# OECD-G20's 'Inclusive Framework' tax deal

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#### In news

Recently, India joined the OECD-G20's 'Inclusive Framework' tax deal

#### About inclusive framework

- Majority of the members OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting(including India)recently adopted a high-level statement containing an outline of a consensus solution to address the tax challenges arising from the digitalisation of the economy.
- More than hundred countries agreed to an overhaul of global tax norms to ensure multinationals pay taxes wherever they operate and at a minimum 15% rate.
- Some significant issues including share of profit allocation and scope of subject to tax rules, remain open and need to be addressed.

### Two pillars

The proposed solution consists of two components-

#### Pillar One

- It is about reallocation of additional share of profit to the market jurisdictions.
- It ensures that large multinational enterprises, including digital companies, pay tax where they operate and earn profits.
- Most such companies have so far been paying low taxes by shifting profits to low-tax jurisdictions.

• Under this pillar, taxing rights on more than \$100 billion of profit are expected to be reallocated to market jurisdictions each year.

#### Pillar Two

- It consists of minimum tax and is subject to tax rules.
- It seeks to put a floor under competition among countries through a global minimum corporate tax rate, currently proposed at 15%.
- This is expected to generate an additional \$150 billion in tax revenues.
- If implemented, countries such as the Netherlands and Luxembourg that offer lower tax rates, and so-called tax havens such as Bahamas or British Virgin Islands, could lose their sheen.

#### India's stand

- The principles underlying the solution vindicates India's stand for
  - a greater share of profits for the markets,
  - consideration of demand side factors in profit allocation,
  - the need to seriously address the issue of cross border profit shifting and
  - the need to be subject to tax rules to stop treaty shopping.
- India is in favour of a consensus solution which is simple to implement and simple to comply with.
- The Ministry of Finance said that India will continue to be constructively engaged for reaching a consensus based ready to implement solutions with Pillar one and Pillar two as a package by October and contribute positively for the advancement of the international tax agenda.
- The ministry also said that the solution should result in allocation of meaningful and sustainable revenue to market jurisdictions, particularly for developing and

emerging economies.

#### **Effects on India**

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.

## Base erosion and profit shifting (BEPS) & OECD/G20 Inclusive Framework

- •BEPS refers to tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax.
- Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately.
- Working together within the OECD/G20 Inclusive Framework on BEPS, 139 countries and jurisdictions are collaborating on the implementation of 15 measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment.
- OECD/G20 Inclusive Framework on BEPS brings together over 135 countries and jurisdictions to collaborate on the implementation of the BEPS Package.

Extra reading: https://journalsofindia.com/oecd/