Will Global Minimum Corporate Tax deliver?

Why in news?

An Initiative on Global Markets survey indicates that the Global Minimum Corporate tax can effectively counter the problem of base erosion and profit shifting.

How did the Global Minimum Corporate tax evolve?

> *A global corporate minimum tax would apply a standard tax rate to a defined corporate income base worldwide.*

- The need for a global minimum corporate tax (GMCT) has been discussed and stressed upon from 2019 when the OECD initiated it.
- In 2021, 136 nations agreed to the GMCT proposal by the OECD which features a 15% corporate minimum tax.
- Later, the G20 summit approved this proposal.

To know more about Global Minimum Corporate Tax Deal, click here

What does the accepted proposal call for?

- The accepted proposal calls for a two-pillar solution to address the challenges of taxation in the digital economy based on a 2015 report on base erosion and profit shifting by OECD.
- **Pillar 1-** The countries will be empowered to tax corporations operating in the country and having an excess profit of more than 10% on sales.
- The tax rate is proposed to be 25 %.
- This would enable the countries to tax corporations wherever they earn their revenue and is estimated to shift 125 billion dollar worth of taxes to countries where the companies actually earn revenue.
- This measure is expected to affect the top 100 companies of the world.
- **Pillar 2-** It seeks to impose a minimum corporate tax rate of 15% all over the world.
- This minimum tax rate will be imposed on corporates with annual revenues of more than 750 million euro.
- If a company pays less than 15% corporate tax in any country that it operates, its home country can impose a tax on the company to reach the minimum of 15%.
- The OECD claims that the new tax regime will cover 90%of the global economy and add 150 billion dollar to countries' tax revenue.

What were the findings of the IGM Forum Survey?

- The Initiative on Global Markets (IGM) forum of Chicago Booth publishes the US and European economic expert panels' views on current and relevant economic topics like GMCT.

- **Benefit-** The GMCT would reduce the benefits to companies of shifting profits to low-tax jurisdictions without biasing where they invest.
- **Concerns**- Challenges in implementing such a global policy needs the acceptance of all developing countries and tax havens.
- The political will it takes to implement such a policy is doubtful.
- It would reduce investment in currently low-tax countries.
- The efficiency of taxing corporates where they make their sale rather than where they produce or have headquarters saw a more uncertain response.

What is there for India?

- India loses about 10 billion dollars to tax abuse through profit shifting every year, the second-largest tax revenue loss in Asia.
- India had already taken measures to minimise tax evasion by foreign corporates. This includes
    - Equalisation levy
    - Special Economic Presence (SEP) rules
    - The latest digital services tax
    - Tax Information Exchange Agreements (TIEAs) with tax havens
- The enactment of GMCT requires India to take down these policies and switch to the proposed two-pillar international norms.
- This would mean forgoing revenue of Rs 4,000 crore which it earns through equalisation levy but the minimum rate would create a new pocket of revenue.
- Tax Justice Network estimates India to gain about 4 billion dollar annually under the new norms.
- As the existing corporate tax in India is above the proposed global minimum of 15%, the chance of a dip in foreign direct investment is is not worrisome.

What is the way forward?

- The successful implementation of the deal involves not excluding any country outside the agreement that can become tax havens.
- Another difficulty in the implementation is that the incentive to deviate are too large for countries.
- OPEC and the EU show that it is difficult to coordinate and enforce international treaties.
- Its success is more of a political will than economics since it depends on how much pressure major countries exert on the tax havens.
- Active and sincere cooperation among the countries is necessary for its success.

References

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