06/07/2021 UPSC MAINS.

Q. G7 grouping's corporate tax proposals have significant impact on the Indian economy in various ways. Substantiate.

Ans.- Advanced economies making up the G7 grouping have reached a "historic" deal on taxing multinational companies. They agreed to counter tax avoidance through measures to make companies pay in the countries where they do business.

Impact on Indian economy as follows:-

(i) Since they also agreed in principle to ratify a global minimum corporate tax to counter the possibility of countries undercutting each other to attract investments.

(ii) force multinationals to pay taxes where they operate.

(iii) Agreement commits states to a global minimum corporate tax of 15% to avoid countries undercutting each other.

(iv) India is likely to benefit from the pact agreed by G7, advanced economies on the global taxation system, according to tax experts.

(v) India's effective tax rate is still above the global minimum tax rate, which would not impact companies doing business in India.

(vi) India attracts foreign investment owing to its large internet market, quality labours at competitive rates strategic location for exports, and a thriving private sector. ~~sector~~

(vii) A global minimum corporate tax rate is a path-breaking, especially for large and developing countries like India which would always find it very difficult to keep corporate tax rates artificially lower in a bid to increase much needed foreign direct investment in the country.

Thus, we can say granting of taxing rights to 'market countries' for a share ~~of~~ of global profits of multinational corporations, taxation with the place of economic contribution.