

# G7 Corporate tax deal

June 8, 2021

**In news-** Advanced economies making up the G7 grouping have reached consensus on Corporate tax deal.

## **About the deal-**

- The deal involving the **US, the UK, Germany, France, Canada, Italy and Japan** was announced recently.
- It has been ratified to force **multinationals to pay taxes where they operate.**
- The proposal states that **countries around the world should tax their home companies' overseas profits at a rate of at least 15 percent.**
- This **global minimum corporate tax** would deter the practice of using accounting schemes to shift profits to a few very low-tax countries.
- The companies involved in tax evasion use multiple branches spread across various jurisdictions, and transfer the bulk of their profit in accounts set up in countries that offer the lowest tax rate.
- The **tax havens include the Caribbean Islands** such as Bahamas or British Virgin Islands, countries like **Hong Kong, Ireland** where the corporate tax rate is as low as 12.5 percent, lower than the proposed minimum rate of 15 percent.
- The proposal allows countries to **tax a share of the profits earned by companies "that have no physical presence but have substantial sales"**, for instance through selling digital advertising.
- Hence the agreement notes that the firms would not only pay taxes to the nations where they are physically based, but also to the countries from where they are making profit through an online presence.
- It will provide for appropriate coordination between the application of the new international tax rules and the

- removal of all Digital Services Taxes** on all companies.
- The agreement **will be discussed in detail at a meeting of G20 financial ministers** and central bank governors in July.

### ***India's position on Corporate tax-***

- On September 21, 2019, the Finance minister announced 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.
- 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**.

The **effective tax rate, inclusive of surcharge and cess**, for Indian domestic companies is around **25.17%**.