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INTERNATIONAL TAXATION – COMPARING OF TWO DIFFERENT COUNTRIES

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ABSTRACT

The tax determination on a business or person is subject related to the taxation laws of various countries and tax laws of an individual country with international aspects. Based on the income of enterprise or an individual tax can be collected by the government. There are more defined rules and the taxation system varies widely according to the Government of a country. Sometimes some income or not taxed by any country and few incomes have more potential for double taxation in which different countries tax on same income. In general, income can be taxed worldwide that is paid to other jurisdictions based on foreign credits or reduction of tax. Credits are universally imposed as limits for specialists of international tax employees and multinational corporations to decrease tax liabilities worldwide among accountants and lawyers. Taxation can be reduced in the way of recharacterized income or income shift. Based on the source or nature of income. Individuals are taxed on different types of income in different manners. Tax can be imposed by many jurisdictions at the entity level and a few types of enterprises at the owner level. Jurisdiction completely relies on the law of a company that can be taxed directly on entity income. The main focus of the study is international taxation and the comparison of taxes on two different types of countries.

KEYWORDS: *International Taxation, Tax, Laws, Jurisdiction, Liabilities, India, Canada*

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INTRODUCTION

The International Taxation System is comprised of an extensive network of bilateral tax treaties and regimes of domestic tax for connecting them and realise upon the concepts of residents and source. Corporate tax can be clearly defined as the incorporation place of a company or control place and management place (Marian O., 2013). Under international customs and tax treaties, yesterday may put the tax on the non-resident corporation based on the income sourced in the present territory. The state of residence of a company unlike the source states may be the worldwide income of a company. Resident states require treaties for living double taxation through the exemption of income taxed at the source place or through the source tax credit against the tax due to the residence state. When tax treaties are absent the resident state may typically relieve the double tax by assuring a shift in tax treaties for the tax revenue from the source state to the residence state and double tax relief by constraining entitlements of source tax as well as tax treaties for coordinating other administrative functions of tax that includes information sharing (Dagan., 1999).

Due to the emergence of huge literature studies in economics, there are more articles related to the shift of profits to tax havens in multinational corporations. They contribute more evidence to compare the data sets available that focus on MNCs in the United States involves reporting data country by country with a full sample. It includes every data set for analysing the effective rate of taxes that are faced by MNCs located in each country as well as the profit amount reported by them. The reporting data has the ability to establish effective and lowered corporate tax rates associated with the high level of profits reported and it is compared with various indicators in activities of real economy. The shift in profit corresponds to the notion of MNC with low tax rate and it is compared with the substantial shifting activities of the economy. The most significant tax havens are identified for US MNCs aligned with economic activities (Garcia-Bernardo., 2021).

Consistent policies are not adopted by the government with the forecast. High rates of Taxes are put on corporate income by the wealthy countries as well as most of the countries exempt with income from foreign sources and tax from domestic multinationals and to provide tax deductions that are paid abroad. Additionally, various methods are used by the individual investors to avoid domestic taxes on the income from foreign sources during the process of taxation to avoid tax from income from domestic sources. Firm and individual behaviour use different types of simple theories from the forecast. Globally, observed portfolios are completely diversified. Direct investment from foreign countries is considered to be most common but they face tax penalties related to other investments in the resident countries. The economic activities are highly responsible for the tax structure and tax rates and there are various aspects of the behaviour and it is difficult to reconcile the simple microeconomic incentives. The observations are reconciled with the theories and the multinational firms possess the entanglement for earning returns with direct investment from foreign countries as well as the degree of market power by the small countries that leads to fiscal externalities. Avoidance of tax is pervasive for the generation of more externalities (Gordon & Hines., 2002).

The International taxation system has emerged long back in developed countries like the United States with historical realities that are greatly influenced by the development of the current taxation system. The powers of decision-making and rules are emerged in the Colonialist period according to their needs. The rules of international taxation have been influenced by the principle of permanent establishment (PE). In the current era, there is a rapid digitalization in the economy and the concept of PE is less effective in determining the tax revenue. Multinational corporations including Google, Facebook, Apple and Amazon make large revenue from the developing countries and save huge tax amounts by placing their PE at a very low rate in tax havens. The states started expecting to gain more access to untapped tax revenue using the OECD two-pillar solution (Kurian., 2022).

Research Problem

The problem of the research study is to compare the international taxation systems of two different countries for the identification of similarities, differences and improvement areas.

Research Objective

The objectives of the study are;

- To compare the international taxation system of India and Canada
- To examine the similarities and differences in incentives, rates and tax structure betweenIndia and Canada

- To investigate the policies of international taxation on investors, businesses and the growth of the economy in India and Canada

METHODOLOGY

The study includes a comparison of the international taxation system of India with Canada. The comparison examines the tax policies of the two countries for the adoption of inclusive growth. OECD is considered as the reference point for tax incidence with high-income nation status. India is a developing country with USD 2850 per capita that faces a narrow kind of tax base according to January 2023 as witnessed by the International Monetary Fund. And it is changing till now due to different types of economic factors. Canada is a developed country and high-income nation with USD 55,530 per capita that has a wide tax base according to January 2023.

Progression of International Taxation System

The activities of businesses across national borders and the profits arising out through those activities can be taxed. According to this principle, the allocation of taxing rights is based on three possibilities in various jurisdictions as given below;

- The country in which the production takes place is preferred as source country
- The country where the company is residing is preferred as the residence country
- The country in which the actual business sales and process take place is the destination country

According to the 1920 deal production factors and physical assets were given more importance before the development of the Internet, the business process is conducted through offices factories shops and other physical fixed bases within the geographical boundaries of the country. These kinds of presence of production factors and physical assets in the country is known as permanent establishment (PE). This concept gave rise to international taxation (Sanghvi et al., 2019). A few problems were raised due to double taxation where the tax is collected by the country for its residence on foreign and domestic earnings simultaneously it will also tax on capital income and foreign labour earned within the borders (Christensen & Hearson., 2019). The choice of regimes of international tax had a severe impact on weak economy countries and there is research evidence for the relationship between the tax aggressiveness among the multinational firms as well as the development of the economy in the host countries. Their findings show that there is a negative correlation between exposure to the avoidance of multinational tax and the development level of the country (Johannsen et al., 2020).

International Taxation System of India

Incentives

Special Economic Zones (SEZ) have been set up across the countries to promote industrial progress and a competitive environment. The occupiers and developers of SEZ enjoy concession and long-term tax holidays during the establishment of operations in India. According to the recent budget 2022-2023, Gujarat International Finance Tec-city (GIFT), a greenfield smart city is announced by the finance minister to offer world-class foreign institutions and universities. Additionally, a few other incentives include subsidies for power tariffs, reimbursement of goods and service tax, exemptions on electricity duties and stamp duty and subsidies on capital interest. A few recommendations like reduction of goods and service tax from 28% to 18% on various categories.

Tax Rates

The tax rates applicable to the domestic country as well as foreign companies differ and it can be further increased with surcharges applicable varied from 25% to 40% and 4% cess that depends on income level. Minimum alternated tax is liable to the companies if the tax liabilities are less than adjusted book profits of 22%. The provisions of MAT are not applicable to foreign companies that do not have PE in India and the total income of a foreign company that totally depends on construction, aircraft business, mineral oils and shipping business (India, PWC., 2023).

Tax Structure

The taxation structure for foreign entities is given below;

- An account of Indian exchange control regulations of the liaison office which is not subjected to income tax of India though it cannot earn profits and conduct business activities
- It requires PAN (Indian tax registration number), TAN (withholding tax registration number) and AAC (annual activity certificate)

The tax structure of India includes various provisions and regulations that aims to govern the tax on transactions that involve cross-border activities and income earned by non-residents.

- Based on the residential status the tax liability of an individual or an entity is determined under tax laws of India. Indian residents are taxed based on their global income whereas non-residents of India are taxed based on the income earned only in India
- Non-resident individuals as well as foreign companies are taxed in India Based on the income earned from Indian sources including royalties, interest, capital gains and business profits.
- A double taxation avoidance agreement has been accepted by India for the prevention of double taxation of income earned by individuals or a company in the resident country and the respective foreign country. There is a huge relief to the taxpayers after this agreement and it allows them to claim tax exemptions or credits by encouraging investment and cross-border trade under section 90 of the Income Tax Act 1961 (NADT).
- Transfer pricing relations of India aim to ensure the transactions between the parties for the prevention of profit shifting and tax evasion. It requires the taxpayers to maintain documentation and adherence to the prescribed methods to determine the length prices of arms for international transactions
- Withholding tax obligations are imposed by India for certain payments that are made for non-residence such as dividends technical service fees royalties and interest
- The withholding tax rate may vary depending on the applicable domestic tax laws, DTAA provision and nature of the payment.

International Taxation System of Canada

The tax system used by Canada is marginal tax rates. This involves the individuals should pay taxes according to their incomes. Moreover, the tax rates differ in trust income tax, corporation, international, partnership and business.

Incentives

Taxpayers who have income from foreign sources and or are resident in Canada are eligible for foreign tax credit relief anytime during the year. Separate calculations are there for foreign tax credit and it is prescribed for non-business and business income based on country by country. All the territories and provinces allow foreign tax credits respective of income tax from non-business income from foreign investments. Profit or income tax paid to the foreign government is generally based on credit eligibility against Canadian taxpayers for income taxes. The tax credit respectively paid on foreign income may be restricted to the Canadian tax amount otherwise it is considered to be payable for this income. In general, foreign tax credits are available for the reduction of Canadian tax on income from foreign sources which is subjected to taxation in the foreign country.

Loss or income for foreign business can be calculated for each and every foreign country based on the location of the branch excess income tax from foreign business credits is carried back three years to 10 years. The income tax credit from non-business foreign sources can be applied for the foreign tax and it is classified as business income tax and the carryover is not allowed respectively for the income from non-business foreign tax credit.

Regional Incentive

Incentives or providers based on the region in Canada including the Atlantic offshore region the gasp region and Atlantic provinces with federal ITC of 10% and it can be available in various forms for capital investments like fishing, farming, logging, processing and manufacturing of equipment, clean energy equipment and machinery, and new buildings. The taxpayer can claim the complete ITC for federal tax liability during the year. The unused ITC helps in the production of federal taxes that are payable ranging from three years to three years and to the next 20 years and it is about 40% refundable.

The territories and provinces offer incentives for the encouragement of corporations located in the specific region. Income tax holidays are availed by the taxpayers in Labrador and Newfoundland, Quebec, Prince Edward Island and Nova Scotia to several corporations that operate with specific industries like marine technologies imprints Edward Island commercialising intellectual property in Quebec for certain conditions of meeting like job creation in Labrador and Newfoundland.

Industrial Incentive

Many industrial incentives are offered by Canada at the territorial provincial and federal levels for different types of activities and industries as given below;

- Research and development
- Processing and manufacturing
- Multimedia productions interactive digital media special effects and computer animation media and films productions
- Environmental sustainability for storage utilisation and tax credits for carbon capture
- Liquefied natural gas development

Carbon Capture

Refundable tax credit for Carbon capture utilisation and storage (CCUS) is introduced by draft legislation and it can be claimed by the businesses from January 1, 2022, for the eligible expenses related to the installation and purchase of equipment for the new project of capture carbon dioxide emission and used for an eligible use in Canada. Equipment of CCUS can be included as two new classes of CCA. The credit tax rate for the eligible expenses includes;

- 37.5% to 60% after 2021 to 2030
- 18.75% to 30% after 2030 to 2040
- It started on 28 November 2023 the tax can be claimed according to the labour conditions.

Natural Gas Tax Credit

According to the British Columbia income tax, the non-refundable tax credit for natural gas is available for qualified corporations for the development of natural gas and it should have an establishment in British Columbia. The credits are reduced for the effective provincial rate of CIT to the minimum of 9% to 12% and the unused credits can be carried forward.

Research and Development

A taxpayer can benefit from the federal ITC for the deduction of scientific research and experimental development that are generally nonrefundable credit of 15% on expenditures of R and D which is applied against the payable federal taxes. The tax credits are carried back three years and it is moved forward to 20 years alternatively it can be applied against the owing federal taxes.

A refundable tax credit of 35% is qualified for CCPC annually for 3 million CAD expenditures. Then it can be enhanced and subjected to a few capital limitations. Additionally, to the incentives of research and development, all the provinces except Prince Edward Island and Yukon can provide tax incentives for the taxpayers to carry out R and D activities in the territory or province.

Other Incentives

A refundable investment tax credit is introduced by draught legislation for the development of clean technology for new equipment which is equal to 30% of capital cost and it is available from March 27 2023 and it can be eliminated after 2034. The taxpayers can meet certain labour conditions for the eligibility of a 30% tax credit rate and the exclusion criteria avails a 20% tax rate till 2034.

- Investment in clean electricity generation can avoid up to 15% after the 2024 federal budget and it can be eliminated after 2033 for projects which do not begin before March 2023 and several conditions are included by the taxpayers for the eligibility of maximum rate. There will be a consultation with the stockholders to determine implementation details.
- Investments related to manufacturing of clean technologies offer a 30% incentive for the taxpayers for a few depreciable properties that are used in clean technology processing and manufacturing as well as critical mineral processing and extraction which is available from 2023 and can be eliminated after 2034.

- Investments for the production of plane hydrogen based on the assessed carbon intensity of produced hydrogen or 15% 25% and 40% and is available from March 27 2023 and it can be eliminated after 2034 and the process should start from November 28 2023 and the taxpayers should meet the labour conditions for the availability of maximum tax credit rate and for the exclusion criteria it can be reduced up to 10%

Tax Rates

The tax rates applicable to the domestic country as well as foreign companies differ and they can be further increased with surcharges applicable varied for provincial and territorial corporate income tax rate is 8% to 16% and the federal CIT is 15%. Dream dates for CIT returns as six months after the company's taxation year-end and the final payment due date is two months after the taxation of the company in yearend. The withholding tax rate for dividends interest and royalties for non-residents is 25% and it may be reduced according to the treaty and 0% for the more interest paid to the arm length of non-residence. Alternative Minimum Tax is liable to the companies for the tax liabilities are less than adjusted book profits of 15% to 20.5%. The provisions of AMT are not applicable to foreign companies that do not have PE in India and the total income of a foreign company that totally depends on construction, aircraft business, mineral oils and shipping business (Canada, PWC., 2023).

Tax Structure

The taxation structure for foreign entities is given below;

Foreign Tax Relief

Foreign tax relief in Canadian can be accomplished using tax detection and credit mechanism A foreign tax of 15% credit for any foreign taxation other than income from real property is allowed. Even though the credit cannot exceed the Canadian tax that can be paid on foreign income. When the income exceeds 15% of foreign tax then the excess tax may be allowed as the detection from the income of property. These provisions are provided for us by implication for foreign citizens who have income from foreign properties and who reside in Canada.

The Policies of International Taxation on Investors, Businesses and the Growth of the Economy

The policies related to international taxation play a significant role in the behaviour of businesses and investors as well as the growth of the economy. The policies can determine the taxes that are levelled on profits investments cross border transactions by the multinational corporations. It aims to balance the fostering of economic growth, prevention of tax evasion and distribution of tax burdens.

Economic Growth

- Business activities investment levels and capital flows influence economic growth overall through international taxation policies
- However, there are financial limitations due to the informal structure of the economy in developing countries the tax offices and statistical offices experience few difficulties in the generation of reliable statistics
- Thus, the ideal tax system should be followed by the countries to raise essential revenue without excessive borrowing from the government and without discouraging activities of the economy and it should not deviate from the tax system of other countries (Tanzi & Zee., 2001)

- Business competitiveness is influenced by the international taxation system. A huge amount of corporate tax rate laid by one country prompts the businesses to relocate and headquarters or operations for the jurisdictions as well as tax regimes favourably
- Tax-like incentives like tax credits offered for research and development and investment in industrial incentives influence the investment decisions of businesses to drive economic activities.

Businesses

- The transmission of policies related to corporate tax considers factors like economic activities investments and production and it contributes to the assessment and usefulness of the policies that are optimally designed over the business cycles. The effect of reducing the burden of corporate tax overall can be assessed using macroeconomic equilibrium that accounts for endogenous feedback and spillovers across different sectors of the economy (Bonucchi., 2015)
- The relationship between the organisational form of foreign direct investment and international taxation has been investigated using micro-level data that conducts foreign investments from multinational corporations through non-corporate flow and it promotes income shifting legal independence and limited liability and non-tax benefits. Thus, the policymakers suggest changes in tax law for MNCs to shape the organisational form for future investments in abroad (Armberger & Kohlhase., 2023).
- Transfer pricing is referred to as the price for the exchange of goods and services among the countries in common control. The guidelines for transfer pricing were published in 1995 initially (UN Tax Committee's subcommittee., 2011)
- Tax treaties developed between the countries aim to avoid the double taxation of income investment by providing relief to the individuals or taxpayers to allow them to pay only one tax by avoiding the double taxation process
- Investments are structured by the investors through preferential tax regimes including jurisdictions or tax havens that have low tax rates that restart the flow of investment and direction of tax revenue for the other countries
- International tax rules are navigated by the multinational corporations for optimising the tax liabilities. It engages the strategies including tax planning, transfer pricing and profit shifting.

DISCUSSION

In developing countries, corporate income tax plays a significant role in the generation of revenue. The CIT of developing countries under GDP percentage is comparatively higher than developed countries. Thus, developing countries are considered to be more vulnerable than developed nations to large corporations and any kind of tax avoidance (Burger & Mosquera., 2021). OECD is greatly influenced by the US for effective expansion and acceptance of the arms-length principle and to convince the rest of the world (Mason., 2020)

According to the global investment model by complaining tax data of reduced firm estimates we can investigate the responses and identify the parameters. Without any change in baseline the domestic investment of firms has been changed with meat tax by 20% due to the new incentives of foreign countries and foreign capital for the US multinationals has raised substantially. The incentives help in boosting domestic investment and it indicates the complementarity between foreign and domestic capital. The model mixes 7% of the general equilibrium in domestic capital (Chodorow-Reich et al., 2024).

The developing countries should focus mainly on energies and the technical aspects of production and manufacturing as well as the final implementations. Technical support is promised by the OECD in various aspects for the implementation of two pillar solutions (OECD., 2021).

The minimum tax rate accepted globally is 15% which is considered to be very low for the taxpayers. Most of the developing countries have high tax rates when compared with developed countries and investor behaviour is not altered by lower minimum rates (Hearson., 2020). The global average CIT should be about 25% but the agreed rate is 15% which is lower than that and it is closer to the tax rate which is offered by the tax haven of Ireland which offers a 12.5% CIT rate (Moreno., 2021). Most of the governments believe that tax competition should be encouraged for the developing countries to compete with the developed countries with advantages of inherent economy (Geiger & Saron., 2021). Asian and African countries announced taxes and incentives recently to attract investments in various sectors (Gebre., 2021).

The perspective of tax treaty law is primarily Discussed for the policy as well as legal debate for the digitalisation of the economy according to the regimes of international taxation. We focus on the difficulties associated with the source and residence framework as well as the primary supply approach for demand and supply and the implicit drift for tax implications (Turnia., 2020). Taxation is considered as an important tool in global warming capital process wastes all the economic activities as well as extensive corruption for the deprival of public budgets and the required funds (Batrancea et al., 2018). National governments are efficient and trustworthy in monitoring the tax system for corporate and individual taxpayers according to comply with the national policies to pay their fair shares by following the government regulations (Batrancea et al., 2018; Nichita et al., 2019).

CONCLUSION

To conclude the research study, two countries developed and developing countries like Canada and India were compared in the research study.Tax can be imposed by many jurisdictions at the entity level and a few types of enterprises at the owner level. Jurisdiction completely relies on the law of a company that can be taxed directly on entity income. The main focus of the study is international taxation and the comparison of taxes on two different types of resident and foreign countries. Theinternational taxation system of India and Canada is compared for similarities and differences in incentives, rates and tax structure between India and Canada, policies of international taxation on investors, businesses and the growth of the economy in India and Canada are discussed.

Table 1

A Peek into the Salient Features		
Particulars	**India**	**Canada**
Name of GST in the country	Goods and Service tax was introduced in India replacing VAT	Canada followed Federal Goods and Service Tax & Harmonized Sales Tax which had a similarity with the GST of India
Standard Rate	India followed a 0% (for food staples), 5%, 12%, 18% and 28% (+cess on luxury items) to make the luxurious items costlier and	GST 5% and HST varies from 0% to 15%
Threshold exemption Limit	Rs.40 lakh or Rs.20 lakh, depending on the state and supply	Canadian $ 30,000
Liability arises on	Accrual basis: Issue of invoice OR Receipt of payment-earlier	Accrual basis: The date of issue of invoice OR the date of receipt of payment- earlier.
Returns and payments	Monthly or quarterly and 1 annual return, based on turnover	Monthly, quarterly or annually based on turnover
Reverse charge Mechanism	Applies on goods as well as services	Reverse charge applies to the importation of services and intangible properties
Exempt supplies	Sale of land and completed buildings, certain healthcare and educational services, essential food items, etc.	Real estate, financial services, rent (Residence), charities, health, education

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