OECD invites public inputs on Global Anti-Base Erosion proposal

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MNCs and international businesses may face minimum level of corporate tax

The Organisation for Economic Cooperation and Development (OECD) has come up with a new proposal that could end up ensuring that profits of internationally operating businesses—including tech and digital giants-- are subjected to a minimum rate of corporate tax.

A minimum corporate tax rate, if and when implemented, on all income would reduce the incentive for taxpayers around the world to engage in profit shifting and establish a floor for tax competition among jurisdictions, say tax experts.

The new proposal—the Global Anti-Base Erosion (GloBE) proposal under Pillar two of BEPS 2.0 project aimed at addressing the tax challenges of the digitalisation of the economy—represents a substantial change to the international tax architecture, they said.

The OECD has now come out with a public consultation document for GloBE proposal, which seeks to develop rules that would provide jurisdictions with a right to "tax back" where other jurisdictions have not exercised their primary taxing rights or the payment is otherwise subject to low levels of effective taxation.

The GloBE proposal postulates that global action is needed to stop a harmful race to the bottom on corporate taxes, which risks shifting the burden of taxes onto less mobile bases and may pose a particular risk for developing countries with small economies.

Stakeholders comments have now been invited on three specific technical design aspects of the GloBE proposal--the use of financial accounts as a starting point for determining the tax base; the extent to which an MNE can combine income and taxes from different sources in determining the effective (blended) tax rate on such income; and finally stakeholders' experience with, and views on, carve-outs and thresholds that may be considered as part of the GloBE proposal.

The comments provided is expected to assist members of the 'Inclusive Framework' (on BEPS) in the development of a solution for its final report to the G20 in 2020.

Depending on its design, the GloBE proposal may shield developing countries from pressure to offer inefficient tax incentives.

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This GLoBE proposal is in addition to proposals under Pillar One, which were circulated a month back. Pillar One addresses the allocation of taxing rights between jurisdictions and considers various proposals for new profit allocation and nexus rules.

Expert's take

Rajendra Nayak, Tax Partner & National Leader- International Tax Services, EY India, said that the OECD's Pillar Two or GloBE proposals could lead to significant changes to the overall international tax rules under which multinational businesses currently operate.

"The scope of the GloBE proposal is not limited to highly digitalized businesses. The proposals would, through changes to domestic law and tax treaties, provide jurisdictions with a right to "tax back" where other jurisdictions have not exercised their primary taxing rights or the payment is otherwise subject to low levels of taxation", he said.

The proposals are intended to advance a multilateral framework that achieves a balanced outcome, limiting the distortive impact of direct taxes on investment and business location decisions, he said.

Rakesh Nangia, Chairman, Nangia Andersen Consulting Pvt Ltd said that GLoBE is for development of a co-ordinated set of rules to address ongoing risks from structures that allow multinational enterprises to shift profit to jurisdictions where they are subject to no or very low taxation.

Though it will be a hard task to prepare a 'one fits all' solution for the global business world, a faster pace of OECD in this direction is definitely promising, he said. The final solution addressing the tax challenges of digitalised economy may give options to treaty partners and like Multilateral Instrument (MLI) the matching concept may prevail, Nangia added.

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