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.