



GRC BULLETIN

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CBDT

Guidance for application of the Principal Purpose Test (PPT) under India's Double Taxation Avoidance Agreements-re

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CORPORATE LAWS

Authority

Central Board of Direct Taxes

Circular Date

Jan 21, 2025

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CBDT - GUIDANCE FOR APPLICATION OF THE PRINCIPAL PURPOSE TEST (PPT) UNDER INDIA'S DOUBLE TAXATION AVOIDANCE AGREEMENTS-REG

Applicability:

Applicable to all foreign investors, multinational corporations, Indian companies with overseas transactions, financial institutions, tax professionals, and non-resident individuals claiming treaty benefits.

The Principal Purpose Test (PPT) is a key anti-abuse provision introduced through the Multilateral Instrument (MLI) and bilateral treaty amendments in India's Double Taxation Avoidance Agreements (DTAAs)

 It aims to prevent treaty abuse and revenue loss by denying benefits if one of the principal purposes of a transaction is to obtain a tax advantage.

Scope & Application of PPT

- The PPT applies prospectively to transactions and arrangements.
- For DTAAs amended through bilateral processes (e.g., Chile, Iran, Hong Kong, China), it applies from the date of entry into force of the treaty or amending protocol.
- For DTAAs amended through the MLI, it applies from the date specified under Article 35 of the MLI, based on when the MLI enters into force for both jurisdictions.

Interaction with Treaty-Specific Grandfathering Provisions

- Certain DTAAs, such as India-Cyprus, India-Mauritius, and India-Singapore, include grandfathering provisions that are not affected by the PPT.
- These provisions continue to apply as per their respective treaties, ensuring clarity for investors relying on them.

Guidance on PPT Interpretation

The assessment of whether a transaction's principal purpose is taxdriven must be objective and fact-based.

Tax authorities may refer to:

• The BEPS Action Plan 6 Final Report (subject to India's reservations).

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• UN Model Tax Convention (2021) Commentaries on Articles 1 and 29 as supplementary guidance.

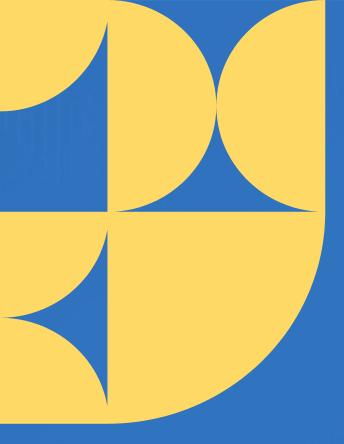
Implications for Businesses & Taxpayers

- Increased scrutiny on cross-border structures and tax benefits claimed under India's DTAAs.
- Taxpayers must maintain robust documentation to justify transactions under commercial substance principles.
- Investors relying on treaty benefits should review structures in light of PPT enforcement.

The CBDT's guidance provides much-needed clarity on PPT enforcement in India. Businesses and tax professionals should assess their treaty benefits and align tax structures with commercial realities to ensure compliance.

SOURCE: Click here for more details







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