Syllabus subtopic: India and its Neighborhood- Relations.

Prelims and Mains focus: about the move and its significance; about DTAA; BEPS; OECD

News: The Union Cabinet, chaired by PM Modi approved signing and ratification of the protocol **amending the agreement between India and Sri Lanka for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.**

Background

The existing DTAA between India and Sri Lanka was signed on January 22, 2013 and came into force on October 22, 2013.

Why was the amendment required?

- **India and Sri Lanka** are members of the inclusive framework and are required to implement the minimum standards under G-20 OECD (Organisation for Economic Cooperation and Development (OECD) BEPS (Base Erosion and Profit Shifting) action reports in respect of their DTAA with inclusive framework countries.

- **Minimum standards under BEPS Action 6** can be met through the multilateral convention to implement tax treaty-related measures to prevent base erosion and profit shifting Multilateral Instrument (MLI) or through bilateral agreement.

- **India is a signatory to the MLI.** However, Sri Lanka is not a signatory to the MLI as of now.

- Therefore, amendment of the India-Sri Lanka DTAA bilaterally is required to update the preamble and also to insert Principal Purpose Test (PPT) provisions to **meet the minimum standards on treaty abuse under Action 6 of G-20 OECD BEPS project.**
Benefits of the move

The amendment of the preamble text and inclusion of Principal Purpose Test (PPT), a general anti-abuse provision in the Double Taxation Avoidance Agreement (DTAA) will result in curbing tax planning strategies which exploit gaps and mismatches in tax rules.