

SATURDAY INTERNATIONAL TAX GYAN !!!

#taxmadeeasy

SITG No.

137

MLI For Beginners PART- 1

Basic (BEPS)

**Hey Jethalal,
I came to know that a New Series on
Multilateral Instrument (MLI) had
been started by SITG.
Happy to hear that and
very excited for the same.
However, there is a question in my mind
why this series??**



Kerry

**Hey Kerry,
In International transaction earlier we used
to see local tax law and
along with the DTAAs between the countries.
As MLI came into effect we also need to consider
the impact of MLI.
Now, why MLI came into effect,
how will it be compatible with other laws and
how to use the relevant articles of MLI,
that's why we are coming up with
this extensive series on MLI**



Jethalal

What is Base Erosion Profit Shifting (BEPS)?

Globalisation and worldwide development provides opportunities for Base erosion and Profit Shifting to the person, as the changes in tax laws are incompatible with rapid pace of growing economy. Now, let's see some example how BEPS works:

Split Contract

Example 1

Let's assume, Threshold for Permanent Establishment prescribed in DTAA is Nine Months in Both Country X and Y.

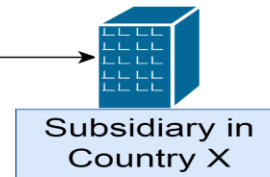


A Contract given to the company (expected time to complete it is 12 Months)

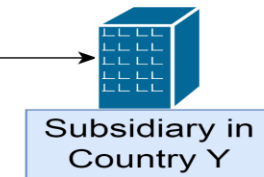


Jan to June

July to Dec

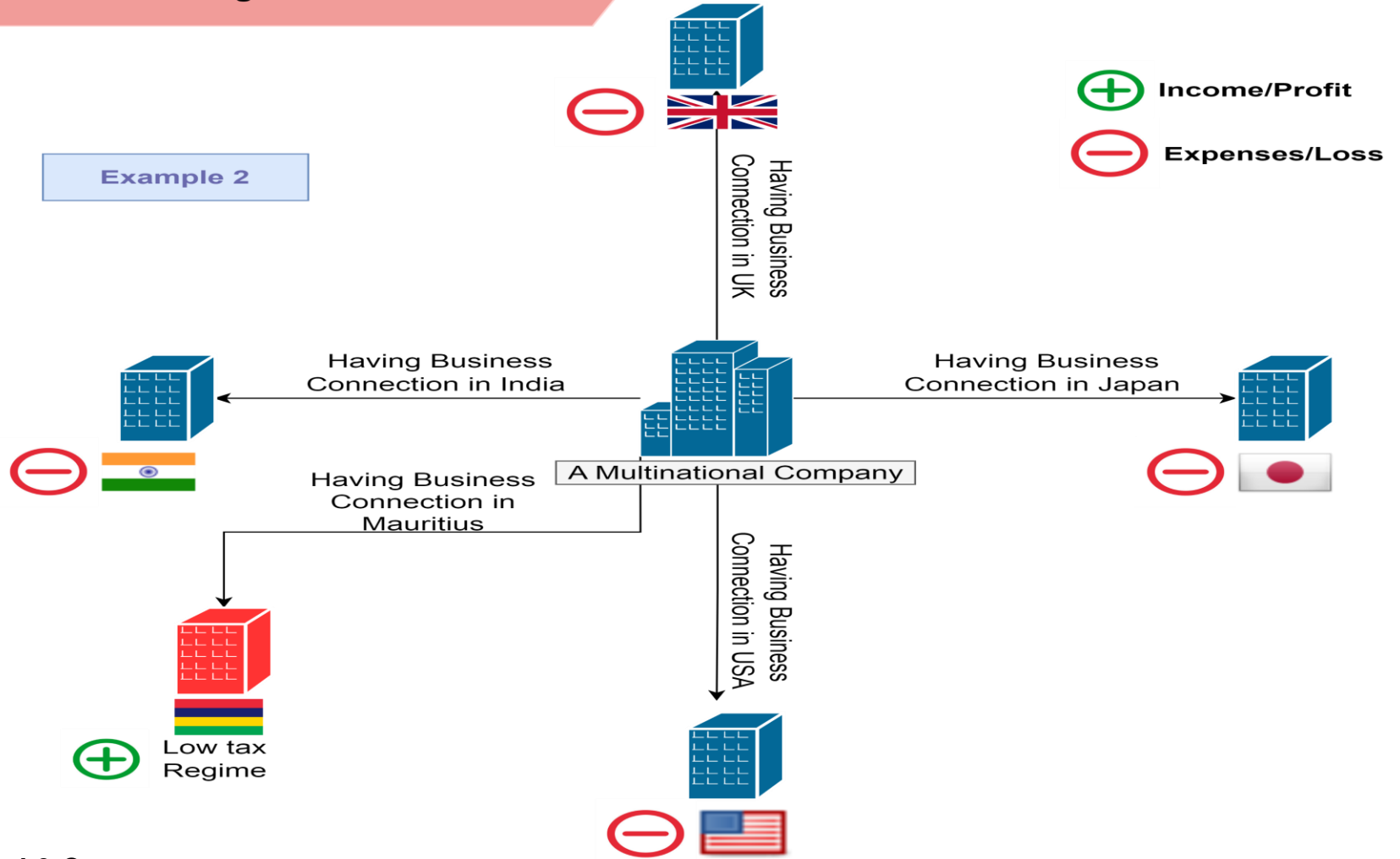


NO TAX



NO TAX

Profit Shifting from High Tax Regime to Low Tax Regime



Digitalisation

Example 3



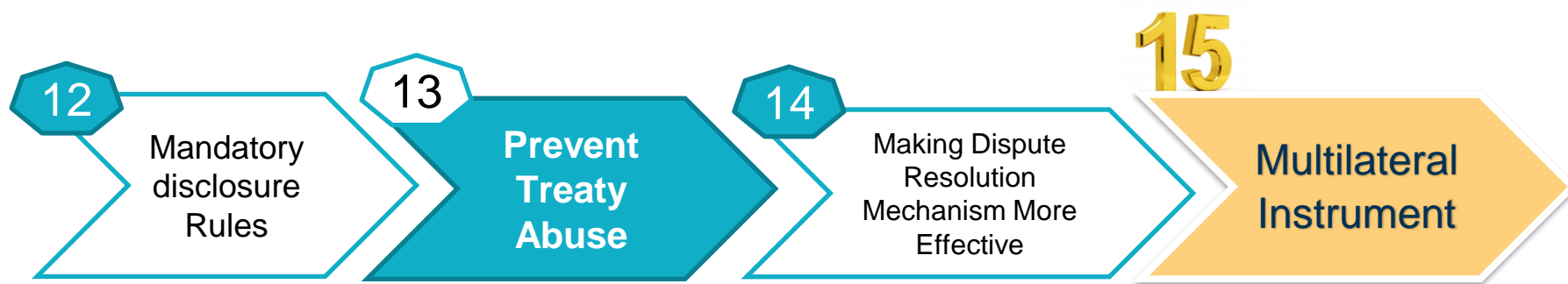
Digitalisation increases worldwide transaction , which creates a complex structure of transactions like a web which leads to confusion that how enterprises in the digital economy add value and make profits and how the source can be identified for taxation purpose.

What is BEPS Action Plan?

- ❖ To Increase transparency and exchange of Information on tax related matters and to address the weaknesses of the international tax system that creates opportunities for BEPS, the G20 (a group of 20 leaders) endorsed the BEPS Action Plan.
- ❖ BEPS Action Plan identified 15 actions to address problem of BEPS in a comprehensive manner.

15 Pillars of BEPS Action Plans

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Documents for Interpretational reference of MLI

Basic Documents:

- BEPS Action Plan 15- contains text of MLI
- Explanatory Statement to MLI
- MLI Positions adopted and deposited by Various MLI signatories with OECD
- Report on BEPS Action Plan 2,6,7,14- basis for development of MLI text
- Existing tax treaty
- OECD Model Convention of Tax treaty and OECD Commentaries
- Synthesized text of MLI between parties to CTA

Other Documents available on OECD website:

- List of Signatories and parties to MLI
- Frequently Asked Questions (FAQs) on MLI
- Flow chart on matching of reservations and notifications of MLI
- Legal note on functioning on MLI under public international law
- Step by step on applying the MLI
- MLI Matching Database

Link of OECD Website: [Click Here](#)

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