Mains Master

India, Mauritius amend double taxation avoidance agreement

India and Mauritius: A Shift from Investment Flows to Tax Transparency

India and Mauritius recently amended their Double Taxation Avoidance Agreement (DTAA), signaling a major policy shift. The focus has moved away from simply encouraging bilateral investment and now prioritizes preventing tax evasion. This revision reflects a broader global trend towards greater tax transparency and combating tax avoidance practices.

Understanding DTAAs:

DTAAs are international treaties signed by two countries. Their purpose is to prevent income from being taxed twice – once in the source country (where the income is earned) and again in the residence country (where the taxpayer resides). DTAAs establish clear rules on how different types of income (like capital gains, dividends, or royalties) are taxed in each country, offering tax relief for individuals and businesses operating across borders.

Why Revisit the India-Mauritius DTAA?

The India-Mauritius DTAA, established in 1982, made Mauritius a particularly attractive channel for foreign investors due to its favorable tax structure. Notably, Mauritius did not levy capital gains tax, allowing investors to route their investments through this island nation and avoid paying capital gains tax in India. However, this situation raised concerns about:

- **Treaty Shopping:** This refers to the practice where companies or individuals exploit loopholes in DTAAs to gain tax benefits in a country where they have little or no real economic activity. In this case, investors channeled investments through Mauritius solely to benefit from its zero capital gains tax rate.
- **Tax Evasion:** The Mauritius route potentially facilitated tax evasion, where income rightfully taxable in India was escaping taxation altogether.

The Rise of BEPS and Global Action:

These concerns about tax havens and aggressive tax avoidance strategies by multinational corporations (MNCs) resonated with a broader international movement. The Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) project aims to address these issues by encouraging countries to work together and close loopholes in their tax systems. The India-Mauritius DTAA revision aligns with this global effort towards greater tax transparency and fairness.

Key Changes in the Amended DTAA:

- **Principal Purpose Test (PPT):** A new addition to the DTAA, the PPT empowers tax authorities to deny treaty benefits if they determine the primary purpose of a transaction was to obtain a tax advantage. This discourages exploiting DTAAs for tax avoidance purposes.
- **Shift in Preamble:** The revised preamble removes the emphasis on "mutual trade and investment" and instead focuses on eliminating double taxation while preventing opportunities for tax evasion or avoidance, including treaty shopping.
- **Addressing Round-Tripping:** This practice involves routing domestic investments through a foreign jurisdiction, often a tax haven, and then channeling them back into the home country to gain tax benefits. The amendments aim to make it more difficult to exploit the DTAA for such purposes.

The Road Ahead:

The revised DTAA reflects India's commitment to international tax cooperation and its alignment with the BEPS project. While this move strengthens tax compliance, it also introduces some uncertainty for investors, particularly regarding the application of the PPT to existing investments. Clear guidance from Indian tax authorities will be crucial in navigating this new landscape

This revision signifies a significant step towards a more transparent and equitable tax environment. It highlights the importance of international collaboration in combating tax avoidance strategies and ensuring a level playing field for all players in the global economy.

Developing world must raise own climate finance

Context

- Developing countries are facing an immense challenge in securing the enormous financial resources needed to combat climate change and transition to sustainable energy systems.
- The Independent High-Level Expert Group on Climate Finance estimates the annual external finance requirement at $1 trillion for emerging markets and developing economies (excluding China) up to 2030.

What is Climate Financing?

- Climate finance refers to the funds channeled from developed countries, multilateral institutions, or the private sector towards climate change mitigation and adaptation projects in developing countries.
- Its goal is to support developing nations in reducing greenhouse gas emissions and building resilience to the impacts of climate change.

Climate Financing Mechanisms

- **Developed Country Commitments**: At COP14, developed countries pledged to mobilize $100 billion annually for climate action in developing countries. However, this target remains unmet.
- **Multilateral Development Banks (MDBs):** MDBs provide loans and grants for climate-related projects. While their contributions are significant, they fall far short of the actual need.
- **IMF Resilience and Sustainability Trust (RST):** This IMF fund aims to support long-term resilience efforts in low- and middle-income countries, including climate action. However, contributions are limited.

Why Climate Financing is Crucial for Developing Countries

- **Disproportionate Impact:** Developing nations bear the brunt of climate change despite contributing less to historical emissions.
- **Limited Domestic Resources:** These countries often lack the financial capacity to invest heavily in climate action.
- **Transition Costs**: Switching to clean energy and adapting to climate impacts requires considerable up-front costs.

Challenges of Climate Finance for Developing Countries

- **Inadequate Funding:** Existing mechanisms provide only a fraction of the needed finance.
- **Focus on Loans:** Much of the climate finance available comes as loans, potentially increasing the debt burden on developing countries.
- **Limited Adaptation Funding**: Adaptation efforts, crucial for vulnerable countries, receive less attention and funding compared to mitigation.

The Need for Developing Countries to Mobilize Own Resources

Given the limitations of external funding sources, developing countries must urgently explore domestic avenues for climate finance:

- **Phasing Out Fossil Fuel Subsidies:** Many countries still provide subsidies that undermine climate goals. Redirecting these funds is a significant opportunity.
- **Carbon Pricing:** Implementing carbon taxes or emissions trading systems (ETS) can generate substantial revenue while incentivizing clean energy shifts.
- **Mobilizing Private Finance:** Creating enabling environments to attract private sector investment in green projects is essential.

Challenges in Domestic Resource Mobilization

- **Political Resistance:** Reforming subsidies or introducing new taxes can be politically sensitive.
- **Technical Capacity**: Designing and implementing effective carbon pricing mechanisms requires expertise and institutional frameworks.

Way Forward

- **International Collaboration:** Developed countries must uphold their financing commitments and explore innovative funding sources.
- **Domestic Focus:** Developing countries should prioritize phasing out fossil fuel subsidies and implement balanced carbon pricing strategies.
- **Capacity Building:** International support is needed to help developing countries build the necessary technical and financial capacities.

Mains inShorts

In search of a dignified economic life

- Over 60% of respondents assert that getting a job has become much more difficult now, with little rural-urban divide on this issue.
- 71% of respondents claim that prices of essential commodities have increased in the past 5 years, severely impacting the poor, low-income groups, and marginalized rural communities.
- All social groups, especially Muslims (67%), report increasing difficulties in finding employment and being affected by price rises (76% Muslims concerned about price rise).
- A majority believe both the Union and State governments are responsible for shrinking employment opportunities and rising prices.
- There is a clear expectation from the State to intervene and regulate the economic life of the country, contesting the notion of a market-driven liberal economy without State involvement.
- The "charitable state" providing welfare schemes is not seen as a permanent solution; there is an assertion that the State should ensure dignified employment opportunities and right based empowerment.
- Economic issues are being interpreted through the prism of social identity, especially by marginalized groups like Muslims.

The Keynesian economic model, developed by economist John Maynard Keynes, is a theory and policy of economic management associated with regulating aggregate demand to achieve full employment. Keynes argued that during the 1930s, capitalist economies spiraled into deepening depression due to market forces bringing about cuts in wages as unemployment grew, further reducing the demand for goods and services. In response, Keynes proposed that the level of economic activity is geared to 'aggregate demand', which the government can manage through tax and spending policies. The Keynesian model advocates for government intervention to stimulate demand during economic downturns, aiming to achieve full employment and stabilize the economy. This approach contrasts with free-market orthodoxy and emphasizes the role of government in managing economic activity to prevent or alleviate recessions. The model had a significant impact on modern liberalism and social democracy, and its policies were widely adopted by Western governments in the post-World War II period. However, the model faced challenges in the 1970s with the emergence of stagflation, leading to a reevaluation of its effectiveness and political opposition to its associated 'tax and spend' policies.

Global trade to recover steadily after rare fall in 2023: WTO

- The World Trade Organization (WTO) expects global goods trade to rebound in 2024 with a 2.6% increase, and a further 3.3% rise in 2025, after a 1.2% decline in 2023.
- However, the 2024 forecast is lower than previously expected, and risks are skewed to the downside due to factors like geopolitical tensions, rising protectionism, and the Middle East crisis.
- Global trade had only fallen in two years prior to 2023 since the WTO's formation in 1995 – during the 2020 pandemic (-5%) and the 2009 financial crisis (-12%).
- Import demand was particularly weak in Europe in 2023 due to higher energy prices and inflation.
- The WTO warns of risks from trade fragmentation caused by geopolitical strife, which could reduce global GDP by 5% if the world fully decouples into separate blocs.
- The crisis in the Red Sea, through which 12% of global trade passes, has already diverted Europe-Asia trade, and an escalation could significantly impact oil prices.
- The WTO lauds resilient supply chains and the multilateral trade framework but urges mitigating risks to maintain economic growth and stability.

Prelims Booster

A time standard for Moon's surface: what is it and why is it needed?

🌕 Need for Lunar Time Standard:
The White House has tasked NASA with creating a Coordinated Lunar Time (LTC) standard to coordinate activities on the Moon due to time differences caused by gravity variances, impacting spacecraft operations, data transfer, navigation, and communication.

🕰 Earth Time Standard:
Coordinated Universal Time (UTC) serves as the global time standard, based on atomic clocks measuring caesium atom vibrations. Countries adjust their local time zones relative to UTC, with time differences determined by their position east or west of the Greenwich meridian.

🚀 Challenges on the Moon:
Time flows differently on the Moon due to reduced gravity, leading to a daily discrepancy of 58.7 microseconds compared to Earth. Current lunar missions use individual timescales linked to UTC, posing coordination challenges for spacecraft operations and data synchronization.

🛰 Establishing Lunar Time Standard:
Deploying atomic clocks on the Moon to account for gravitational variations and mascons (mass concentrations) is proposed to create a precise lunar time standard. By combining outputs from multiple clocks, a virtual timepiece can be generated, ensuring seamless operations tied back to UTC.

🌎 Future Lunar Missions:
With multiple countries planning lunar missions, including NASA's Artemis program, China, and India, establishing a universal lunar time standard becomes crucial for coordinated operations and future human outposts on the Moon.

RE capacity addition hits a record in FY24, led by solar

☀️ Record Renewable Capacity Addition in FY24:
India achieved a milestone with a total renewable energy capacity of 144 GW, led by solar power contributing 82 GW and wind power 46 GW, marking the highest annual new capacity addition to the grid.

🌞 Solar Power Dominance:
Solar power accounted for 81% of the new capacity addition in FY24, with a total of 15,033 MW added, showcasing an 18% growth compared to the previous fiscal year, driven by utility-scale and rooftop solar installations.

🌬 Wind Power Resurgence:
The wind power sector saw a significant increase, adding 3,253 MW in FY24, marking a substantial growth from previous years, with Gujarat leading in wind power installations followed by Karnataka and Tamil Nadu.

🏞 State-wise Installations:
States like Rajasthan, Gujarat, and Tamil Nadu emerged as leaders in large-scale solar installations, while Gujarat, Maharashtra, and Rajasthan led in rooftop solar capacity additions. Gujarat maintained its lead in wind power installations, surpassing Tamil Nadu in capacity.

📈 Overall Renewable Energy Landscape:
India's total renewable energy capacity reached 144 GW, with solar power accounting for 82 GW and wind power for 46 GW, reflecting the country's significant progress in renewable energy adoption and capacity expansion.

NIIF invests $200 m in iBUS to boost digital infra

💰 NIIF Investment in iBUS Network:
The National Investment and Infrastructure Fund (NIIF) is injecting $200 million into iBUS Network and Infrastructure to bolster digital infrastructure operations and support emerging sectors, reflecting a strategic move to enhance digital connectivity and technological advancements.

🌐 Digital Infrastructure Growth Projection:
The digital infrastructure sector is anticipated to experience a significant capital expenditure (capex) of $35-40 billion over the next five years, underscoring the increasing focus on expanding and modernizing digital networks to meet the evolving demands of the digital economy.

- 🏗 NIIF Overview:
The National Investment and Infrastructure Fund (NIIF) is India's first sovereign wealth fund, established to drive infrastructure investments and maximize economic impact through viable projects.

🎯 Objectives:
NIIF aims to provide long-term capital for infrastructure projects, raise funds through diverse instruments, attract anchor investors, and invest in private equity ventures.

💰 Funding Mechanisms:
NIIF utilizes funding mechanisms like credit-enhanced bonds to secure capital and engage partners for sustainable project development.

🏢 Investment Focus:
The fund evaluates and approves investment candidates, collaborates with AMCs for private equity investments, and curates infrastructure projects to drive economic growth.