India in Wait & Watch Mode as US Pulls Out of Global Tax Deal

Official calls it an anticipated move; says Feb 1 budget may skip roadmap for global tax

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New Delhi: India is in a "wait and watch mode" on the global tax deal, which provides for levy of a minimum tax of 15% on companies and taxation of digital companies, with the US deciding to pull out of the pact, terming it unfair to its multinational corporations.

"This was an anticipated move, a reason why India is on wait and watch mode and not in a rush to implement it. We are monitoring the situation closely and there is no need for knee jerk reaction and may respond as and when required," a senior official told **ET**.

The official said the upcoming budget may skip the roadmap for the global tax now that the US stance is expected to push the negotiations on the deal back to the drawing board.

In a memorandum signed Monday, new US President Donald Trump has given officials 60 days to come up with a list of options for protective measures against the countries that had imposed taxes

EXPERT TAKE

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on revenues of digital companies in line with the tax deal.

"The OECD Global Tax Deal supported under the prior administration not only allows extraterritorial jurisdiction over American income but also limits our nation's ability to enact tax policies that serve the interests of American businesses and workers," the memorandum said.

India is one of the key backers of the global tax deal that is being worked out by the Organization for Economic Co-operation and Development (OECD) at the behest of G20 nations.

New Delhi, which had introduced a 2% equalisation levy on digital companies in 2020, abolished it in 2024. The levy was designed to provide a level playing field for Indian ecommerce companies liable to local tax laws, and had grown to be a major point of contention between India and the US with several affected entities based there.

"Most importantly this might bring an end to participation of the US and backing for Amount A and Pillar 1 measures. This was one of the sticking points which the USTR had identified earlier and also led to the retraction of the equalization levy by the Indian government last year," said Rohinton Sidhwa, partner, direct tax, Deloitte.

Experts say the latest US move has implications for countries that implemented the tax deal.

"US pulling out of the global tax deal would not have much impact on India purely from a tax collection standpoint," said Rakesh Nangia, managing partner, Nangia & Co LLP. "However, this decision is going to severely impact the progress made thus far in reaching an international consensus and may potentially also force OECD to go back to the drawing board," he added.

Experts also said it needs to be seen as to how it will impact. "While this is a broad statement of intent, it is unclear how this will play out in actual measures," said Sidhwa.

In 2021, nearly 140 countries signed the OECD's global tax deal. The two-pillar solution aimed to address the "race to the bottom" approach of global tax competition and discourage cross-border tax avoidance by firms. Pillar 1 aims to reallocate the residual profits of large multinationals from their home countries to jurisdictions where they generate revenue and Pillar 2 establishes a 15% global minimum corporate tax. Around 50 jurisdictions have taken steps for adoption of GloBE rules.

This has implications especially for countries who have already adopted rules in their domestic law for implementing Global anti-Base Erosion Model or GloBE rules (Pillar 2).

India wary as Trump pulls US out of Pillar 2 tax deal

FE BUREAU
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PRESIDENT DONALD TRUMP, through an executive order, declared on Tuesday that the 15% minimum global corporate tax deal has "no force or effect" in the US, effectively pulling the country out of the 2021 pact signed by around 140 countries.

Tax experts say the impact of the US withdrawal would have a monumental impact on the global tax landscape, especially for countries which have already adopted or formulated rules in their domestic law for implementing the Pillar 2 rules. "India, on the other hand, has always adopted a 'wait and watch' policy on adoption of GloBE rules and is yet to introduce any substantial legislative change in this direction," said Rakesh Nangia, managing partner, Nangia & Co. "Thus, the US pulling out of the global tax deal would not have much impact on India purely from a tax collection standpoint," he added.

The tax deal, known as 'Pillar 2-GloBE Rules', anchored by the Organisation for Economic Cooperation and Development (OECD), provides

for a global minimum tax for "multinational enterprises" (MNEs), and aims to deter profit shifting by ensuring that these firms maintain a minimum effective tax rate (ETR) of 15% across all jurisdictions in which they operate. MNEs, as per the rules, are defined as those entities with a global turnover exceeding 750 million euros. So far, around 50 of the 140 countries that signed the relevant multilateral convention have embraced Pillar 2, including many European nations. India has not yet implemented the Pillar 2 rules.

Trump's order stated that because of the global tax deal and other "discriminatory" foreign tax practices, American companies may face retaliatory international tax regimes if the US does not comply with foreign tax policy objectives. "This memorandum recaptures our nation's sovereignty and economic competitiveness by clarifying that the global tax deal has no force or effect in the US," the order said. Trump also ordered the US Treasury to prepare options for "protective measures" against countries that have or are likely to put in place tax rules that disproportionately affect American companies.

The effective corporate tax rate in India is 25.17% and this rate will remain unchanged even after the adoption of Pillar 2. The new regime will only allow the government to collect additional tax revenue, in the form of "top-up tax", from companies which are artificially reporting profits in low-tax jurisdictions. An internal analysis by the government showed that India stands to gain merely ₹100-200 crore of additional revenue after adopting Pillar 2, and that too under specific circumstances.

Business Standard

Trump's exit from tax deal may not hit India from collection standpoint

Soon after taking charge, US President Donald Trump in a Presidential memorandum said that the "Global Tax Deal have no force or effect within the United States"

Nangia & Co LLP Managing Partner Rakesh Nangia said the impact of the US pulling out of the global tax deal would have monumental impact on the global tax landscape, especially for countries/jurisdictions which have already adopted/formulated rules in their domestic law for implementing Global anti-Base Erosion Model or GloBE rules (Pillar 2).

Around 50 jurisdictions have already adopted or made significant strides towards adoption of GloBE rules. These jurisdictions will have to now undertake a course correction to adjust to the new realities.

"India, on the other hand, have always adopted a 'wait and watch' policy on adoption of GloBE rules and has yet to introduce any substantial legislative change in this direction," Nangia said.

Further, in Union Budget 2024, India also abolished the 2 per cent equalisation levy (which, being a unilateral action, was a bone of contention for the US).

"Thus, US pulling out of the global tax deal would not have much impact to India purely from a tax collection standpoint, however, this decision is going to severely impact the progress made thus far in reaching a international consensus and may potentially also force OECD to go back to the drawing board," Nangia said.

In 2021 nearly 140 countries signed the OECD's global tax deal. The two-pillar solution aimed to address "race to the bottom" approach of global tax competition and discourage cross-border tax avoidance by firms. Pillar 1 aimed to reallocate the residual profits of large multinationals from their home countries to jurisdictions where they generate revenue, and Pillar 2 establishes a 15 per cent global minimum corporate tax.

"Earlier remarks of Mr. Trump and other Republican lawmakers left little to no doubt about US's position on the OECD's global tax deal it was never a question of 'if' but a question of 'when!'," Nangia said.