Multinational instrument on taxation

Why in news?

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

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What is OECD?

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

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- 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.
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- Due to gaps in application of the bilateral tax treaties, cross border activities may go untaxed in any of the two countries.

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- No or low tax is paid by shifting profits to low tax jurisdictions and shifting losses and high expenditures to high tax jurisdictions.
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- Further, the spread of the digital economy has also posed challenges for international taxation.
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- Over the years, the MNCs have artificially reduced their corporate tax outgo by shifting to lower tax jurisdictions.
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What is the present initiative by OECD?

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- 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.
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- Broadly there are two initiatives
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1. Inclusive Framework for BEPS
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2. Global Forum on Tax Transparency(GFTT)
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What is MLI about?

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- The MLI’s Action 15 of BEPS, objective is to simultaneously modify bilateral tax treaties of countries that sign the MLI.
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- This enables BEPS Actions to take immediate effect instead of through a slower process of modifying bilateral treaties.
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- The MLI document is additional to a bilateral treaty and does not replace the latter.

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- There are minimum standards to be met by every country before signing the MLI
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- there is also considerable flexibility allowing a signatory to register its reservations on selected aspects of the MLI
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What are constrains on MLI Implementation?

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

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

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