Global Minimum Corporate Tax

Why in News

The US Treasury Secretary has urged [G20 nations](#) to move towards a **global minimum corporate tax**.

- It is **an attempt to reverse a “30-year race to the bottom”** in which countries have resorted to slashing corporate tax rates to attract multinational corporations (MNCs).

Key Points

- **Proposal on a Global Minimum Corporate Tax Rate:**
    - The US proposal envisages a **21% minimum corporate tax rate, coupled with cancelling exemptions on income from countries** that do not legislate a minimum tax to discourage the shifting of multinational operations and profits overseas.
    - The proposal for a minimum corporate tax is **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.
        - 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.
- **US’ Reasons for the Proposal:**
    - The proposal **aims to somewhat offset any disadvantages** that might arise from the **proposed increase in the US corporate tax rate**.
        - The proposed increase to 28% from 21% would partially reverse the previous cut in tax rates on companies from 35% to 21% by way of a 2017 tax legislation.
    - The increase in corporation tax **comes at a time when the pandemic is costing governments across the world,** and is also timed with the US’s push for a USD 2.3 trillion infrastructure upgrade proposal.
- **Significance:**
    - A global compact on this issue, at the time of pandemic, **will work well for the US government and for most other countries in western Europe,** even as some low-tax European jurisdictions such as the Netherlands, Ireland and Luxembourg and some in the Caribbean rely largely on **tax rate arbitrage** to attract MNCs.
    - The plan to peg a minimum tax on overseas corporate income **seeks to potentially make it difficult for corporations to shift earnings offshore**.
    - The **average headline corporate tax rate in advanced economies has fallen** from 32% in 2000 to just over 23% by 2018.
        - That is largely because **smaller countries such as Ireland, the Netherlands and Singapore have attracted footloose businesses by offering low**

corporate tax rates.

        - Footloose industry is a general term for an industry that can be placed and located at any location without effect from factors such as resources or transport.
    - **Multinational companies** with increasingly intangible assets such as the global tech firms **have shifted some actual business and a lot of profits into these tax havens and low-tax jurisdictions,** lowering their global tax bills.
- **International Response:**
  - The European Commission backed the proposal, but the global minimum rate should be decided after discussions in the **Organisation for Economic Cooperation and Development** (OECD).
    - The European nations, including Germany and France have supported the US proposal.
    - The OECD and Group of Twenty (G20) have been leading the **Base Erosion and Profit Shifting (BEPS) initiative**—a multilateral negotiation with over 135 countries, including the United States—since 2013.
    - **BEPS** refers to tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax.
  - **China** is not likely to have a serious objection with the US call, but an **area of concern** for Beijing would be the **impact of such a tax stipulation on Hong Kong**, the seventh-largest tax haven in the world and the largest in Asia.
  - The US proposal also has support from the **International Monetary Fund (IMF)**.
- **Challenges:**
  - The proposal **impinges on the right of the sovereign to decide a nation's tax policy**.
    - Taxation is ultimately a sovereign function, and depending 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.
  - 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.
    - For instance, in the backdrop of the pandemic, IMF and World Bank data suggest that developing countries with less ability to offer mega stimulus packages may experience a longer economic hangover than developed nations.
    - Also, a global minimum tax rate **will do little to tackle tax evasion**.

India's Position

- **Cut in Corporate Tax:**
  - In a bid to revive investment activity, the Finance Minister announced, in September 2019, a sharp cut in corporate taxes for domestic companies to 22% and for new domestic manufacturing companies to 15%.
    - The **Taxation Laws (Amendment) Act, 2019** resulted in the insertion of a section (115BAA) to the Income-Tax Act, 1961 to provide for the concessional tax rate of 22% for existing domestic companies subject to certain conditions including that they do not avail of any specified incentive or deductions.
    - Also, the existing domestic companies opting for the concessional taxation regime will **not be required to pay any Minimum Alternate Tax**.
  - The cuts effectively **brought India's headline corporate tax rate broadly at par with the average 23% rate in Asian countries**.

        - China and South Korea have a tax rate of 25% each, while Malaysia is at 24%, Vietnam at 20%, Thailand at 20% and Singapore at 17%.
        - The effective tax rate, inclusive of surcharge and cess, for Indian domestic companies is around 25.17%.
        - The average corporate tax rate stands at around 29% for existing companies that are claiming some benefit or the other.
- **Equalisation Levy:**
    - To **address the challenges posed by the enterprises who conduct their business through digital means** and carry out activities in the country remotely, the government has the **'Equalisation Levy'**.
    - The equalization levy 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 Income-tax Act, 1961 has been amended to bring in the concept of **"Significant Economic Presence"** for establishing "business connection" in the case of non-residents in India.
- **Agreements for Exchange of Information:**
    - India has been 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.
        - Such agreements **promote cooperation in tax matters**.
    - Besides, **effective enforcement actions** including expeditious investigation in foreign assets cases have been launched, including searches, enquiries, levy of taxes, penalties, etc.

Corporate Tax

- Corporation Tax or Corporate Tax is a **direct tax levied on the net income or profit of a corporate entity** from their business, foreign or domestic.
- The rate at which the tax is imposed as per the provisions of the Income Tax Act, 1961 is known as the Corporate Tax Rate.
- The Corporate Tax rate is based on a slab rate system depending on the type of corporate entity and the different revenues earned by each of corporate entities.

Minimum Alternate Tax

- At times it may happen that a taxpayer, being a company, may have generated income during the year, but by taking the advantage of various provisions of Income-tax Law (like exemptions, deductions, depreciation, etc.), it may have reduced its tax liability or may not have paid any tax at all.
- Due to an increase in the number of zero tax paying companies, Minimum Alternate Tax (MAT) was introduced by the Finance Act, 1987 with effect from assessment year 1988-89. Later on, it was withdrawn by the Finance Act, 1990 and then reintroduced by Finance Act, 1996.
- MAT is **calculated at 15% on the book profit** (the profit shown in the profit and loss account) or at the usual corporate rates, and whichever is higher is payable as tax.
- All companies in India, whether domestic or foreign, fall under this provision. MAT was later extended to cover non-corporate entities as well.
- MAT is an important tool with which tax avoidance can be prevented.

Domestic Company

- Domestic company is one which is **registered under the Companies Act of India (2013)** and also includes the company registered in the foreign countries having control and management wholly situated in India.
- A domestic company includes private as well as public companies.

Foreign Company

- Foreign company is one which is not registered under the Companies Act of India and has control & management located outside India.

Tax Heaven

- 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.

Source: IE