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Insight

Navigating the Impact of BEPS on Tax Treaties: **Challenges and Solutions**

TaxPrime Insight
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BEPS impact, MLI challenges

Indonesia's proactive steps

tax treaty complexities: Singapore-Indonesia example

TaxPrime's expertise in navigating changes and ensuring compliance

The Base Erosion and Profit Shifting (BEPS) initiative was introduced initially by the Organisation for Economic Co-operation and Development (OECD) in 2013 but later endorsed by the G20 in November 2015. It has had a significant impact on the global network of tax treaties. The introduction of the multilateral instrument has facilitated the swift implementation of numerous BEPS recommendations, allowing countries such as Indonesia, a member of the G20, to quickly modify their tax treaties without the need for extensive renegotiation that could take years to achieve. However, implementing these modifications has not been without its challenges.

The release of the multilateral instrument has resulted in simultaneous changes to multiple tax treaties, making it difficult for taxpayers to understand the resulting tax consequences. This can potentially lead to misunderstandings and incorrect business decisions. Furthermore, there are real challenges in implementing these changes, including the need for domestic legislation and the interpretation of ambiguous provisions in the multilateral instrument.

Indonesia has taken significant steps to address these challenges by releasing integrated texts of the MLI-affected treaties. These updated tax treaties provide an overview of the changes and their implications. However, understanding the changes and their impact still requires a deep understanding of the relevant tax laws and regulations, including familiarity with the tax treaty provisions.

One clear example of the impact of these changes is the new tax treaty between Singapore and Indonesia. Although this particular treaty is not directly changed through the multilateral instrument, the content remains substantially consistent. The significant alteration is evident in the Capital Gains provision. Previously, there was nothing in the treaty to govern taxation on capital gains when assets are sold or transferred. Hence, if there was a sale or transfer of assets involving Singapore and Indonesia, for instance, alienation of shares of an Indonesian company held by a Singaporean tax resident, both States may impose tax thereon, creating possible double taxation. However, under the new treaty, it is clear that only in specific situations capital gains tax in the source country is allowed, which means that such transactions will mostly be subject to tax in one state only, thus eliminating double taxation.

At TaxPrime, we understand the complexities of navigating tax treaties' rules, regulations, and practices. Our panel of adept professionals can assist in comprehending the MLI modifications, grasping the consequences of alterations in tax treaties, and adhering to ensuing tax responsibilities. We offer customized solutions that facilitate our clients' adherence to tax protocols while maximizing their financial advantages. Contact us today for an extensive advisory or quote with complete confidence.

In summary, the multilateral instrument has efficiently implemented significant modifications to tax treaties in Indonesia and other countries. Nevertheless, understanding these changes is imperative to avoid detrimental business choices. TaxPrime's proficient professionals aid clients in remaining well-informed about these revisions and strongly encourage adherence to pertinent regulations.

Behind the insight

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