



THE BIG PICTURE BASED ON GLOBAL CORPORATE TAX AND INDIA

CONTEXT:

- **G7 countries have reached a deal on taxing multinational companies.**
- The first decision that has been ratified is to **force multinationals to pay taxes where they operate.**
- The second decision in the agreement commits states to a **global minimum corporate tax rate of 15% to avoid countries undercutting each other.**
- The deal is now likely to be put before a G20 meeting in July this year.
- The deal **aims to end what U.S. Treasury Secretary Janet Yellen has called a “30-year race to the bottom on corporate tax rates” as countries compete to lure multinationals.**

WHAT WAS THE NEED?

- **AIM:**
 - to **discourage multinationals from shifting profits — and tax revenues — to low-tax countries regardless of where their sales are made.**
 - Increasingly, income from intangible sources such as drug patents, software and royalties on intellectual property has migrated to these jurisdictions, allowing companies to avoid paying higher taxes in their traditional home countries.
 - Apart from low-tax jurisdictions, the proposal for a minimum corporate tax are tailored to **address the low effective rates of tax shelled out by some of the world’s biggest corporations, including digital giants such as Apple, Alphabet and Facebook, as well as major corporations such as Nike and Starbucks.**
 - These **companies typically rely on complex webs of subsidiaries to Hoover profits out of major markets into low-tax countries** such as Ireland or Caribbean nations such as the British Virgin Islands or the Bahamas, or to central American nations such as Panama.
- **EFFORTS UNDERTAKEN BY OECD:** has been coordinating tax negotiations among 140 countries for years on rules for **taxing cross-border digital services and curbing tax base erosion.**
- **LOSSES DUE TO CORPORATE TAX ABUSE:**
 - The **US Treasury loses nearly \$50 billion a year to tax cheats**, according to the Tax Justice Network report, with Germany and France also among the top losers.
 - **India’s annual tax loss due to corporate tax abuse is estimated at over \$10 billion**, according to the report.

WHAT CORPORATE TAX ABUSE COSTS COUNTRIES			
Country	Tax lost to corporate tax abuse annually	Effective Tax Rate	Tax loss inflicted on other countries
Singapore	\$2,791,252,045	6.15%	\$12,221,060,747
Hong Kong	\$552,026,614	8.26%	\$16,331,010,356
China	\$3,732,400,492	18.97%	\$20,045,803,268
India	\$10,117,529,292	29.73%	\$0
BVI	\$1,079,398	0.07%	\$10,405,615,250
Cayman Is.	\$166,760	0.22%	\$22,819,899,267
Luxembourg	\$551,354,310	1.39%	\$9,283,427,114
Netherlands	\$935,184,630	5.42%	\$26,593,707,934
Ireland	\$198,121,037	7.76%	\$6,068,846,053
UK	\$10,269,722,405	9.72%	\$13,671,390,701
US	\$49,241,339,280	17.78%	\$0
Germany	\$24,394,593,521	22.92%	\$3,378,296,454

Source: The State of Tax Justice 2020 report



- **HOW WILL THE NEW TAX HELP?**

- The minimum is expected to make up the bulk of the \$50 billion-\$80 billion in extra tax that the OECD estimates firms will end up paying globally under deals on both fronts.

HOW WOULD THE NEW TAX WORK?

- The global minimum tax rate would apply to overseas profits.
- Governments could still set whatever local corporate tax rate they want, but if companies pay lower rates in a particular country, their home governments could “top-up” their taxes to the minimum rate, eliminating the advantage of shifting profits.
- Items that are still to be negotiated include whether investment funds and real estate investment trusts should be covered, when to apply the new rate.

ISSUES:

- **BRINGING GLOBAL CONSENSUS:** challenge of getting all major nations on the same page, especially since this impinges on the right of the sovereign to decide a nation’s tax policy.
- **ISSUES TO SMALLER COUNTRIES:** The Irish economy has boomed with the influx of billions of dollars in investment from multinationals. Dublin, therefore, is unlikely to accept a higher minimum rate without a fight.
- **ISSUES TO LOW-TAX COUNTRIES:**
 - Any final agreement could have major repercussions for low-tax countries and tax havens.
 - Some low-tax European jurisdictions such as the Netherlands, Ireland and Luxembourg and some in the Caribbean rely largely on tax rate arbitrage to attract MNCs.
 - Tax stipulation on Hong Kong — the seventh-largest tax haven in the world and the largest in Asia would impact China as well. China’s frayed relationship with the US could be a deterrent.
- **ISSUES TO DEVELOPING COUNTRIES:** A lower tax rate is a tool developing countries can use to alternatively push economic activity.

WHERE DOES INDIA STAND?

- **STEPS UNDERTAKEN BY INDIA:**
 - Finance Minister Nirmala Sitharaman in 2019 announced a sharp cut in corporate taxes for domestic companies to 22% and for new domestic manufacturing companies to 15%.
 - The cuts effectively brought India’s headline corporate tax rate broadly at par with the average 23% rate in Asian countries.
 - The average corporate tax rate stands at around 29% for existing companies that are claiming some benefit or the other.
 - India was engaging with foreign governments with a view to facilitating and enhancing exchange of information under Double Taxation Avoidance Agreements, Tax Information Exchange Agreements and Multilateral Conventions to plug loopholes.
 - Besides, effective enforcement actions including expeditious investigation in foreign assets cases have been launched, including searches, enquiries, levy of taxes, penalties, etc and filing of prosecution complaints, wherever applicable.
 - To address the challenges posed by the enterprises who conduct their business through digital means and carry out activities in the country remotely, the government has the ‘Equalisation Levy’, introduced in 2016.

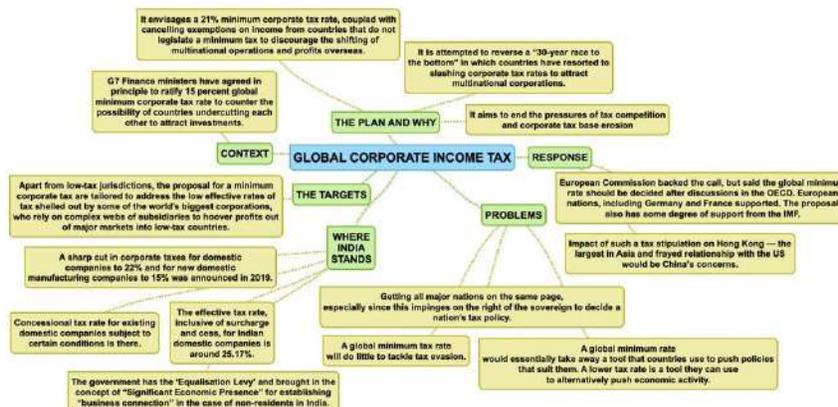


- Also, the IT Act has been amended to bring in the concept of “Significant Economic Presence” for establishing business connection in the case of non-residents in India.
- **HOW WILL INDIA GAIN FROM THE MINIMUM TAX?**
 - The tax will bring equality to those people operating in India but not located in India and therefore not paying any taxes.
 - India is likely to benefit from the global minimum 15% corporate tax rate pact as the effective domestic tax rate is above the threshold.

WAY FORWARD:

- Steps must be taken for its **adoption by all the UN members** to inhibit the creation of tax havens across the world.
- Countries should develop a **consensus over the proposed rate and the categories to which GMCT should be applied.**
- Items that are still to be negotiated include whether investment funds and real estate investment trusts should be covered, when to apply the new rate.
- There should be **appropriate coordination between the application of the new international tax rules including the Digital Services Taxes.**

SUMMARY:





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