Global Tax deal & digital service tax

August 20, 2022

In news–India and other developing countries(Group of 24 countries that includes India) have objected to a provision in a multilateral convention that bars nations from enacting any future digital services taxes such as equalization levy.

What is the Global minimum tax?

- The global minimum corporate tax rate, or simply the global minimum tax (abbreviated GMCT or GMCTR), is a minimum rate of tax on corporate income internationally agreed upon and accepted by individual jurisdictions.
- Each country would be eligible to a share of revenue generated by the tax.
- The aim is to reduce tax competition between countries and discourage multinational corporations (MNC) from profit shifting to achieve tax avoidance.
- A two-pillar solution has been implemented by the OECD to address issues connected to digitalization of the economy.
    1. **Pillar one** is concerned with new profit allocation rules applying to the largest and most profitable MNCs with worldwide revenue greater than €20 billion and profitability above **10%.**
    2. **The second pillar introduces a new global minimum corporate tax of 15%** for corporations in scope. It will apply to multinational groups with revenue exceeding EUR 750 million.
- On 8 October 2021, 136 countries agreed to a plan of Organisation for Economic Co-operation and Development (OECD) to implement a 15% global minimum tax rate, starting in 2023.

Objection by developing countries-

- India and G-24 say that the tax clause will unduly restrict sovereign rights to make laws, a development seen delaying a global tax deal to address digitaisation challenges.
- The G24 has also objected to inclusion of withholding taxes in Amount A as it will lead to erosion of existing taxing rights and will make Pillar One unattractive and meaningless for the developing countries.

What is the equalization levy?

- Equalisation Levy is a direct tax, which is withheld at the time of payment by the service recipient. The two conditions to be met to be liable to equalisation levy:
    - The payment should be made to a non-resident service provider.
    - The annual payment made to one service provider exceeds Rs. 1,00,000 in one financial year.
- Equalisation Levy was introduced in India in 2016, with the intention of taxing the digital transactions i.e. the income accruing to foreign e-commerce companies from India.
- It is aimed at taxing business to business transactions.