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](https://www.drishtiias.com/printpdf/global-minimum-corporate-tax-rate-g7). Any final agreement could have major repercussions for low-tax countries and tax havens.

**Source:** TH

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