GS-III: A tax policy that could work.

Indian government desperate to raise more tax revenues. It missed its tax targets last fiscal year, (poor goods and services tax (GST) collections). Its declared budgetary target for the current year requires tax receipts to increase by around 25%, when the first quarter increase was only 6%.

MNCs Tax Evasion:

- MNCs manage to avoid taxation in most countries, by shifting their declared costs and revenues through transfer pricing across subsidiaries, practices described as “base erosion and profit shifting” (BEPS).
- Digital companies, some of the largest of which make billions of dollars in profits across the globe, but pay barely any taxes anywhere.
- The International Monetary Fund has estimated that countries lose $500 billion a year because of this.

Base erosion and profit shifting (BEPS):

- Base erosion and profit shifting (BEPS) refers to corporate tax planning strategies used by multinationals to “shift” profits from higher–tax jurisdictions to lower–tax jurisdictions, thus “eroding” the “tax–base” of the higher–tax jurisdictions
- The Organisation for Economic Co-operation and Development (OECD) define BEPS strategies as also “exploiting gaps and mismatches in tax rules
- Initiatives to curb BEPS by the OECD and the Trump administration have failed.

The OECD G20 Base Erosion and Profit Shifting Project (or BEPS Project):

- It is an OECD/G20 project to set up an international framework to combat tax avoidance by multinational enterprises (“MNEs”) using base erosion and profit shifting tools
- The aim of the project is to mitigate tax code loopholes and country-to-country inconsistencies so that corporations cannot shift profits from a country with a high corporate tax rate to countries with a low tax rate.
- Implementation phase, 116 countries are involved, including a majority of developing countries.
- The BEPS project looks to develop multilateral dialogue and could be achieved thanks to a successful international cooperation, unavoidable when it comes to such a domestic and sovereign topic.

Conclusion:

A government that is currently ineffective in battling both economic slowdown and declining tax revenues cannot afford to neglect this crucial opportunity.