



Multinational instrument on taxation

Why in news?

\n\n

Recently OECD's Multilateral Instrument (MLI) to collect or retain revenues was signed by 67 countries, including India, in Paris.

\n\n

What is OECD?

\n\n

\n

- The Organisation for Economic Co-operation and Development is an intergovernmental economic organisation.
- It has 35 member countries, India is not a member of this organization.
- It was founded in 1960 to stimulate economic progress and world trade.
- It is a forum of countries describing themselves as committed to democracy and the market economy.
- Most OECD members are high-income economies with a very high Human Development Index (HDI) and are regarded as developed countries.

\n

\n\n

What is BEPS?

\n\n

\n

- Base Erosion and Profit Shifting (BEPS) refers to those instances where gaps between different tax rules leads to tax avoidance causing harm to the government.

- \n
- Due to gaps in application of the bilateral tax treaties, cross border activities may go untaxed in any of the two countries.
- \n
- No or low tax is paid by shifting profits to low tax jurisdictions and shifting losses and high expenditures to high tax jurisdictions.
- \n
- Further, the spread of the digital economy has also posed challenges for international taxation.
- \n
- Over the years, the MNCs have artificially reduced their corporate tax outgo by shifting to lower tax jurisdictions.
- \n

\n\n

What is the present initiative by OECD?

\n\n

- \n
- The OECD's Base Erosion and Profit Shifting (BEPS) project is done to reduce global tax burdens through hybrid arrangements, transfer pricing and permanent establishments.
- \n
- Broadly there are two initiatives
- \n

\n\n

- \n
1. Inclusive Framework for BEPS
- \n
2. Global Forum on Tax Transparency(GFTT)
- \n

\n\n

What is MLI about?

\n\n

- \n
- The MLI's Action 15 of BEPS, objective is to simultaneously modify bilateral tax treaties of countries that sign the MLI.
- \n
- This enables BEPS Actions to take immediate effect instead of through a slower process of modifying bilateral treaties.

- The MLI document is additional to a bilateral treaty and does not replace the latter.
- There are minimum standards to be met by every country before signing the MLI
- there is also considerable flexibility allowing a signatory to register its reservations on selected aspects of the MLI

What are constraints on MLI Implementation?

- There is more transparency needed on the working of the MLI
- There is pressure on countries for, when countries do not sign the MLI.
- This is not the Final solution, there is continuing need for specialised platforms.
- This is not universal, that is it is not an international taxation.

What is the role of India in OECD policy?

- In GFTT which India is in a key position and is participating on equal footing with OECD members.
- India has not signed on to mandatory arbitration which it should reconsider.
- India played a lead role in the MLI.
- It comprises a good step for India in benchmarking itself in international taxation.
- India's participation should continue at the highest knowledge level for its

success.

\n

\n\n

\n\n

Source: Business Standard

\n



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative