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Country-by-Country Reports Agreement

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India has notified the inter-governmental agreement with the US for exchange of country-by-country (CbC) reports on multinational companies regarding income allocation and taxes paid in order to help check cross-border tax evasion.

- This agreement will enable both the **countries to automatically exchange CbC reports filed by the ultimate parent entities of multinational enterprises (MNEs) in the respective jurisdictions** to the financial years commencing on or after January 1, 2016.
- That is, the Companies headquartered in the US but having operations and taxability in India **now need not file country-by-country (CbC) reports in India.**
For such international companies, **filing CbC reports in the US would be sufficient.**
- This will **reduce the compliance burden** on their subsidiaries operating out of these countries.

Background

- The Income-tax Act requires Indian subsidiaries of **multinational companies to provide details of key financial statements** from other jurisdictions where they operate.
- This provides the I-T Department with a better operational view of such companies, primarily with regards to revenue and income tax paid.
- The provision was a **part of the Base Erosion and Profit Shifting (BEPS)** action plan and later incorporated in the I-T Act also.

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 is done to **minimize 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.

- In general BEPS strategies are **not illegal; rather they take 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 standardised tax rules globally.