India and Brazil Signed Amended DTAC

Why in News

Recently, the Union Cabinet has approved the signing of the Protocol amending the Convention between India and Brazil for the **Double Taxation Avoidance Convention (DTAC).**

- The amendments aim to implement the recommendations contained in the **G20 OECD Base Erosion and Profit Shifting Project (BEPS).**
- It will also help to streamline the existing DTAC with international standards which will help to provide **tax certainty to investors and businesses** of both countries.
- The amending protocol will **augment the flow of investment** through the **lowering of tax rates and fees for technical services.**

Double Tax Avoidance Agreements (DTAAs)

- A **DTAA** is a **tax treaty** signed between **two or more countries.**
- Its key objective is that **tax-payers in these countries can avoid being taxed twice for the same income.**
- It applies in cases where a taxpayer resides in one country and earns income in another.
    - The relief is provided by exempting income earned abroad from tax in the resident country or providing credit to the extent taxes have already been paid abroad.
- It can either be comprehensive to cover all sources of income or be limited to certain areas such as taxing of income from shipping, air transport, inheritance, etc.
- DTAAs are intended to make a country an attractive investment destination by providing relief on dual taxation.

Base Erosion and Profit Shifting (BEPS)

- BEPS is a term used to describe tax planning strategies that exploit mismatches and gaps that exist between the tax rules of different jurisdictions.
- It minimizes the **corporation tax** that is payable overall, by either making tax profits ‘disappear’ or shift profits to low tax jurisdictions where it is little or no genuine activity.
- BEPS takes advantage of different tax rules operating in different jurisdictions.
- BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs).
- The BEPS initiative is an **OECD** initiative, approved by the **G20**, to identify ways of providing more standardized tax rules globally.

OECD/G20 Base Erosion and Profit Shifting (BEPS)Project

- In 2013, OECD and G20 countries adopted a **15-point Action Plan** to address **BEPS.**
- The OECD/G20 BEPS Project aims to create a single set of consensus-based international tax rules to address BEPS, and hence to protect tax bases.
- In 2016, the OECD and G20 established an **Inclusive Framework on BEPS.** Over 100 countries and jurisdictions have joined the Inclusive Framework.

Difference Between Convention, Agreement, and Protocol

- **Agreement:** It is a negotiated and usually **legally enforceable** understanding between two or more legally competent parties.
    - A binding contract can (and often does) result from an agreement.
- **Convention:** It is a **formal agreement** between States. These are normally open for participation of a large number of States.
    - The generic term ‘convention’ is thus synonymous with the generic term ‘treaty’.
- **Protocol:** A protocol is an agreement that **negotiators** formulate and sign **as the basis for a final convention or treaty.**

Source:PIB