India-China Signed Amended DTAA

India and China have signed a protocol to amend the existing **Double Taxation Avoidance Agreement (DTAA)** between the two countries.

- This protocol among, other things, updates the existing provisions for the exchange of information to the latest international standards.
- It also incorporates changes required to implement a treaty-related minimum standards under the action reports of **Base Erosion & Profit shifting (BEPS) Project.**
- Besides the minimum standards, the protocol brings in changes as per BEPS Action reports as agreed upon by the two sides.
- **Under Section 90 of the Income-tax Act, 1961, India can enter into an agreement with a foreign country or specified territory for avoidance of double taxation of income, for exchange of information for the prevention of evasion.**

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.**
- A DTAA applies in cases where a **taxpayer resides in one country and earns income in another.**
- DTAAs 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.
- **Significance of DTAA**
    - DTAAs are intended to make a country **an attractive investment destination** by providing relief on dual taxation. Such 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.
    - DTAAs also provide for **concessional rates of tax in some cases.**
    - However, DTAAs can become an incentive for even legitimate investors to route investments through low-tax regimes to sidestep taxation. This leads to loss of tax revenue for the country.

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 **minimise the corporation tax** that is payable overall, by either making tax profits 'disappear' or shift profits to low tax jurisdictions where there 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.