Base Erosion and Profit Shifting (BEPS)

Base erosion and profit shifting (BEPS) refers to the strategies used by multinational companies to avoid paying tax, by exploiting the mismatches and gaps in the tax rules.

Why is Base Erosion and Profit Shifting (BEPS) a Problem?

BEPS practice is a major problem since nations have lost tax revenues to the tune of $ 100 billion to $ 240 billion annually, as per statistics put out by the Organisation for Economic Cooperation and Development (OECD). The above revenue which is lost is equivalent to 4 % to 10 % of the total income tax revenue at a global level.

How Does Base Erosion and Profit Shifting (BEPS) work?

Tax is levied on the multinational company by the Government as a percentage of the profit or income of the multinational company. Using the loopholes, the multinational company shifts its income or profit to another country which could be a tax haven. As a result the country which helps the multinational company generate its revenues does not get any tax or there is tax erosion due to the shifting of income or profits by the company.

How is India solving the problem of Base Erosion and Profit Shifting (BEPS)?

Indian is playing an important role in the BEPS Project initiated by the OECD. India is working on amending its laws to tackle the problem of BEPS. India has already implemented some of the important recommendations of the BEPS project through amendments in its domestic tax laws such as

1. **Country-by-Country Reporting (CbCR)** - It is part of the Organization of Economic Cooperation and Development’s Base Erosion and Profit Shifting **Action Plan 13.** As per Indian Income Tax Act, Section 286(2), the CbCR is required to be submitted by an Indian affiliate of a foreign-parented group or Indian parent company.
2. **Thin capitalization -** Thin Capitalisation refers to a condition where a company is financed with a high level of debt compared to the equity (highly leveraged)
3. **Secondary Adjustments -** On 30 September, 2019, Rule 10CB of Income Tax rules amendments were notified by the Central Board of Direct Taxes (CBDT).
4. **Patent Box tax regime -** It was introduced in India by enacting new Section 115BBF as per Finance Act, 2016.

The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) was signed by former Finance Minister Arun Jaitley in Paris on June 7, 2017. The provisions in the framework will come into effect from 2020-21 for bilateral tax treaties.

BEPS Project - Launched by OECD

1. Organisation for Economic Cooperation and Development launched the BEPS project to tackle the problem of tax avoidance, to bring in a transparent tax environment and bring in more synergy to the international tax rules.
2. There are 15 Action Plans that are being implemented by 135 countries.
3. Countries now have the tools to tax the company that is generating profits and value in that particular country.
4. These tools also reduce disputes

Base Erosion and Profit Shifting (BEPS) is mostly prevalent in sectors that deal with Intellectual Property (IP) in the Technology domain like Google, Apple etc and the Life Sciences domain like Pfizer, Merck etc.