Global Minimum Corporate Tax

The Finance Ministers of seven major economies across the globe, the Group of Seven (G7) countries, during the 47th G7 summit reached the landmark accord of setting up Global Minimum Corporate Tax Rate (GMCTR), which would close cross-border tax loopholes used by some multinational companies.

A 15% minimum global corporation tax rate has been backed up by the G7 countries, and measures have been proposed to ensure that the taxes are paid in countries where businesses operate.

Global Minimum Corporate Tax - Key Points

- Major economies are aiming to discourage multinational companies 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 low tax jurisdictions, allowing companies to avoid paying higher taxes in their traditional home countries
- With an agreed global minimum, such tax based erosions can be reduced without causing a financial disadvantage to the firms
- Further, key decisions about the global minimum tax shall be taken by the G20 countries and the Organization for Economic Cooperation and Development (OECD)
- OECD has been the key global organisation for managing tax negotiations among 140 countries for years on rules for taxing cross-border digital services and curbing tax base erosion

What is Corporate Tax?
Corporate Tax is a direct tax levied on the net income or profit of a corporate entity from their business, foreign or domestic. The rate at which the tax is imposed as per the provisions of the Income Tax Act, 1961 is known as the Corporate Tax Rate.

How does the Global Minimum Tax work?

- In terms of its implementation, this tax will be **applicable to companies' overseas profits.** This implies that if a global minimum is applied, governments can still set the local corporate tax rate as per their choice
- In case a company pays lower rates in a particular country, their home governments can "top-up" their taxes to the agreed minimum rate, eliminating the advantage of shifting profits to a tax haven

Need for Global Minimum Corporate Tax

A fixed global minimum corporate tax rate will bring uniformity in corporate taxation globally. Generally, the corporate giants look for countries to set up their organisation where the corporate tax is very less and exemptions are high, which has resulted in partial growth at the global level.

Global Minimum Corporate Tax - Impact on India

India is likely to benefit from the Global Minimum Corporate Tax rate of 15%, as the government has been willing to keep the corporate tax rate artificially lower to attract Foreign Direct Investment (FDI).

As of June 2021, the corporate tax rate for New manufacturing companies is 15% and for companies that do not want to claim any exemption or incentives, the corporate tax rate is 25.17%.

Challenges in the Way Forward

- One of the biggest challenges is that since the minimum tax rate will be applicable globally, all nations must agree to the aspects of the Global Minimum Corporate Tax. The United Nations Organisation must also be in sync with the ideas of the G7 countries
- A well-defined and structured metric plan is also required. Until that is presented to the nations and approved by all, the final implementation of the tax system cannot be done
- The G20 countries which are all set to meet in July 2021 must also be on board with the terms of the global minimum tax rate
- If the drafting of the international taxes is not done appropriately, it may largely affect the low-tax countries