹ 2.45 crore in GDP within a year (Bose & Bhanumurthy, 2013).

These estimates demonstrate that tax consolidation, which lowers effective rates across a group, can simultaneously provide near-term demand support and foster longer-term productivity through enhanced investment.

### 1.9 Recommendations for Group Taxation in India

India's current corporate tax system taxes companies individually, which limits the optimization of tax benefits within corporate groups. Group taxation, also known as tax consolidation, allows corporate groups to consolidate their profits and losses for tax purposes. It enables affiliated companies (a parent and its subsidiaries) to be treated as a single tax unit. Instead of filing separate tax returns, the group files a consolidated tax return, allowing for the offset of profits and losses across the group.

As shown in figure 6 when considering best fit model for India, pooling might simplify compliance for large corporate groups; absorption could centralize taxation and reduce administrative burdens. At the same time, attribution offers flexibility, which could appeal to India's diverse corporate landscape.

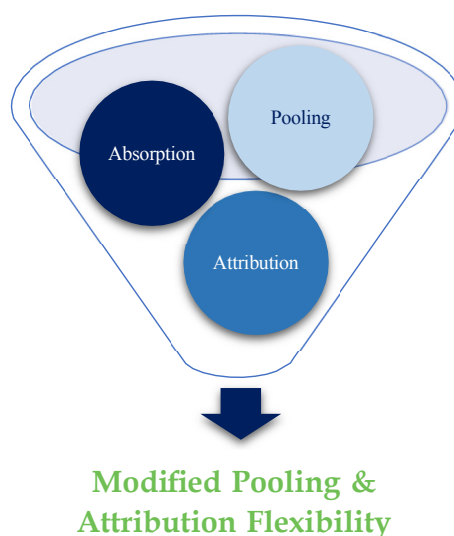


Figure 6: Modified Pooling Model

This proposal advocates introducing a Modified Pooling Model with Attribution Flexibility, which aligns with India's economic landscape and corporate structure while drawing lessons from global practices. This model will simplify tax administration, attract foreign direct investment (FDI), enhance the Ease of Doing Business, and demonstrate revenue neutrality.

### 1.10 Ownership Test

In implementing group taxation in India, the ownership test should balance global best practices and the nuances of Indian taxation and accounting laws. The following ownership framework is proposed from international precedents and India's approach to adopting foreign laws.

The ownership test for group taxation should ensure that the parent entity beneficially owns at least 75% of the voting rights and profits of the subsidiary entities, either directly or through a fiscal chain, during the tax year. This threshold aligns with global standards such as those in the United Kingdom and Spain while considering India's focus on substantial control in fiscal matters. The ownership should also encompass a beneficial entitlement to at least 75% of the subsidiary's assets, ensuring alignment with the economic reality of control and reducing the risk of tax evasion. Entities opting for group taxation must be residents of India and subject to Indian corporate tax. However, non-resident entities may serve as the controlling parent if India has a Double Taxation Avoidance Agreement (DTAA) with the respective country, providing a robust framework for cross-border corporate groups.

To account for India's dynamic corporate structure, the ownership framework should apply to both vertical and horizontal groups, enabling broader coverage of multi-layered organizational structures. In line with Italy's requirements, all members of the group should align their fiscal year to ensure consistency in tax reporting. To promote stability, the group membership should be valid for a minimum of three years and be tacitly renewable unless revoked. Non-resident subsidiaries should not be eligible for group taxation to maintain tax base integrity within India. An exception may be granted for joint ventures or projects with specific government approval. This framework balances the principles of ownership, beneficial control, and fiscal alignment, supporting India's goal of adopting global tax practices while safeguarding domestic fiscal interests.

To streamline participation, India should adopt a "check-the-box" declaration mechanism. A group will consist of a parent company and its domestic subsidiaries holding at least 75% voting rights and profit share. Once opted in, the declaration will be valid for a minimum of five years, ensuring stability.

Group membership will take effect from the 1st of April of the relevant tax year. All entities will be deemed merged into the parent for tax purposes only, while maintaining their corporate identity for other legal purposes such as under GST or the Companies Act

India's fiscal policies emphasize tax fairness and anti-evasion measures. The proposed ownership threshold balances these priorities while fostering alignment with international standards. Introducing group taxation can reduce compliance burdens for conglomerates, promote economic efficiency, and align India with OECD guidelines on Base Erosion and Profit Shifting (BEPS). However, safeguards such as residency requirements and minimum ownership periods are essential to prevent misuse.

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### 1.11 Mode of Computation

To implement group taxation effectively, India should adopt a hybrid approach that combines elements of the pooling method and the group relief mechanism, tailored to its unique taxation framework and accounting practices.

The **pooling method** is recommended for consolidated income computation, requiring all group entities to file individual tax returns while the parent or dominant company consolidates taxable income. Each entity will compute its income or losses separately under the Income Tax Act, 1961, ensuring compliance with existing tax regulations. The dominant company will aggregate these results to calculate the group's consolidated taxable income, thereby reducing compliance complexity.

To prevent tax base erosion and misuse, intra-group transactions will not be eliminated entirely. However, certain exceptions, such as interest on loans, rent or lease payments, and insurance premiums, may qualify for deductions, provided they meet arm's-length pricing requirements under Indian transfer pricing rules.

A **uniform tax year** should be mandated across all entities in the group to simplify computation and ensure consistency. Additionally, the international pooling method may apply to multinational groups, with profits or losses consolidated proportionate to the parent entity's holding, provided India has a Double Taxation Avoidance Agreement (DTAA) with the foreign jurisdiction.

India could also incorporate a **group relief mechanism** like the United Kingdom, allowing transfer of losses or specific deductions between group entities. For example, losses of a surrendering entity could offset the profits of a claiming entity, promoting efficiency. Unlike the UK model, the transfer should be limited to entities with the same tax year to maintain administrative simplicity.



This proposed hybrid framework balances India's fiscal priorities with global best practices by combining the pooling method with a group relief mechanism. It accommodates both domestic and international group structures while maintaining tax base integrity. The inclusion of transfer pricing guidelines for intra-group transactions ensures compliance with global norms and mitigates the risk of tax evasion. By aligning with international practices, this framework minimizes revenue leakage and promotes the benefits of tax consolidation while addressing India's unique fiscal and regulatory priorities.

Under the "tax merger,"

- **Brought-forward business losses** of subsidiaries will **lapse**.
- **Unabsorbed depreciation** will be added to the **WDV of the parent's assets**.
- **Deferred revenue expenses** may be claimed by the parent entity.
- **Intra-group transactions** such as intercompany sales, services, or interest payments will be ignored for tax computation.

The tax liability shall be computed on consolidated income and proportioned to group entities based on individual **book profits**. Implementing this framework would require amendments to the Income Tax Act, 1961, and related rules. Moreover, administrative training and technological upgrades in India's tax infrastructure would be necessary for effective adoption.

### 1.12 Worldwide Tax Consolidation

To ensure a robust tax system and reduce administrative complexity, it is recommended that foreign subsidiaries and associated entities of Indian corporate groups be excluded from tax consolidation. The primary reason for this exclusion is to avoid the regulatory and compliance challenges arising from differing tax laws in foreign jurisdictions. Managing tax obligations across multiple legal frameworks increases the burden on tax authorities and businesses, leading to potential disputes and inefficiencies. Additionally, exclusion helps mitigate the risk of profit shifting to low-tax jurisdictions, ensuring that India's tax base remains protected. However, strong regulatory measures must be in place to prevent tax avoidance to monitor and control cross-border transactions.

### 1.13 Safeguards to Prevent Misuse

While excluding foreign entities mitigates the complexity of tax administration, it also increases the risk of profit shifting through related-party transactions and aggressive tax planning. To address this, the following safeguards should be implemented:



- i. **Transfer Pricing Regulations-** Strict enforcement of arm's length pricing should be mandated for all transactions between Indian entities and their foreign affiliates. Comprehensive disclosure of related party transactions should be required, along with the option for companies to enter into advanced pricing agreements (APAs) to ensure compliance.
- ii. **Thin Capitalization Rules-** Restrictions should be placed on excessive debt financing between Indian entities and foreign subsidiaries. A cap on the debt-to-equity ratio should be imposed, and interest expense deductions should be limited to a fixed percentage of earnings before interest, taxes, depreciation, and amortization (EBITDA).
- iii. **Controlled Foreign Corporation (CFC) Rules-** To prevent the accumulation of untaxed profits in offshore subsidiaries, passive income such as royalties, interest, and dividends earned by Indian-controlled foreign subsidiaries should be taxed even if not repatriated. Minimum taxation standards should also be applied to subsidiaries located in tax havens.
- iv. **Treaty Shopping & Tax Haven Restrictions-** To prevent multinational groups from exploiting tax treaties for tax avoidance, Limitation of Benefits (LoB) clauses should be enforced. Foreign subsidiaries must demonstrate genuine economic substance such as having actual business operations, employees, and assets before availing treaty benefits. Exit tax rules should be introduced to tax unrealized gains when companies shift assets abroad.
- v. **Mandatory Country-by-Country (CbC) Reporting-** Multinational corporations should be required to disclose tax payments, revenue, and profits across all jurisdictions. This would increase transparency and enable authorities to detect anomalies in profit allocation.
- vi. **Lock-in Period and Exit Oversight-** To discourage misuse, group opt-in must be valid for at least five years and exits should be closely monitored. On exit, demerger treatment will apply to ensure tax neutrality and transparency.

#### **1.14 Key Takeaways for India**

Based on global best practices, India should adopt the following principles while excluding foreign companies from tax consolidation:

- i. Maintain domestic tax base integrity by restricting consolidation to Indian entities.
- ii. Prevent profit shifting through stringent transfer pricing, thin capitalization, and CFC rules.

- iii. Strengthen international tax compliance by enforcing CbC reporting and LoB clauses.
- iv. Introduce exit taxation to deter asset migration to low-tax jurisdictions.
- v. Ensure transparency in intercompany transactions to prevent artificial profit allocation.

By excluding foreign companies from tax consolidation and implementing robust safeguards, India can protect its tax base while ensuring a simplified and efficient tax framework. This approach aligns with the best international practices and minimizes regulatory challenges, ultimately fostering a fair and competitive corporate tax environment. While exclusion presents some risk of profit shifting, the recommended safeguards will ensure that multinational groups cannot exploit the system for tax avoidance. A well-structured policy will balance the need for tax revenue protection with the administrative ease of compliance, creating a sustainable and transparent tax regime.

To operationalize these principles, India may adopt a practical mechanism where **subsidiaries can enter the group structure** by declaring eligibility through a **simple electronic check-in**, subject to a 5-year lock-in period.

On **exit**, whether by revocation or disqualification (e.g., divestment or dilution of shareholding), the entity shall be treated as **demerged for tax purposes**. Tax demerger provisions under the Income Tax Act would apply with tailored waivers such as exemption from issuing shares to 75% of the parent's shareholders.

This ensures the system remains administratively efficient and legally sound.

## Implementation Plan for Group Taxation in India

In this study, we propose a comprehensive three-phased implementation plan for group taxation in India, designed to enhance tax efficiency, reduce compliance burdens, and align with global taxation norms. This proposal advocates introducing



a Modified Pooling Model with Attribution Flexibility, a framework tailored to India's unique economic landscape and corporate structures while drawing critical lessons from successful international practices. Each phase is meticulously structured to address the unique complexities of India's corporate ecosystem while fostering transparency, efficiency, and economic growth. Annexure 1 gives an overview of the group companies that are affiliated with the top 30 companies in Sensex. This table illustrates the number of total subsidiaries, which is further bifurcated into fully and partly held domestic and foreign subsidiaries. It helps in visualizing the phase-wise implementation plan for group taxation.

### 1.1 Phase 1: 100% Subsidiaries

The initial phase of implementing group taxation in India focuses exclusively on 100% subsidiary companies, establishing a strong foundation for the system. This phase begins with a pilot program in the first year, targeting 50 to 100 eligible corporate groups. These pilot participants will test the framework, and based on success and learnings, the program will expand to include additional corporate groups in the second year.

As shown in figure 7 the scope of this phase is limited to wholly owned subsidiaries with a common parent company. The eligibility criteria mandate a 100% ownership threshold between the parent and its subsidiaries, and all entities within the group must be Indian tax residents. The government aims to streamline the implementation process by focusing on such companies while addressing potential challenges in a controlled environment.

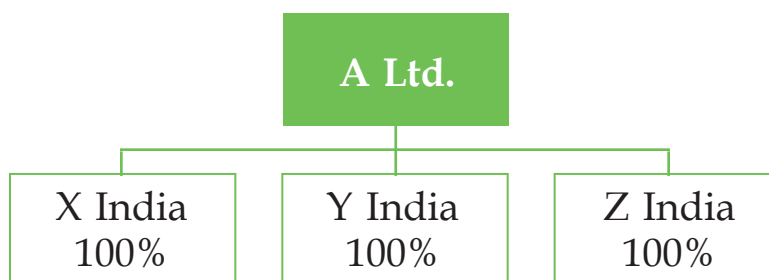


Figure 7: Corporate Structure of A Ltd. and Its Subsidiaries

One of the key features of this phase is the pooling mechanism, where profits and losses of all subsidiaries are consolidated at the parent company level. This allows for optimal utilization of tax credits, including research and development (R&D) incentives and depreciation allowances, across the group. Compliance is simplified by requiring a single consolidated tax return filed by the parent company. Leveraging India's existing digital tax infrastructure, such as the Goods and Services Tax Network (GSTN), will further ease reporting requirements and reduce administrative burdens. While the parent company consolidates the profit/loss and adjusts the tax liability, the tax savings attributable to the respective subsidiary is passed through an accounting adjustment. Hence the cashflow planning can be done at the group level and the benefit of tax saving can be adjusted at the subsidiary level.

The expected outcomes of Phase 1 include reduced compliance costs for conglomerates. Additionally, the streamlined process is anticipated to enhance administrative efficiency for corporations and the government, setting the stage for the subsequent implementation phases.

## 1.2 Phase 2: Large Listed Corporates

Building upon the experiences of the first phase, Phase 2 will focus on broadening the scope of group taxation to include large publicly listed corporate groups. The implementation timeline for this phase spans the third and fourth years, with a gradual rollout to listed companies across various sectors to ensure a smooth transition.

Figure 8 shown the phase introduces a reduced ownership threshold of 75%, accommodating the complex structures of large, listed conglomerates. A notable feature of this phase is the strategic attribution of losses within the group.

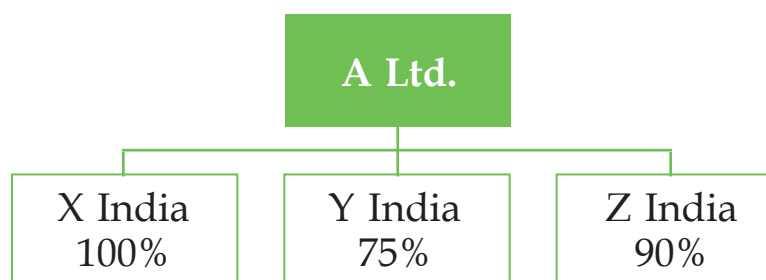


Figure 8: 75% Ownership Threshold and Loss Offset Mechanism

Tax credits are distributed across the group to optimize overall tax liabilities, encouraging companies to refine their tax strategies. Stringent anti-abuse measures will be implemented to safeguard the system against misuse. These include regulations to prevent the manipulation of group structures and ensure compliance with transfer pricing regulations for intra-group transactions.

The outcomes expected from Phase 2 include incentivizing conglomerates to optimize their tax strategies while promoting transparency and accountability in corporate tax reporting. By incorporating these measures, this phase will significantly enhance the efficiency and reliability of the taxation system, benefiting both corporations and regulatory authorities.

### 1.3 Phase 3: Cross-Border Transactions Under Global Tax Treaties

The third phase represents the most ambitious stage of the group taxation framework, integrating cross-border entities to align with global standards and attract foreign direct investment (FDI). This phase is planned over a three-year timeline, beginning in the fifth year with establishing bilateral agreements under global tax treaties and culminating in the seventh year with integrating AI-driven tax compliance tools.

As shown in figure 9 the scope of Phase 3 extends to multinational corporations (MNCs) operating in India, aligning the framework with the OECD's Base Erosion and Profit Shifting (BEPS) initiatives. The eligibility criteria expand to include parent-subsidiary relationships spanning domestic and international boundaries, provided these entities comply with global transfer pricing norms and relevant tax treaty provisions.

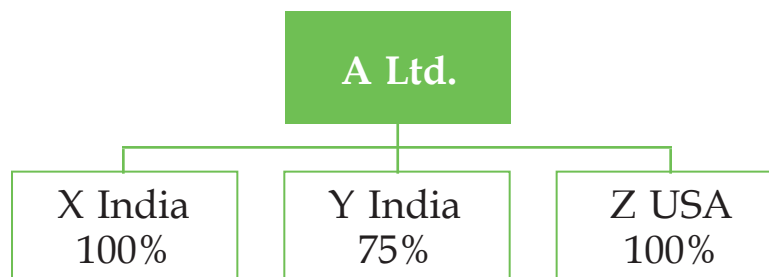


Figure 9: Eligibility Criteria 100 % Ownership for Streamlined Implementation

A robust compliance mechanism will be established to ensure the accuracy of cross-border tax filings. Consolidated tax returns will account for international income and expenses, utilizing advanced AI tools to streamline reporting and detect discrepancies. Additionally, the pooling mechanism will be extended to allow losses incurred by Indian subsidiaries to offset profits from global operations, subject to a cap to maintain revenue neutrality.

This phase will attract substantial FDI by simplifying tax administration for global corporations. By fostering a business-friendly tax environment, Phase 3 will position India as a competitive investment destination in Asia, boosting economic growth and enhancing its global standing.

The proposed phased implementation plan for group taxation is a strategic initiative to modernize India's tax framework. By focusing on 100% subsidiaries initially, expanding to large, listed corporates, and eventually incorporating cross-

border transactions, the model seeks to balance fiscal responsibility with business facilitation. This approach strengthens India's position as a competitive global investment destination and ensures equitable and efficient tax administration.

#### 1.4 Proposal for Tax Neutrality in Intra-Group Transfers in India

India's existing tax structure imposes immediate tax liabilities on intra-group asset transfers, creating financial strain and limiting the ability of businesses to optimize resources. This is especially challenging for corporate groups aiming to restructure or consolidate operations to improve efficiency. A Tax-Neutral framework will align India with global practices, reduce compliance burdens, and support business growth by enabling smoother internal reallocation of assets without immediate tax hurdles.

Globally, several countries have adopted Tax-Neutral approaches to intra-group transfers:

- **France:** Gains or losses from intra-group transfers are deferred and recognized only when the asset is sold to a third party. This ensures that taxation is tied to actual external transactions rather than internal movements. Additionally, uniform fiscal years across group entities and Ministry of Finance approvals provide transparency and control.
- **Spain:** Tax neutrality is achieved through a pooling method, allowing for seamless intra-group transfers without triggering tax events. However, only domestic entities within Spain qualify, ensuring clarity in the scope of tax consolidation.
- **United Kingdom:** Intra-group transfers are exempt from capital gains tax, but a "degrouching charge" applies if the entity exits the group within six years, ensuring the group benefits are not exploited for short-term gains.
- **Italy:** Both domestic and cross-border entities (under DTAAs) enjoy Tax-Neutral intra- group transfers, with deferred taxation realized upon external transactions. Losses can be carried forward indefinitely, further supporting long-term planning.

Introducing a Tax-Neutral framework for intra-group transfers in India will provide numerous benefits, including:

- i. **Operational Efficiency:** Allowing tax-free internal transfers will enable businesses to allocate resources dynamically within groups, improving overall productivity.
- ii. **Investment Attraction:** Aligning with global practices will make India more competitive for multinational corporations seeking stable and predictable tax policies.



- iii. **Dispute Reduction:** Clear guidelines on deferred taxation and valuation methods will minimize litigation and compliance disputes.
- iv. **Ease of Compliance:** SMEs will benefit from simplified compliance mechanisms, while large corporations can leverage uniform reporting and valuation practices to streamline operations.
- v. **Consistency Across Taxes:** Integrating this framework with GST provisions will ensure consistent tax treatment for direct and indirect taxes, promoting Ease of Doing Business.

To implement tax neutrality for intra-group transfers, India should adopt the following specific measures:

- i. **Taxation Mechanism:** Defer tax on gains/losses from intra-group transfers until the asset is sold to an external party or the entity exits the fiscal group.
- ii. **Valuation Guidelines:** Mandate fair market value (FMV) assessments for all intra- group transfers and require documentation to avoid disputes during audits.
- iii. **Uniform Tax Year:** Require all entities within the fiscal group to follow a uniform tax year for ease of reporting and consolidation.
- iv. **Cross-Border Flexibility:** Permit cross-border tax neutrality for subsidiaries covered under DTAAs, ensuring India remains attractive to multinational corporations.
- v. **Degrouping Charge:** Introduce a degrouping charge similar to the U.K. to prevent misuse of Tax-Neutral provisions by entities exiting the group within a specified period.

This comprehensive approach will enhance India's tax competitiveness, reduce compliance burdens, and foster an environment conducive to corporate growth and investment.

### 1.5 Legislative Draft and Specific Provisions

To implement group taxation effectively, a legislative framework should be established in the Income Tax Act. Key provisions include:

- i. **Group Definition and Election**

A group shall comprise a parent and its domestic subsidiaries ( $\geq 75\%$  ownership). Entities must opt-in using a "check-the-box" declaration. This election is irrevocable for five years.

## ii. Tax Merger Framework

- Subsidiaries are deemed merged into the parent only for income tax purposes.
- Brought-forward business losses lapse upon merger.
- Unabsorbed depreciation of subsidiaries becomes part of parent's WDV.
- Deferred revenue expenditures are transferred to the parent.
- Intra-group transactions are disregarded for tax computation.

## iii. Consolidated Filing and Apportionment

- One consolidated return, tax audit, and profit computation.
- Tax liability apportioned based on book profits of each entity.

## iv. Entry and Exit Mechanics

- New subsidiaries can join via election in any tax year.
- Exit results in deemed demerger; demerger rules apply with waivers (e.g., share issuance conditions).

## v. Special Tax Provisions

- Intra-group dividends exempt from tax.
- Capital gains on sale of group shares calculated as if no merger occurred.
- Deemed dividend (Sec 2(22)(e)) rules apply to non-group shareholders.
- TRC under Section 90 shall apply to the group.
- No deductions under Chapter VI-A; mandatory 22% tax regime; MAT exempt.

These provisions draw on successful international models such as:

- **Germany's Organschaft** system with minimum holding and profit pooling agreements;
- **UK's Group Relief** mechanism with structured loss attribution;
- **Australia's Single Entity Rule** that treats the group as one tax unit.

A similar hybrid model for India, with a legislative backbone and technological facilitation via CBDT systems, will ensure smooth implementation and global alignment.

## **Legal and Regulatory Challenges in Implementing Group Taxation**

This section lists out the potential legal and regulatory challenges that can be faced in the implementation of group taxation in India.



### **i. Defining a “Group” Amid Complex Corporate Structures**

India’s layered corporate framework poses a significant challenge in defining what constitutes a “group” for taxation purposes. Interconnected ownership patterns, cross- holdings, and joint ventures create ambiguities in establishing eligibility for group taxation. Determining tax obligations in such complex structures raises the risk of disputes, as entities may contest their inclusion or exclusion from a tax group. Clear and comprehensive definitions must be established to minimize misinterpretation, but the diversity of corporate arrangements in India complicates this effort.

### **ii. Assessing the Impact on Taxable Income and Inter-Entity Transactions**

Group taxation fundamentally alters how taxable income is calculated, particularly when considering inter-entity transactions. Shared services, intra-group loans, management fees, and dividend distributions lead to discrepancies between standalone and consolidated financial statements. Accurately reconciling these differences is essential but challenging, as inconsistencies can result in compliance issues. Robust mechanisms are needed to ensure that inter-company dealings do not distort the overall tax base, necessitating stringent reporting and audit standards.

### **iii. Implementing Anti-Abuse Measures to Prevent Tax Avoidance**

The risk of tax avoidance increases under group taxation, as entities may exploit loopholes to shift profits, artificially generate losses, or misuse shell companies. Without strong anti- abuse regulations, such practices could undermine fair taxation principles and lead to significant revenue losses for the government. Designing an effective framework to detect and deter these tactics is a priority, but it requires advanced monitoring tools and consistent enforcement across industries and regions.

### **iv. Reconciling Minimum Alternate Tax (MAT) Across Entities**

The introduction of group taxation raises questions about the application of MAT, especially when profit-making entities are grouped with loss-making ones. Consolidating profits and losses complicates MAT calculations, as group-level tax liabilities may not align with individual entity performance. Clear guidelines are needed to address how MAT is applied, ensuring fairness while avoiding excessive administrative complexity.

**v. Managing Cross-Border Implications for International Holdings**

Including international subsidiaries in group taxation frameworks introduces challenges related to global tax compliance. Adhering to transfer pricing norms, respecting double taxation treaties, and navigating differing tax regulations across jurisdictions complicate the taxation process. Conflicting obligations between Indian and foreign jurisdictions could lead to legal disputes and administrative hurdles, necessitating careful alignment with international standards and treaties.

**vi. Resolving Transfer Pricing and Revenue Allocation Disputes**

The scrutiny on inter-entity transactions intensifies under group taxation, making adherence to transfer pricing principles critical. Ensuring transactions are conducted at arm's length is essential to prevent revenue distortion. Additionally, India's federal tax system complicates the allocation of tax revenues among states where group entities operate. Establishing a transparent and equitable revenue-sharing model is vital to address these challenges.

**vii. Addressing Inadequate IT and Infrastructure Readiness**

The successful implementation of group taxation relies heavily on advanced IT infrastructure to manage consolidated tax filings, reconcile inter-company transactions, and enable real-time data sharing. However, India's existing tax systems may not be equipped to handle these demands. Significant investments in technology and capacity-building are required to modernize the digital tax infrastructure, ensuring efficiency and compliance.

**viii. Harmonizing Disparities in Accounting Years and Standards**

Aligning accounting practices across entities within a group presents another challenge. Differences in fiscal years, revenue recognition policies, and depreciation methods between Indian and international subsidiaries complicate the preparation of consolidated tax filings. Harmonizing these accounting practices requires substantial regulatory reforms and cooperation between businesses and tax authorities.

**ix. Mitigating Increased Compliance Costs and Administrative Burdens**

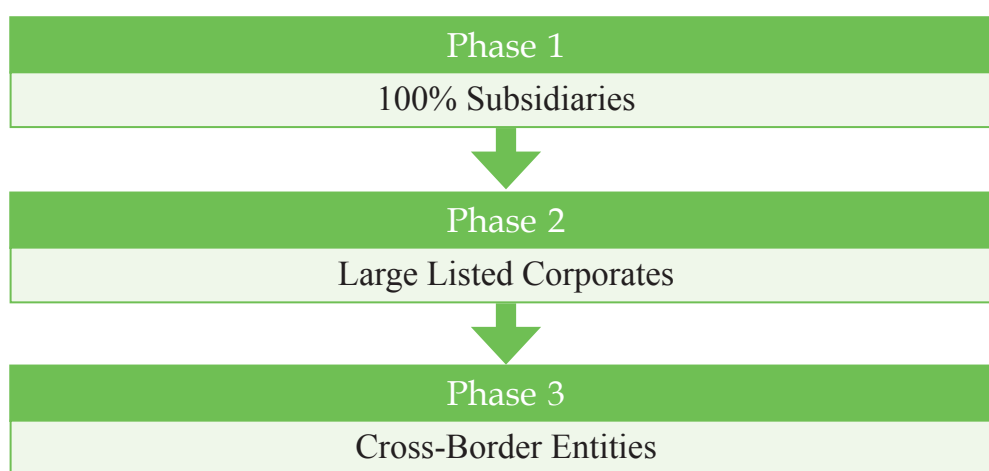
Group taxation introduces additional compliance and administrative challenges for both businesses and tax authorities. Companies must allocate more legal, financial, and IT support resources, while authorities must enhance their capabilities to monitor, audit, and resolve disputes. These increased costs and efforts may deter some entities from opting into the group taxation framework, reducing its overall efficacy.

**x. Preventing Revenue Loss and Base Erosion Risks**

Allowing loss-making entities to offset profits within a group could reduce the overall taxable base, impacting government revenues. This risk is compounded by the potential for Base Erosion and Profit Shifting (BEPS), where entities exploit gaps in the tax system to shift profits to low-tax jurisdictions. Robust safeguards aligned with global standards, such as the OECD's BEPS framework, are essential to mitigate these risks and protect India's tax base.

## Conclusion

The phased implementation plan for group taxation in India ensures a seamless transition by beginning with 100% subsidiaries, expanding to large, listed corporates, and ultimately integrating cross-border transactions. This strategic approach will simplify tax administration, boost foreign direct investment (FDI) inflows, enhance the Ease of Doing Business, and maintain revenue neutrality while fostering innovation and global competitiveness. By adopting this three-phase strategy, India can position itself as a leader in modern tax reforms, aligning with its broader goal of becoming a \$5 trillion economy and establishing itself as a global leader in tax policy innovation. A phased, data-driven approach will enable the successful implementation of group taxation while safeguarding India's fiscal interests.



*Figure 10: Staged Implementation plan*

In conclusion, implementing group taxation shown in figure 10 is a crucial step in modernizing India's tax system and aligning it with global best practices. It presents an opportunity to streamline the tax framework, reduce administrative burdens, and ensure equitable taxation across corporate entities. As India continues to evolve as an economic powerhouse, adopting group taxation would simplify complex corporate structures and create a conducive environment for domestic and international businesses to thrive. It is essential to ensure that India remains competitive in the global market, attracts investment, and fosters an innovation-driven economy. This approach to taxation will encourage transparency, reduce the risk of tax avoidance, and provide a more level playing field for businesses. The phased implementation plan is designed to address the challenges faced by India's diverse corporate landscape and federal structure, ensuring that the system is scalable, adaptable, and sustainable. By incorporating global trends and embracing modern tax practices, India can build a tax system

that supports its aspirations for growth, fiscal responsibility, and international leadership. Despite offering valuable insights, the study has certain limitations. It covers a limited range of industries, which may affect the generalizability of findings. Additionally, the qualitative insights are drawn from only seven senior finance professionals, limiting the diversity and breadth of perspectives.



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## Annexure No. 1

Sr. No.	Company	Total Subsidiaries	Domestic Fully Held	Domestic Partially Held	Foreign Fully Held	Foreign Partially Held	Associate & JV
1	Reliance	273	145	41	80	7	22
2	Tech Mahindra	169	10	20	109	30	15
3	Bharti Airtel	143	6	5	15	117	12
4	Mahindra & Mahindra	139	20	64	17	38	11
5	Tata Steel	129	16	11	95	7	0
6	HCL	121	11	0	105	5	6
7	Larsen & Toubro	107	30	33	7	37	9
8	Infosys	91	5	0	77	9	0
9	Tata Motors	90	14	1	59	16	18
10	Sun Pharmaceutical	83	13	2	41	27	0
11	Tata Consultancy Services	50	2	4	43	1	0
12	Power Grid Corporation of India	47	47	0	0	0	16
13	Adani Ports & SEZ	43	34	5	4	0	2
14	ITC	33	16	2	13	2	12
15	Asian Paints	30	4	4	11	11	2
16	Zomato	29	10	0	10	9	1
17	State Bank of India	26	8	8	5	5	26
18	Kotak Mahindra	21	16	0	5	0	3
19	UltraTech Cement	18	4	0	12	2	8
20	ICICI	17	7	5	5	0	8
21	HDFC Bank	14	5	6	3	0	0
22	NTPC	10	5	5	0	0	16
23	Hindustan Unilever	10	7	2	0	1	1
24	Axis Bank	9	5	3	1	0	1
25	Bajaj Finserv	8	4	4	0	0	0
26	Titan	6	1	1	4	0	2
27	Maruti Suzuki	3	3	0	0	0	17
28	Bajaj Finance	2	2	0	0	0	2
29	IndusInd Bank	1	1	0	0	0	1
30	Nestle India*	0	0	0	0	0	0

\* The Nestle India Limited Annual Report 2023-24 does not disclose details of any subsidiary companies, associates, or joint ventures.



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