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Daily Mains Answer Writing

(Day - 48)

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What is global minimum tax rate? What are the foreseeable challenges for its implementation in India and how can we overcome it?

Context - Finance Ministers from the Group of Seven (G7) rich nations reached a landmark accord on backing the creation of a global minimum corporate tax rate of at least 15%, an agreement that could then form the basis of a worldwide deal.

Global Minimum Tax Rate –

- Major economies are aiming to discourage multinationals 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 these jurisdictions, allowing companies to avoid paying higher taxes in their traditional home countries.
- The global minimum tax rate would apply to overseas profits. 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 minimum rate, eliminating the advantage of shifting profits.
- Now, with its proposal for a minimum 15% tax rate, the USA administration hopes to reduce such tax base erosion without putting American firms at a financial disadvantage, allowing competition on innovation, infrastructure and other attributes.
- Apart from low-tax jurisdictions, the proposal for a minimum corporate tax are tailored to address the low effective rates of tax shelled out by some of the world's biggest corporations, including digital giants such as Apple, Alphabet and Facebook, as well as major corporations such as Nike and Starbucks.

Process of tax avoidance –

- 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 $10 billion, according to the Tax Justice Network report.
- The US Treasury loses nearly $50 billion a year to tax cheats, according to the Tax Justice Network report, with Germany and France also among the top losers.

Impact on India –

- Tax sovereignty: If the proposal comes into effect, India may experience a longer economic hangover than other developed nations with less ability to offer mega stimulus packages. A global minimum rate would essentially take away a tool that countries use to push policies that suit them.
- Multilateralism will further stumble in such a tax policy. The policy will create haves and have-nots across the world.
- Deglobalization: Tax-justice advocates will criticize the global minimum of 15% as too low, the global minimum as an unwarranted restriction that will impede their ability to attract investment for countries like India who have still stakes in globalization.
- Differential treatment: In unhospitable investment environments, lower taxes are one of the few immediate ways in which governments can compensate companies for the many disadvantages they face. For example, North East India and hill states in India.
- Future of digital taxes: India's digital equalisation levy (or the "Google tax"). Taxes of this kind have been consistently criticised by the US as unfairly targeting a particular sector. The global minimum tax's lack of clarification on the issue of digital taxation may be further dissuasion to countries like India.

Measures to overcome the challenges:

- India attracts foreign investment owing to its large internal market, quality labour at competitive rates, strategic location for exports, and a thriving private sector. Hence India must focus on skill development, lowering cost of transport and improving other ease of doing business indicators to attract more investment.
- India must demand for more clarity on digital equalization levies to assert its right to tax income generated in its jurisdiction.
- India must "proactively engaging" with foreign governments with a view to facilitating and enhancing exchange of information under Double Taxation Avoidance Agreements, Tax Information Exchange Agreements and Multilateral Conventions to plug loopholes. Besides, "effective enforcement actions" including expeditious investigation in foreign assets cases have been launched, including searches, enquiries, levy of taxes, penalties, etc and filing of prosecution complaints, wherever applicable.