Need for Tax Information Exchange Agreements

What is the postivie side of 2008 financial crisis?

\n\n

\n
- The global financial meltdown of 2008 has had severe after-effects, impacting millions of people across the world, job losses, challenges faced by sovereign nations in meeting their debt obligations etc.,
\n
- There is however one positive outcome: **It brought the issue of "tax transparency" to the forefront.** Governments across the globe came under pressure to support, through various social welfare measures, those of their people who were hit by the downturn.
\n
- Therefore, to augment their revenues, governments were forced to evaluate existing and new sources of revenue.
\n
- In this process, individual and collective measures were taken by governments to usher in a new era of information sharing to increase revenue collections through various measures such as changes in their domestic tax laws and other regulations, and implementation of **Base Erosion & Profit Shifting (BEPS) guidelines**.
\n

\n\n

What is BEPS?

\n\n

\n
- Usually, a company has to pay tax for its profit or income. This profit is the tax base for the government as tax is imposed as a percentage of this profit.
\n
- **Once profit is shifted to other countries or to tax havens, the tax base is eroded** and there is no tax payment by the company in the concerned country.
\n
- In recent years, MNCs are innovating sophisticated tax planning practices to avoid taxes by shifting profits to tax havens. This has resulted in the erosion

of tax base.
\n
- This has led to the launching of the so called BEPS project by the OECD. It has designed a fifteen point action plan to bring tackle the problem of profit shifting.
\n
- The BEPS initiative, approved by the G20, to design a **globally standardized rules to check tax avoidance practices** by the MNCs so that there will be no tax base erosion.
\n

\n\n

What is causing distortions in global tax system?

\n\n

\n
- The **tax jurisdictions with zero or near-zero tax regimes** have led to distortions in the global tax system, depriving other tax jurisdictions of their legitimate tax revenues.
\n
- Recent press and web releases about data leakages from some of these jurisdictions have again brought the issue of tax transparency into the limelight.
\n
- While combating the domestic black economy is not an easy task, it is even more cumbersome where overseas tax jurisdictions are involved.
\n

\n\n

Why international cooperation is a key element?

\n\n

\n
- The Union government had released a “White paper on black money”, which highlighted that increased globalisation and relaxation of control over foreign exchange provides taxpayers greater opportunities for tax evasion.
\n
- It further mentioned that **while taxpayers operate globally, tax administrators remain confined to their respective jurisdictions.** Thus, to effectively tackle tax evasion, it is imperative that tax administrators cooperate with each other.
\n
- A key element of such international cooperation in tax matters is through the

exchange of information mechanisms established by countries.
\n

\n\n

What are the problems our authorities face?

\n\n

\n
- Obtaining information, corroborating evidence, and finally the trial in a court are generally long, tedious and time-consuming processes in India.
\n
- Besides, Indian authorities have been facing is the lack of formal legislative mechanisms and processes through which they could obtain information from overseas tax jurisdictions.
\n

\n\n

What are avenues for getting Tax Information?

\n\n

\n
- A country can request information from another country under the **Double Taxation Avoidance Agreement (DTAA)** entered into between them.
\n
- In the absence of a DTAA between the two tax jurisdictions, information can be sought under **Tax Information Exchange Agreements (or TIEA),** which have evolved into an efficacious alternative to DTAAs for exchange of information.
\n

\n\n

What are the steps taken at global level?

\n\n

\n
- Accordingly, India has taken steps to **re-negotiate its DTAAs with other countries** to strengthen exchange of information. The process of entering into TIEAs, has now picked up steam, with more than a dozen such agreements being signed in the recent past.
\n
- Further, in order to give effect to the BEPS recommendations, countries had to modify their bilateral tax treaties entered into earlier, which is a tedious and time-consuming process.

\n
- Therefore, a more practical and effective approach of **agreeing on terms through a Multilateral Instrument has been adopted,** whereby member countries, including India, would agree to and adopt certain basic covenants to give effect to BEPS.
\n
- This would be a significant step at a global level to further bring in tax transparency through a single platform.
\n

\n\n

Way Forward:

\n\n

\n
- India has been actively seeking to tax off-shore wealth. It has not only been party to international developments, but has also taken steps like introduction of **The Black Money (Undisclosed Foreign Income and Asset) and Imposition of Tax Act, 2015.**
\n
- In a significant move, India has recently signed a **"Joint Declaration" with Switzerland** for the implementation of automatic exchange of information between the two countries.
\n
- As a result, it will be possible for India to receive, from September 2019 onwards, financial information relating to accounts held by Indian residents in Switzerland for 2018 and subsequent years, on an automatic basis.
\n
- Indian revenue authorities are significantly adding strength to their armoury through TIEAs and similar measures, which would yield results in the near future.
\n

\n\n

\n\n

Category: Mains | GS – III | Economy

\n\n

Source: Business Standard

\n



SHANKAR
IAS PARLIAMENT
Information is Empowering