OECD Fixes Minimum Tax of 15% on MNCs from 2023

MNCs with global sales above €20B & profits more than 10% will be covered by new rules

Our Bureau

New Delhi: Multinational corporations will be subject to a minimum tax of 15% from 2023 and those with profits above a threshold will have to pay taxes in the markets they derive business from, as OECD on Friday finalised a landmark reform of international tax system.

The new framework, backed by 136 countries, including India, seeks to ensure a fair share of taxes for countries where multinationals and global digital companies such as Netflix, Google earn revenues from.

"The landmark deal, agreed by 136 countries and jurisdictions representing more than 90% of global GDP, will also reallocate more than $125 billion of profits from around 100 of the world's largest and most profitable MNEs (multinational enterprises) to countries worldwide, ensuring that these firms pay a fair share of tax wherever they operate

THE AGREEMENT

The landmark deal was agreed by 136 countries and jurisdictions representing more than 90% of global GDP

and generate profits," the OECD (Organisation of Economic Cooperation and Development) said.

The two-pillar solution will be delivered to the G20 finance ministers meeting in Washington DC on October 13, and then to the G20 Leaders' Summit at the end of October. Countries are aiming to sign a multilateral convention during 2022, with effective implementation in 2023, it said.

Under the agreement, countries levying tax on digital transactions would have to withdraw those levies.

India, for instance, will have to withdraw its equalisation levy that it imposes on overseas digital companies. "No newly enacted digital services taxes or other relevant similar measures would be imposed on any company from October 8, 2021 and until the earlier of December 31, 2023 or the coming into force of the multilateral convention," said Sandeep Jhunjhunwala, partner at professional services firm Nangia Andersen. "The modality for the removal of existing digital services taxes and other relevant similar measures needs to be appropriately coordinated."

New Delhi has backed the OECD-Base Erosion Profit Shifting talks since the beginning and has been keen on the deal.

The framework has two pillars. Pillar one seeks to ensure a fairer distribution of profits and taxing rights among countries with respect to the largest and most profitable multinational enterprises.

Multinational enterprises with global sales above €20 billion and profitability above 10% will be covered by the new rules, with 25% of profit above the 10% threshold to be reallocated to market jurisdictions.

Pillar two introduces a global minimum corporate tax rate set at 15%. The new minimum tax rate will apply to companies with revenue above €750 million and is estimated to generate around $150 billion in additional global tax revenues annually. This will bring more certainty and help ease trade tensions, the statement said.

India may need to rescind digital tax

As part of the global minimum tax accord it has agreed to, country must forswear such levies

PRESS TRUST OF INDIA
NEW DELHI

India may have to withdraw digital services tax or the equalisation levy and give a commitment not to introduce such measures in the future if the global minimum tax deal comes through.

In a major reform of the international tax system, 136 countries, including India, have agreed to an overhaul of global tax norms to ensure that multinationals pay taxes wherever they operate and at a minimum 15% rate.

However, the deal requires countries to remove all digital services tax and other similar measures and to commit not to introduce such measures in the future, the Organisation of Economic Cooperation and Development (OECD) said in its implementation plan on Friday.

Fine line: 'India is balancing its interests as an importer and an exporter of capital, goods and services'. • G. RAMAKRISHNA

"No newly enacted digital services taxes or other relevant similar measures will be imposed on any company from October 8 and until the earlier of December 31, 2023, or the coming into force of the MLC (multilateral convention)," the OECD said.

The proposed two-pillar solution of the global tax deal consists of two components – Pillar One which is about reallocation of additional share of profit to the market jurisdictions and Pillar Two consisting of minimum tax subject to tax rules.

Finance Minister Nirmala Sitharaman had earlier this week said that India was "very close" to arriving at the specifics of the two-pillar taxation proposition at the G-20 and was in the last stage of finalising the details.

The Finance Ministers of G-20 countries are scheduled to meet on October 13 in Washington and finalise it.

"As a significant move, the OECD has sought for an immediate and upfront withdrawal of unilateral digital services tax and a commitment not to introduce such measures in the future," Nangia Andersen Partner Sandeep Jhunjhunwala said commenting on the OECD's latest statement.

The modality for the removal of existing digital services taxes and other similar measures needs to be appropriately coordinated, Mr. Jhunjhunwala observed.

Timeline deferred

"Pillar Two which was initially proposed to be brought into effect from 2023 has now been deferred to 2024," he added.

Shardul Amarchand Mangaldas & Co. Partner Gouri Puri said a consensus was key to securing a more stable tax regime for multinationals and governments.

"While the fine print is awaited, India is balancing its interests both as an importer and an exporter of capital, goods and services. The deal will prevent a race to the bottom among countries," Mr. Puri added.

GLOBAL MINIMUM TAX DEAL

India may have to discontinue equalisation levy from Oct 8

The deal requires countries to remove all digital services tax and other similar measures and to commit not to introduce such measures in future

OUR CORRESPONDENT

NEW DELHI: India may have to withdraw digital services tax or the equalisation levy and give a commitment not to introduce such measures in the future if the global minimum tax deal comes through.

In a major reform of the international tax system, 136 countries, including India, have agreed to an overhaul of global tax norms to ensure that multinationals pay taxes wherever they operate and at a minimum 15 per cent rate.

However, the deal requires countries to remove all digital services tax and other similar measures and to commit not to introduce such measures in the future, as per the Organisation of Economic Cooperation and Development (OECD) implementation plan released late on Friday.

"No newly enacted digital services taxes or other relevant similar measures will be imposed on any company from October 8 and until the earlier of December 31, 2023, or the coming into force of the MLC (multilateral convention)," the OECD said.

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The Finance Ministers of G-20 countries are scheduled to meet on October 13 in Washington and finalise it.

Nangia Andersen Partner Sandeep Jhunjhunwala said the statement released by the OECD on Friday weighed against the one in July 2021 brings out some interesting observations, on which taxmen and taxpayers had their eyes laid on.

"As a significant move, the OECD has sought for an immediate and upfront withdrawal of unilateral digital services tax and a commitment not to introduce such measures in the future.

No newly enacted digital services taxes or other relevant similar measures would be imposed on any company from October 8 and until the earlier of December 31, 2023, or the coming into force of the multilateral convention," he said.

The modality for the removal of existing digital services taxes and other relevant similar measures needs to be appropriately coordinated, Jhunjhunwala added.

"Pillar Two which was initially proposed to be brought into effect from 2023 has now been deferred to 2024," he added.

[illegible] Singhania said the two pillar solutions finally agreed will result in redistribution of USD 125 billion taxable profits annually, and ensure global MNEs pay minimum 15 percent tax once these measures are implemented in 2023 through a multilateral convention to be signed next year.

Consensus on global minimum tax will practically make tax competition amongst nations rather unfeasible by narrowing down any such opportunities to rarest circumstances, he said.

"In reaching final Two-pillar solutions, OECD Inclusive Framework has tied up several loose ends and drawn the roadmap to its implementation. The final solution offers 25 percent share in super normal profits (i.e. profits in excess of 10 per cent) sought to be reallocated to market countries," Singhania said

He said the signing of MLI will also lead to consistent withdrawal of digital Services tax and any such similar taxes /levies, and will prevent any future enactment of such order.

"In the end, two pillar solutions ought to be reckoned as enduring overhaul of the century old international tax regime, that's here to change the rule of the global profit allocation amongst taxing jurisdictions completely," Singhania added.

India may have to scrap Google Tax

OUR SPECIAL CORRESPONDENT

New Delhi: India may have to give up its equalisation levy or the so-called 'Google Tax' as part of the global tax deal that 136 nations agreed on Friday.

It will also have to make a commitment that it will not introduce such measures in the future once the global minimum tax deal comes through.

As part of the two-pillar multilateral solution to the problem of adroit tax avoidance by the Big Boys of technology, countries like India will be conferred the right to tax digital players like Microsoft, Google, Facebook, and Netflix and set a 'global minimum corporation tax' of 15 per cent.

The global tax deal is propped up by two pillars. Pillar One provides for the reallocation of the additional share of profit to the market jurisdictions, while Pillar Two consists of minimum tax and is subject to tax rules.

OECD SAYS

- No newly enacted digital services taxes or other similar measures will be imposed on any company

- This will be effective from October 8 and until the earlier of December 31, 2023, or the coming into force of the multilateral convention

Multinational enterprises (MNE) with global sales above 20 billion euros and profitability above 10 per cent will be covered by the new rules. Under the special purpose nexus rule, 25 per cent of the profit above the 10 per cent threshold will be reallocated to market jurisdictions. Analysts said this was higher than the 20 per cent allocation in the July plan.

Taxing rights on more than $125 billion of MNE profits are expected to be reallocated to market jurisdictions each year.

Under Pillar Two, a global minimum corporate tax rate has been set at 15 per cent which is in contrast with the July Plan that provided for "at least 15 per cent". This new minimum tax rate will apply to companies with revenues above 750 million euros. This is estimated to generate around $150 billion in additional global tax revenues annually.

Sumit Singhania, partner, Deloitte India, said: "Consensus on the global minimum tax will make tax competition amongst nations rather unfeasible by narrowing down any such opportunities to the rarest circumstances."

Nangia Andersen Partner Sandeep Jhunjhunwala said: "The OECD has asked for an immediate and upfront withdrawal of unilateral digital services tax."

Gouri Puri, partner at Shardul Amarchand Mangaldas, said a consensus on the two-pillar solution is the key to securing a more certain and stable tax regime.

Google, Facebook and Netflix to pay a minimum global tax at 15%

India introduced equalisation levy for digital advertising services in 2016 at the rate of 6 per cent

Shrimi Choudhary | New Delhi October 08, 2021 Last Updated at 23:28 IST

Of 140 countries, 136 have agreed to two-pillar solution to address the tax implications arising from digitisation of economy in Paris on Friday

Representatives from 136 nations, including India have finalised a global tax deal which will ensure large digital players--Google, Facebook, Netflix, and Microsoft-- pay a minimum tax rate of 15 per cent, wherever they operate, said the Organisation for Economic Cooperation and Development (OECD) on Friday. The tax deal to come into effect from 2023.

The OECD has also sought for an immediate withdrawal of unilateral digital services tax measures like equalization levy and a commitment to not introduce such measures in future.

Besides, no newly enacted digital taxes or other relevant similar measures will be imposed on any company from October 8 2021 and until the earlier of December 31, 2023.

India introduced equalization levy for digital advertising services in 2016 at the rate of 6 per cent. Later in April 2020, it widened the scope to impose a 2 per cent tax on non-resident e-commerce players. India so far collected over 1,600 crore levy this fiscal which is almost doubled from last year.

Of 140 countries, 136 have agreed to two-pillar solution to address the tax implications arising from digitisation of economy in Paris on Friday. However four nations- Sri Lanka, Kenya, Nigeria and Pakistan had not joined the agreement.

This deal now will be delivered to the G20 Finance Ministers meeting in Washington DC on 13 October, then to the G20 Leaders Summit in Rome at the end of the month.

The global minimum tax agreement does not seek to eliminate tax competition, but puts multilaterally agreed limitations on it, and will see countries collect around USD 150 billion in new revenues annually, OECD highlighted.

"Today's agreement will make our international tax arrangements fairer and work better," said OECD Secretary-General Mathias Cormann. "This is a major victory for effective and balanced multilateralism. It is a far-reaching agreement which ensures our international tax system is fit for purpose in a digitalised and globalised world economy. We must now work swiftly and diligently to ensure the effective implementation of this major reform," he added.

Sandeep jhunjhunwala, Partner, Nangia Andersen

The "seismic global tax agreement" as being referred to by narrators has stepped up the game to lay the edifice of a landmark deal with the release of the implementation plan having 136 countries agreeing to Inclusive Framework. The Statement released by the OECD weighed against the one in July 2021 brings out some interesting observations, on which taxmen and taxpayers had their eyes laid on.

The proposed solution under the OECD's Base Erosion and Profit Shifting consists of two components.

Pillar 1 of the proposal talks about taxing companies with 20 billion euro revenues and a profit margin above 10 per cent. These largely cover the top 100 companies. The threshold will be reviewed after seven years to cut it to 10 billion euros. This is much higher than the 1 billion euro revenue threshold pressed by developing countries, including India, to cover 5,000 global companies.

Under Pillar One, taxing rights on more than USD 125 billion of profit are expected to be reallocated to market jurisdictions each year. Developing country revenue gains are expected to be greater than those in more advanced economies, as a proportion of existing revenues.

Pillar 2 aims to ensure that multinational businesses are subject to a minimum effective level of tax on all of their profits each year. The new minimum tax rate will apply to companies with revenue above EUR 750 million and is estimated to generate around USD 150 billion in additional global tax revenues annually. Further benefits will also arise from the stabilisation of the international tax system and the increased tax certainty for taxpayers and tax administrations. However it was initially proposed to be brought to effect from 2023 but now been deferred to 2024.

OECD said that the two-pillar solution contains a number of features to ensure that the concerns of low-capacity countries are addressed. The OECD will ensure the rules can be effectively and efficiently administered, also offering comprehensive capacity building support to countries which need it, it noted.