

BEPS and Multilateral Convention to Implement Tax Treaty Related Measures (MLI)

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Why is it in the news?

- The Union Cabinet has approved the ratification of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI).

What is Base erosion and profit shifting?

- It 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.

What is the BEPS project?

- The Multilateral Convention is an outcome of the OECD and G20 Project to tackle Base Erosion and Profit Shifting (BEPS Project).



- The BEPS Project objective is to tackle base erosion and profit shifting through tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity resulting in little or no overall corporate tax being paid.
- The BEPS Project identified 15 actions to address base erosion and profit shifting (BEPS) in a comprehensive manner.

MLI convention?

- The Convention enables countries to implement the tax treaty related changes to achieve anti-abuse BEPS outcomes through the multilateral route without the need to bilaterally re-negotiate each such agreement which is burdensome and time consuming.
- The Convention will modify India's treaties in order to curb revenue loss through treaty abuse and base erosion and profit shifting strategies by ensuring that profits are taxed where substantive economic activities generating the profits are carried out and where value is created.
- Further, the US is not a signatory of this Multilateral Convention as it believes that it has a robust tax treaty network that prevents treaty abuse.