Double Taxation Avoidance Agreements (DTAA)

Double Taxation Avoidance Agreements (DTAA) is a treaty signed between two or more countries and is applicable in cases where a taxpayer residing in one country has to earn his/her income from another country. India has signed Double Taxation Avoidance Agreements or DTAAs with 88 countries, out of which 85 have become effective. It is an important topic under the GS-II Indian Polity and International Relations subject for the IAS Exam.

What is DTAA?

Double Taxation Avoidance Agreements is a treaty signed between two countries, which, through the elimination of international double taxation, promotes the exchange of goods, services, and investment of capital between the two countries.

This implies that there are consented tax rates and jurisdiction on specified kinds of incomes arising in one country to a tax resident of another nation. The taxpayers in these 88 countries can avoid being taxed twice for the same income.

Double taxation is an issue related to the taxation of income that crosses boundaries. DTAA can either cover all types of income or can target a specific type of income depending upon the types of businesses/holdings of citizens of one country in another. The following categories are covered under the Double Taxation Avoidance Agreements (DTAA):

- services
- salary
- property
- capital gains
- savings/fixed deposit accounts

Candidates should have a clear concept about the different agreements or treaties signed between India and any other country as they form an important part of the UPSC Syllabus. Candidates can also download the notes PDF at the end of this article.

Benefits of Double Taxation Avoidance Agreements

Sections 90 and 91 under the Income Tax Act 1961 offers specific relief to taxpayers to avoid double taxation. Section 90 deals with those provisions involving taxpayers who have paid tax to another country with which India has a DTAA. Section 91 is for those countries with which India does not have a DTAA. In effect, India provides relief to both types of taxpayers.

Some of the major benefits of Double Taxation Avoidance Agreements (DTAA) are mentioned below:

- The countries under the DTAA are provided relief from double taxation. Relief on double taxation is provided by the exemption of incomes earned abroad from tax in the resident country or by providing credit to the extent taxes that have been already been paid abroad.
- In some cases, the DTAA also provide concessional rates of tax.
- DTAA can become an incentive for even legitimate investors to route investments through low-tax regimes to sidestep taxation. This leads to a loss of tax revenue for the country.
- DTAA also provides tax certainty to the various investors and businesses of both the countries through the clear allocation of taxing rights between the contracting states by Agreement.

India and DTAA

India has signed the Double Taxation Avoidance Agreements or DTAA with 88 countries. Foreign companies that are resident in the countries that India has a DTAA with, can claim more beneficial provisions and rates between the IT Act and the DTAA. Recently, the Government of the Republic of India and the Government of the People's Republic of China had signed the Double Taxation Avoidance Agreement (DTAA) on 26/11/2018. This agreement was signed for providing relief on double taxation along with preventing fiscal evasion concerning taxes on income.

To know more about India-China relations, refer to the linked page.

Revised DTAA (India-Kenya)

The Double Taxation Avoidance Agreements (DTAA) between India and Kenya that was initially signed in 1985 was renegotiated and revised by both the countries. The revised DTAA was later signed on 11th July 2016 between India and Kenya. Some of the major highlights of the revised DTAA are mentioned below:

Some of the key features of the revised DTAA are highlighted as under:

1. A reduction in the withholding tax rates is provided by the revised DTAA. The revised tax rates range from 15% to 10% on dividends, 20% to 10% for the royalties, and 17.5% to 10% for management and professional services fees.
2. The revised DTAA provides for a new Article on Limitation of Benefits to allow treaty benefits to bonafide residents of both countries, to combat treaty abuse by third-country residents, and to allow the application of domestic law to prevent tax avoidance or evasion.
3. The revised treaty also provides a new Article on Assistance in Collection of Taxes which will assist in the collection of tax revenue claims between both the countries.