

## **Global Minimum Corporate Tax Deal**

### **What is the issue?**

Around 136 countries have signed an agreement at the OECD meeting to redistribute taxing rights and impose a global minimum corporate tax on large MNCs operating globe over.

### **What is the need for a global minimum corporate tax rate?**

- Large MNCs have traditionally been taxed based on where they declare their profits rather than where they actually do business.
- This allowed several large companies to shift their profits to low-tax jurisdictions (tax havens).
- This has led to significant decline in Global corporate tax rates since the 1980s to well below 25% in 2020.
- The double taxation avoidance agreements have been exploited by using the mismatches between the tax laws of various countries.
- The COVID-19 pandemic has also severely battered economies and affected the tax revenues of governments.

### **What does the new agreement say?**

- The agreement fixes the corporate tax rate at 15% on large MNCs across the world.
- It let the governments to impose a top-up tax on home companies that pay lower than 15% tax on profits they declare abroad thus adding additional annual revenues to the budgets of governments.
- The deal also allows a government to impose top-up taxes on the subsidiary of a foreign company if it declares profits through its home headquarters in a different country and pays less than 15% taxes on those profits.
- This prevent companies from profit shifting to tax havens.

*India, China, Russia, Germany and other countries have signed the agreement, which has to be implemented from 2023.*



## **What measures have been taken earlier to prevent tax evasion?**

- **Digital Services Tax- Countries like Belgium, Britain, India and Indonesia brought in Digital Services Taxes on the local sales of foreign firms with online platforms.**
- **Equalisation levy** – Based on the recommendations of Akhilesh Ranjan Committee in 2016, India became the first country to implement the equalisation levy
- It was levied at 6% on online advertisement services earned by non-residents and at 2% on e-commerce operators.

## **What are the expected benefits?**

- **The agreement will stop the countries racing against each other to cut taxes to attract businesses.**
- It will increase the tax revenues and help governments invest in social development.

## **What are the challenges in the agreement ?**

- **Oxfam International has criticised the deal, arguing that the minimum corporate tax rate of 15% is too low.**
- Some view that it may hamper the various economic benefits that come with tax competition among countries.
- The so-called tax havens such as Ireland, Switzerland, Bermuda etc. are defended as they benefit citizens of high-tax countries.
- Higher taxes in the home countries will suppress the ability of the companies to serve the consumers in their countries.
- India would have to reconsider the equalisation levy and address issues such as the share of profit allocation and the scope of subject-to-tax rules.
- Simultaneous implementation of the law by all the signatories will be a tedious process.
- India's Direct Tax Code has to be revamped in accordance with the concept of global minimum tax.
- The agreement if achieved may herald the dawn of the 'Golden Era' of direct taxes.

**Source: The Hindu**

