The Drain called Royalties

A study by proxy advisory firm, Institutional Investors Advisory Services (IiAS) showed that 32 MNCs in the BSE-500 index paid royalty of Rs. 7100 crore in 2015-16 which is 21 per cent of their pre-tax profits. Infact, for the five years ending 2015-16, MNC royalty payments grew at 13 per cent while their pre-tax profits grew at 9.6 per cent.(Business Standard, 15-9-2017)

Royalty payments were regulated by the government and capped at 8 per cent of exports and 5 per cent of domestic sales in the case of technology collaborations. They were fixed at 2 per cent of exports and 1 per cent of domestic sales for the use of trade mark or brand name. The government has removed restrictions on royalty payments in 2009 and many MNCs began increasing royalty payments to their parent companies. Since then royalties paid by branches of MNCs have increased many folds outstripping the growth in revenues and profits.

The government increased tax on royalties from 10 to 25 per cent in 2012 claiming to arrest the outflow of foreign exchange. But the impact has not been significant as there are double taxation avoidance agreements with most of the imperialist countries in which MNCs are based. Moreover many foreign companies have evaded tax on royalties as was the case of Nokia to the tune of thousands of crores of rupees.

The government is worried about the depleting foreign exchange reserves due to royalty payments as they will cripple its capacity to service the foreign debts. It is also worried about the interests of minority share holders in the Indian branches of MNCs as they will be paid less returns on their investment. But it is not showing concern about the drain of country’s financial resources, both through legal and illegal routes. It is clear that the government is serving only the interests of foreign capital to the detriment of Indian society.

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