

FOR THE FINANCE MINISTER TO NOTE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

The [World Inequality Report 2022](#) authored by Lucas Chancel, Thomas Piketty, Emmanuel Saez and Gabriel Zucman says India is now among the most unequal countries in the world. The bottom 50% of the population earn 53,610, while the top 10% earn more than 20 times that. The top 10% and top 1% of the population hold 57% and 22% of the national income, respectively, while the bottom 50% hold just 13%. India stands out as a poor and unequal country with an affluent elite. Inequality today is as great as it was at the peak of western imperialism in the early 20th century. The pandemic has exacerbated it. Nations have become richer but governments have become poor, says the report. The totality of wealth is in private hands. Global multimillionaires have captured a disproportionate share of global wealth growth over the past several decades.

The Finance Minister, Nirmala Sitharaman, will take the findings of the report while framing the Budget. The long-standing complaint about corporate houses abusing provisions for tax exemption and deductions was addressed in a unique way by Ms. Sitharaman when she brought in a twin system of tax rates for companies claiming deductions and not claiming deductions. Domestic companies are charged 25% when their turnover is less than 250 crore and 30% when their turnover is above 250 crore. Suitable surcharges are also levied. A glaring inequality arises in the case of partnership firms; they are taxed at 30%. The idea seems to be to encourage corporatisation of firms. But medium- and small-scale industries find it a pain to go through the legal processes of corporatisation. Promoters of companies devise novel ways to escape the rigour of taxation.

Global pact on minimum corporate tax of 15%

The decline in corporate tax rates reduced government revenue at a time of growing public deficit and declining public wealth. It erodes the progressive nature of the tax system. High-income individuals choose to incorporate their business so that they can shift income from personal income tax to corporate tax. There is also the recent phenomenon of wealthy families of promoters of big corporate houses creating a succession plan through private trusts. Assets are transferred to the trusts. India's corporate houses are taking a cue from wealthy families in the West like the Waltons who run Walmart via private trusts. The time has come for the re-introduction of estate duty in India.

The Government of India has to prepare for the introduction of the global minimum tax on MNCs, as agreed to by 130 countries in July 2021. The rate then fixed was 15%. This is lower than what working class and middle-class people in high-income countries pay. MNCs are always ahead of the governments. Mark Zuckerberg chose to change his company's name from Facebook to Metaverse. Google, Apple and Intel are all working on devices to circumvent the minimum global tax. Metaverse will pervade daily life offering new avenues for buying goods and services, communicating with friends and collaborating with colleagues. Metaverse refers to a collection of shared online worlds in which physical augmented and virtual reality converge. The CEO of Microsoft, Satya Nadella, points out that people can now hangout with friends, work, visit places buy goods and services and attend events on Metaverse. Digital access has not been equitable. This provides a challenge to the implementation of the proposed global minimum tax. Augmented reality attempts to provide a new kind of computing platform so as to find a new source of revenue.

The rate of global minimum tax at 15% on MNCs will mean a gain of \$0.5 billion for India without deductions. The gain will be zero if deductions are allowed. The World Inequality Report suggested a minimum global tax on MNCs at 25%. This will yield \$1.4 billion for India without deductions and \$1.2 billion with deductions of 5%. MNCs and their shareholders have been the main winners from globalisation. Their profits have boomed due to the ever-closer integration of world markets.

Explainer | What is a global minimum tax and what will it mean?

Inflation indexing has long been suggested as a way out to sort out the difficulties of the fixed income group.

India is a poor country. Pericles said, "Poverty is no disgrace to acknowledge but it is real degradation not to attempt to overcome." The Finance Minister will do well to remember Justice Chagla's famous saying, "Equity and income tax law may be strangers to each other but they are not sworn enemies." No doubt, our socially conscious Finance Minister will do everything to promote equity while presenting the Budget.

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Left unchallenged, a former CJI's insinuations against the judiciary could gravely erode faith in the institution's integrity

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