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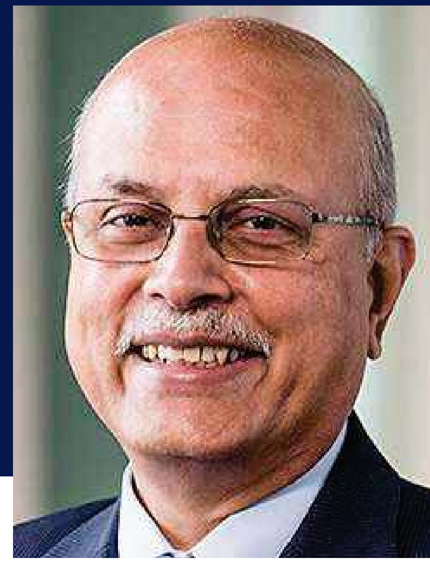
Taxing Global Corporations:
A New Beginning



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Leaders of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, UK, USA, and EU (G20), on Saturday gave their backing to a historic global deal to tax multinational companies at a minimum rate of 15%. The gathered Finance Ministers also urged hold-out countries to sign up. Earlier this month at an OECD Summit, 131 nations had agreed on tax reforms that would eliminate zero tax status for aggressive tax planners. This latest G20 endorsement will ensure it becomes a reality following years of negotiations.

The new tax architecture is expected to kick in by 2023. The two endorsed pillars are:

- Reallocation of profits of multinational enterprises (following the BEPS principles), and
- Effective global minimum tax of 15%

Digital giants such as Google, Apple, Tencent, Alibaba and Microsoft will now pay their fair share of taxes in all the jurisdictions in which they operate. The famous Google tax and India's equalisation levy will be subsumed in the Global Minimum Tax overtime. As regulations around transfer pricing and Double Tax avoidance also converge following the OECD's extensive efforts, the world will see the emergence of a fairer, less complex and transparent tax mechanism that will raise the 'tax to GDP' ratio of the world to an extent that will enable Climate change to become affordable.

Also the collaborative spirit that information exchange fosters will be a positive force that will finally deter tax evasion and will bring aggressive tax havens to the mainstream. A simpler, more digital and automatically computed tax obligation will likely follow in 3-5 years and beyond that, expensive tax litigation will reduce.

The minimum rate is expected to affect fewer than 10,000 major companies, but the OECD estimates an effective 15% tax rate will generate an extra $ 150 Billion. Also, countries that have turned into mere markets for global products and services will accrue taxes on profits made in their territories. Multinationals operate in many countries- Oil giant BP operates in 85 countries - pays taxes on profits only in tax domiciles cherry-picked for their low rates of tax. Perhaps the Pandemic provided the thrust on changing attitudes and drove towards more fairness.

The path to full realisation of these agreed tax transformations is by no means short or easy. Massive pushbacks will emerge and the level of litigation will go up temporarily, but the new direction is visible. We will now see an accelerated thrust on domestic tax legislation, on portalisation of tax compliance by multinationals and a pivot to digital tax services. Filers and compilers will gain a new found ascendancy over tax planners and minimisers! The balance of power will shift to compliance as Boards all over the world get behind this new direction.

The entire gamut of service offered will transform and shift to the digitally enhanced providers. Also the tracking of flows through Global systems will make tax avoidance and evasion get early detected and so pursued with a vigour backed by data.

A new tax world is emerging. An early pivot to compliance supported by enlightened Boards will drive competitive advantage. Embrace lower litigation, simplicity and compliance and the tax world will welcome you as its NEW CITIZEN. ■

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