Global minimum corporation tax may help fund infra spending

The US government has proposed to impose a global minimum tax on large companies. The objective behind the tax is to make offshore investments less attractive and prevent flight of capital. With this plan, the US government wants to raise an additional USD 2 trillion tax revenue over the next 15 years to fund its massive expenditure on Covid-relief measures and infrastructure development.

The tax proposed by the US government has so far received support from the IMF and a few developed countries such as France and Germany. However, if a global minimum tax comes into force, developing countries will lose their competitive edge in attracting investments in the absence of other incentives such as world-class infrastructure and innovation capabilities to woo foreign investors.

IMF Chief Economist Ms. Gita Gopinath, has recently said that current disparities in national corporation tax rates had triggered a large amount of tax shifting and tax avoidance. This reduced the tax base on which governments could collect revenues to fund economic and social spending.

India may not be in favour of a high global minimum tax rate as it can hurt business sentiments at a time when the economy is undergoing a Covid-induced slowdown. However, India has one of the highest public debts and weakest debt affordability, according to global rating agency Moody's.

India's public debt, as a percentage of GDP, has risen from 72 per cent in FY20 to 89 per cent in FY21. Among global Emerging Markets, India will have the third-highest public debt to GDP ratio, after Argentina and Brazil, in 2021.

Thus, a global minimum corporation tax may help the Indian government shore up its revenues and reduce debt to fuel its infrastructure spending, for long-term economic sustainability.

Notifications

PIB

Tariff Notification (Customs)

https://pib.gov.in/PressReleasePage.aspx?PRID=1712138

Exchange Rate Notification

https://pib.gov.in/PressReleasePage.aspx?PRID=1712012

RBI

Interest Equalization Scheme

https://m.rbi.org.in//Scripts/NotificationUser.aspx?Id=12075&Mode=0