Global Corporate Tax and India: RSTV- Big Picture

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Context:

G7 Finance ministers have agreed in principle to ratify a 15 percent global minimum corporate tax rate to counter the possibility of countries undercutting each other to attract investments.

Background:

The Pillar Two proposal was the Organisation for Economic Co-operation and Development's (OECD) plan to plug the remaining Base Erosion and Profit Shifting (BEPS) issues and provide jurisdictions the right to "tax back" where other jurisdictions have either not exercised their primary taxing right or have exercised it at low levels of effective taxation.

Base Erosion and Profit Shifting (BEPS) refers to the strategies used by multinational companies to avoid paying tax, by exploiting the mismatches and gaps in the tax rules.

BEPS Action 6 addresses treaty shopping through treaty provisions whose adoption forms part of a minimum standard that members of the BEPS Inclusive Framework have agreed to implement. It also includes specific rules and recommendations to address other forms of treaty abuse. Action 6 identifies tax policy considerations jurisdictions should address before deciding to enter into a tax agreement.

Significance:

- This move will close loopholes (Treaty Shopping) used by the corporates to shift revenues and profits to low tax jurisdictions.
- A global taxation system is an important step in the present interconnected global economy.
- It aims to end the decades long race to the bottom and now countries could explore other ways to attract corporate investment, such as **Ease of doing business** procedures in terms of logistics, ancillary infrastructure, faster clearances, etc.
- According to the **State of Tax Justice report of 2020**, India loses over $10 billion in tax revenue due to rerouting of profits and revenues to low tax jurisdictions like Mauritius, Singapore and the Netherlands. (Tax avoidance).
- It's in line with India's taxation scheme:
    - The announcement of the **reduction of corporate tax** rates to 22% along with various tax simplification provisions.
    - Levy of **digital transaction tax** for MNCs like Google who earn huge profits in India.
    - Finalization of double taxation avoidance agreements (**DTAA**).
    - It provides a level playing field for domestic companies and companies located in tax havens.

- It will discourage multi-layering of the corporations by means of the creation of shell companies for the purpose of tax evasion.

Challenges:

- Taxation is the sovereign right of every nation and relinquishing the right of deciding tax rates might hamper the financing of vital social service schemes.
- Investment in any country on the pretext of low tax rates is a vital means for the development of the country.
- This step might increase inequality and withdrawal of investment from smaller economies because developed countries already are at an advantage in terms of ease of doing business measures.
- The measures like SEZs and industrial parks will become defunct with the rise of a global minimum tax.
- The burden of increased taxation might ultimately lie on the people.
- It might not be fully equipped to counter tax evasion because the companies can still manipulate the quantum of profits, via accounting, on which tax has to be levied.

Future perspectives:

- A concrete plan is yet to be announced and there would be more clarity once the functional details are unveiled.
- India must negotiate to balance out its domestic concerns like variable bands of taxes along with this new form of taxation for maximum gains.
- India is a major economic player where a lot of FDI is incoming but the tax receipts are not commensurate with the economic growth. This measure will address this anomaly and surely benefit India in the long run.