Global Minimum Corporate Tax Rate: G7

Why in News

Recently, the Finance Ministers from the **Group of Seven (G7)** nations reached a landmark accord setting a Global Minimum Corporate Tax Rate (GMCTR)**.**

- The agreement could **form the basis of a worldwide deal.** It will now be discussed in detail at a meeting of G20 **financial ministers and central bank governors in July 2021.**
- G7 also agreed to move towards **making companies declare their environmental impact** in a more standard way so investors can decide more easily whether to fund them.

Group of Seven (G7)

- It is an **intergovernmental organisation that was formed in 1975.**
- The bloc **meets annually to discuss issues of common interest** like global economic governance, international security and energy policy.
- The G7 countries are the **UK, Canada, France, Germany, Italy, Japan and the US.**
    - All the **G7 countries and India are a part of G20.**
- The G7 **does not have a formal constitution or a fixed headquarters.** The **decisions** taken by leaders during annual summits are **non-binding.**

Key Points

- **Global Minimum Corporate Tax Rate:**
    - **About:**
        - G7 would back a **minimum global corporation tax rate of at least 15%**, and **put in place measures to ensure taxes were paid in the countries where businesses operate.**
            - **Corporation tax** is a direct tax imposed on the net income or profit that enterprises make from their businesses.
    - **Applicability:**
        - It would apply to companies' overseas profits. Therefore, **if countries agree on a global minimum, 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 agreed minimum rate, **eliminating the advantage of shifting profits to a tax haven.**
            - A **tax haven** is generally an offshore country that offers foreign individuals

and businesses little or no tax liability in a politically and economically static environment.

- **Need of GMCTR:**
  - **Reduce Tax Loss:**
    - 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 (**tax base erosion** of the higher-tax jurisdictions).
    - 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.
    - **India's annual tax loss** due to corporate tax abuse is estimated at over **USD 10 billion.**
  - **To Bring Uniformity:**
    - GMCTR will **end a decades-long race to the bottom** in which countries have competed to attract corporate giants with ultra-low tax rates and exemptions. And it will bring uniformity in corporate taxation worldwide.
- **Challenges:**
  - **Uniting Nations:**
    - Getting all major nations on the same page is a problem, since the GMCTR **impinges on the right of the sovereign to decide a nation's tax policy.**
  - **Policy Issues:**
    - A global minimum rate would **essentially take away a tool that countries use to push policies that suit them.**
    - A **lower tax rate is a tool they can use to alternatively push economic activity.** Also, a global minimum tax rate **will do little to tackle tax evasion.**
- **Other International Effort:**
  - The **Organization for Economic Cooperation and Development** (OECD) has been **coordinating tax negotiations among 140 countries for years** on rules for taxing **cross-border digital services and curbing tax** base erosion, including a global corporate minimum tax.
- **India's Stand:**
  - While taxation is ultimately a sovereign function, and depends upon the needs and circumstances of the nation, **the government is open to participate and engage in the emerging discussions globally** around the corporate tax structure.
  - India is **likely to benefit from the global minimum 15% corporate tax rate** pact as the **effective domestic tax rate is above the threshold, and the country would continue to attract investment.**
    - In September 2019, the government **had reduced the corporate tax rate to 22%** for companies that gave up all exemptions and incentives. Further, a **15% rate** was offered to **new manufacturing firms.**
    - The **effective tax rate**, inclusive of surcharge and cess, for Indian domestic companies is around **25.17%.**

Way Forward

- A G20 meeting scheduled for Venice in July 2021 will see whether the G7 accord gets **broad support from the world's biggest developed and developing countries.**
- Much **still needs to be ironed out - including the metrics** that will determine how and to

which multinational companies the tax will be applied.
- There should be **appropriate coordination between the application of the new international tax rules** including the Digital Services Taxes**.** Any final agreement could **have major repercussions for low-tax countries and tax havens.**

Source:TH