DATE - 7 July 2021

India Joins OECD/G20 Inclusive Framework Tax Deal

Context:

India and the majority of the members of OECD-G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) have joined a new two-pillar plan to reform international taxation rules.

The two-pillar plan – inclusive framework tax deal on Base Erosion and Profit Shifting (BEPS)– seeks to reform international tax rules and ensure that multinational enterprises pay their fair share wherever they operate.

About:

Inclusive Framework Tax Deal

- The signatories of the plan amounted to 130 countries and jurisdictions,representing more than 90% of global GDP.
- The new framework seeks to address the tax challengesarising from the digitalisation of economies.
- It also seeks to address concerns over cross-border profit shiftingand bring in subject-to-tax rule to stop treaty shopping.
- Treaty shopping is an attempt by a person to indirectly access the benefits of a tax treaty between two countries without being a resident of any of those.

Two Pillar Plan:

Pillar One:

- It will ensure a fairer distribution of profits and taxing rightsamong countries with respect to the largest MNEs, including digital companies.
- It would re-allocate some taxing rights over MNEs from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there.
- According to OECD, more than USD 100 billion of profit are expected to be reallocated to market jurisdictions each year.

Pillar Two:

- It is about minimum tax and subject-to-tax rules(All sources of income liable to tax without taking account of tax allowances).
- It seeks to put a minimum standard tax rate among countries through a global minimum corporate tax rate,currently proposed at 15%.
- This is expected to generate an additional USD 150 billionin tax revenues.

Significance:

- It will ensure that large multinational companies pay their fair share of tax everywhere.
- The two-pillar package will provide much-needed support to governments needing to raise necessary revenues to repair their budgets and their balance sheets while investing in essential public services, infrastructure and the measures necessary to help optimise the strength and the quality of the post-Covid recovery.

India's Stand:

- India will have to roll back the equalization levy that it imposes on companies such as Google, Amazon and Facebook when the global tax regime is implemented.
- It is aimed at taxing foreign companies which have a significant local client base in India but are billing them through their offshore units, effectively escaping the country's tax system.
- The levy at 6% has been in force since 2016 on payment exceeding Rs 1 lakh a year to a non-resident service provider for online advertisements.
- India favours a wider application of the lawto ensure that the country won't collect less under the proposed framework than it gets through the equalisation levy.
- India is in favour of a consensus solution which is simple to implement and simple to comply with.
- The solution should result in allocation of meaningful and sustainable revenueto market jurisdictions, particularly for developing and emerging economies.
- The Two Pillar Plan justifies India's standfor a greater share of profits for the markets and consideration of demand side factors in profit allocation.

Base Erosion and Profit Shifting (BEPS)

- BEPS is a term used to describe tax planning strategies that exploit mismatches and gaps that exist between the tax rules of different jurisdictions.
- It is done tominimize the corporation tax that is payable overall, by either making tax profits 'disappear' or shift profits to low tax jurisdictions where there is little or no genuine activity.
- In general BEPS strategies arenot illegal; rather they take advantage of different tax rules operating in different jurisdictions.
- BEPS is of major significancefor developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs).

The BEPS initiative is an OECD initiative, approved by the G20, to identify ways of providing more standardised tax rules globall

Output Pact: OPEC+

Context:

Recently, the United Arab Emirates (UAE) pushed back against a plan by the Organization of the Petroleum Exporting Countries (OPEC+) Plus group to extend the global pact to cut oil production beyond April 2022.

About:

The Output Pact & Fluctuating Oil Price:

• The OPEC+ group of countries had, in April 2020, entered into a two-year agreement (Output Pact), which entailed steep cuts in crude production to deal with a sharp fall in the price of oil as a result of the Covid-19 pandemic.

• The price of Brent crude hit an 18-year low of under USD 20 per barrel in April 2020 as economic activity around the world crashed as countries dealt with the pandemic.

• In November 2020, the prices started rising and in July 2021, they were USD 76.5 per barrel mainly due to the steady rollout of vaccination programmes around the world.

• OPEC+, however, maintained lower levels of production despite crude oil prices reaching pre-Covid levels, with Saudi Arabia, notably, announcing a further cut in production of 1 million barrels per day for the February-to-April period, which helped boost rising prices even further.

• The OPEC+ group ran into sharp criticism from developing economies, including India, for deliberately maintaining low supply levels to raise prices.

• In April, OPEC+ agreed to gradually increase crude production, including a phased end to Saudi Arabia's 1 million barrel per day cut in production by July.

UAE's Objection:

• UAE agreed that there was a need to increase crude oil production from August 2021, but did not agree to a condition by the OPEC Joint Ministerial Monitoring Committee (JMMC) that the two-year production agreement be extended by six months.

• The UAE's key objection to the existing agreement is the reference output used to calculate the total production apportioned to each oil-exporting country.

• The baseline production level reference used in the current agreement was not reflective of the UAE's production capacity and, therefore, led to the UAE being apportioned a lower share of total production of crude oil.

• UAE would be open to extending the agreement if baseline production levels were reviewed to be fair to all parties.

Impact of OPEC+ conflict on India:

1. **Delayed Relief:**

If the UAE and other OPEC+ nations do not reach an agreement to increase production in August, expected relief in the form of lower crude oil prices could be delayed.

2. **High Domestic Prices:**

India is currently facing record-high prices of petrol and diesel. High crude prices have led to Indian oil marketing companies hiking the price of petrol by about 19.3% and that of diesel by about 21% since the beginning of 2021.

3. **Slow Recovery:**

The high price of crude oil was slowing down the economic recovery of developing economies post the pandemic.

4. **Inflation:**

The high prices might also increase the Current Account Deficit and put inflationary pressure on the Indian economy.

Organization of the Petroleum Exporting Countries

• It is a permanent, intergovernmental organization, created at the Baghdad Conference in 1960, by Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela.

• It aims to manage the supply of oil in an effort to set the price of oil in the world market, in order to avoid fluctuations that might affect the economies of both producing and purchasing countries.

• **Headquarter**: Vienna, Austria.

• **Membership:**

- OPEC membership is open to any country that is a substantial exporter of oil and which shares the ideals of the organization.
- OPEC has a total of 14 Member Countries viz. Iran, Iraq, Kuwait, United Arab Emirates (UAE), Saudi Arabia, Algeria, Libya, Nigeria, Gabon, Equatorial Guinea, Republic of Congo, Angola, Ecuador and Venezuela are members of OPEC.

Organization of the Petroleum Exporting Countries Plus

• It is a loosely affiliated entity consisting of the OPEC members and 10 of the world's major non-OPEC oil-exporting nations which are:

• Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.