

G7 TAX CONSENSUS SETS STAGE FOR BROADER TALKS ON DIGITAL SERVICES TAXATION

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

The agreement by the [group of seven advanced economies, G7](#), on Saturday to tax "the largest and most profitable" multinational companies has set the stage for negotiations among India and other G-20 nations next month over the terms of such a deal.

The deal proposes [taxation](#) rights to countries which are markets for offshore digital economy firms—even those where these firms are not physically present. "We commit to reach an equitable solution on the allocation of taxing rights, with market countries awarded taxing rights on at least 20% of profit exceeding a 10% margin for the largest and most profitable multinational enterprises," said a communique by the G7, made up of Canada, France, Germany, Italy, Japan, the UK and US, plus EU.

G-20 nations are set to discuss a global digital economy taxation framework in July to reach a consensus. An Indian government official said requesting anonymity that a consensus is expected by mid-2021. That is significant given that India and many other nations have already imposed taxes on offshore digital economy service providers, which has angered the US.

Washington last week gave six countries, including India, 180 days to complete multilateral talks on a new taxation framework. These countries are on a US target-list for retaliatory tariffs.

India had in 2016 introduced a 6% equalization levy on advertisement services by offshore digital firms to Indian businesses. Last year it expanded this to cover other e-commerce supplies by non-resident firms but at a lower 2%. It covers all sorts of digital e-commerce transactions in India and transactions which use Indian data.

It is significant that the G7 proposal aims to cover only tech giants such as Google and Amazon while India may like to have a broader tax net over non-resident digital firms.

According to India, any offshore gig economy firm will be subject to taxes if annual payments to it are more than 2 crore and if it has a consumer base of 300,000 in India. Both the tax base and the extent of tax to be levied are expected to be the subject of negotiations. An email sent to the finance ministry remained unanswered.

The G-7 group also proposed a 15% global minimum corporate tax aimed at checking the low corporate tax rate in countries that MNCs exploit to artificially reduce the taxes paid in countries where they sell their products and services. However, the rate was criticized as less than adequate given that some countries charge lower rates. Ireland, for example, charges 12.5%.

Economist Jayati Ghosh, who is part of a committee campaigning against tax avoidance by corporations, said on Saturday that the deal fell way below the expectations raised by the Biden administration. "G7 needs to go beyond minor tweaks if it really wants to step up to challenges," said Ghosh.

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