India Joins OECD/G20 Inclusive Framework Tax Deal

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Why in News

India and the majority of the members of **OECD-G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)** have joined a new **two-pillar plan** to reform international taxation rules.

> The two-pillar plan - **inclusive framework tax deal on Base Erosion and Profit Shifting (BEPS)-** seeks to **reform international tax rules** and ensure that multinational enterprises pay their fair share wherever they operate.

Key Points

- **About:**
  - The signatories of the plan amounted to **130 countries and jurisdictions,** representing more than **90% of global GDP.**
  - The new framework seeks to **address the tax challenges** arising from the **digitalisation of economies.**
  - It also seeks to **address concerns over cross-border profit shifting** and bring in subject-to-tax rule to stop **treaty shopping.**
    - Treaty shopping is an attempt by a person to indirectly access the benefits of a tax treaty between two countries without being a resident of any of those.

- **Two Pillar Plan:**
  - **Pillar One:**
    - It will **ensure a fairer distribution of profits and taxing rights** among countries with respect to the largest MNEs, including digital companies.
    - It would re-allocate some taxing rights over MNEs from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there.
    - According to OECD, more than USD 100 billion of profit are expected to be reallocated to market jurisdictions each year.
  - **Pillar Two:** It is about **minimum tax and subject-to-tax rules** (All sources of income liable to tax without taking account of tax allowances).
    - It seeks to put a minimum standard tax rate among countries through a **global minimum corporate tax rate,** currently **proposed at 15%.**
    - This is **expected to generate an additional USD 150 billion** in tax revenues.
- **Significance:**
  - It will ensure that large multinational companies pay their fair share of tax everywhere.
  - The two-pillar package will provide much-needed support to governments needing to raise necessary revenues to repair their budgets and their balance sheets while investing in essential public services, infrastructure and the measures necessary to help optimise the strength and the quality of the post-Covid recovery.
- **India's Stand:**
  - **India will have to roll back the equalisation levy** that it imposes on companies such as Google, Amazon and Facebook when the global tax regime is implemented.
    - It is aimed at taxing foreign companies which have a significant local client base in India but are billing them through their offshore units, effectively escaping the country's tax system.
    - The levy at 6% has been in force since 2016 on payment exceeding Rs 1 lakh a year to a non-resident service provider for online advertisements.
  - India **favours a wider application of the law** to ensure that the **country won't collect less** under the proposed framework **than it gets through the equalisation levy.**
  - India is in favour of a consensus solution which is simple to implement and simple to comply with.
  - The solution should result in **allocation of meaningful and sustainable revenue** to market jurisdictions, particularly for developing and emerging economies.
  - The Two Pillar Plan **justifies India's stand** for a **greater share of profits for the markets** and consideration of **demand side factors in profit allocation.**

Base Erosion and Profit Shifting (BEPS)

- BEPS is a term used to describe tax planning strategies that exploit mismatches and gaps that exist between the tax rules of different jurisdictions.
- It is done to **minimize the corporation tax** that is payable overall, by either making tax profits 'disappear' or **shift profits to low tax jurisdictions where there is little or no genuine activity.**
- In general BEPS strategies are **not illegal; rather they take advantage of different tax rules operating in different jurisdictions.**
- BEPS is of **major significance** for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs).
- The BEPS initiative is an **OECD** initiative, approved by the **G20**, to identify ways of providing more standardised tax rules globally.
    - **OECD:** It is an intergovernmental economic organisation, founded to stimulate economic progress and world trade.
        Most OECD members are high-income economies and are regarded as developed countries.
    - **G20:** It is the leading international forum for economic, financial and political cooperation of large economies.
    - India is a member of G20, however, not a member but a key partner of OECD
- The OECD/G20 **Inclusive Framework was established in 2016.**
    India has ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting **("Multilateral Instrument" or "MLI")** - outcome of the OECD/G20 Project to tackle BEPS.

Source: TH