Printed from
THE TIMES OF INDIA

In a 1st, UN to call shots on global tax rules

TNN | Nov 25, 2022, 07.00 AM IST

Mumbai: Developing countries like those from Africa and Asia, including India, are likely to have a greater say in the formulation of global tax rules — a task that will be overseen by the United Nations (UN).
The UN General Assembly unanimously adopted on Wednesday a resolution that calls for developing an international tax co-operation framework or instrument that is agreed upon through a UN intergovernmental process. This resolution was submitted for consideration by Nigeria on behalf of a consortium of 54 African countries.

The dialogues between countries are expected to begin only next year. In addition to dealing with tax issues in a digital economy, discussions are also expected to cover the menace of illicit money flows and solutions to overcome the same.
"The historic decision is likely to mark the beginning of the end of the OECD's (Organisation for Economic Co-operation & Development's) 60-year reign as the world's leading rule maker on global tax, and will now kick off a power struggle between the two institutions with implications for global and local economies, businesses and people everywhere for decades to come," says Tax Justice Network (TJN), a tax advocacy group.

UN secretary-general Antonio Guterres has been tasked with delivering a report on the flaws of current arrangements and the solutions. On the table is the creation of a UN tax convention, which would overhaul global taxation rules. The aim is end global tax abuse by multinational enterprises (MNEs) and the super rich, adds TJN.
In October 2021, history was made when 136 countries reached an agreement on the 'Two-Pillar Solution' spearheaded by the OECD. From the very inception, India as part of the G20, has been an active participant in the OECD-led discussions. With the UN now stepping in to play a pivotal role, it could signal that history will be re-made, say international tax experts.

From India's revenue standpoint, 'Pillar One' — relating to taxation in a digital economy, which granted taxing rights and allocation of profits of MNEs to countries where the customer base is, regardless of whether the MNEs have a physical presence — was of paramount importance. Taxing rights on more than $125 billion were to be reallocated each year from around 100 of the world's largest and most profitable MNEs to consumer-centric countries. This would ensure that these companies pay a fair share of tax wherever they operate and generate profits.

While OECD, a group of 38 member countries, is regarded as a rich-country club, it had increasingly become more inclusive in its approach with non-members such as India participating in discussions relating to global tax solutions. However, government officials say that the mechanism of allocation of profits under Pillar One had become a contentious issue among several developing countries. They hope that the UN model will result in a fairer allocation. Also, while it is too early to say, perhaps the UN discussions could result in a larger number of companies (rather than just the top 100) coming within the ambit of a fairer customer-centric based profit allocation.

Pillar One provided that no newly enacted digital services tax (like India's equalisation levy) will be imposed on any company from October 8, 2021 until December 31, 2023 or the coming into force of the Pillar One agreement. India's take was that its equalisation levy was a stop-gap arrangement and once Pillar One was enacted, it could be withdrawn.

'Pillar Two' called for a global effective minimum tax rate of 15%, with a mechanism for tax back by another country if the minimum rate was not adhered to. Hungary had thrown a spanner in the negotiations and EU finance ministers are expected to reach a final agreement next month.