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/