U.S. Retaliatory Tariff on Digital Service Taxes

Why in news?

The United States announced and then immediately suspended retaliatory tariff imposition on digital service taxes (DST) on six countries including India.

What is the proposed tariff?

- The retaliatory tariff on digital service taxes (DST) was proposed for a period up to 180 days.
- It was proposed to be imposed on Austria, India, Italy, Spain, Turkey, and the U.K.
- The US announced 25% tariffs on over $2 billion worth of imports from these six countries.
- It then immediately suspended the duties to allow time for international tax negotiations.
- [In India's case, around 26 categories of goods are in the preliminary list of products that would be subject to the additional tariffs.]

What are the digital services taxes in India?

- The government had moved an amendment in the Finance Bill 2020-21.
- It imposed a 2% digital service tax.
- It applies to trade and services by non-resident e-commerce operators with a turnover of over Rs 2 crore.
- This includes e-commerce operators involved in supply of services, including online sale of goods and provision of services.
- [The move effectively expanded the scope of equalisation levy.
- Till the previous year, the equalisation levy only applied to digital advertising services.]
- Estimates indicate that the DST payable by US-based company groups to India will be up to approximately $55 million per year.
- So, the U.S. proposal, if applied, would collect duties on Indian goods in the range of the same amount of DST that India collects from US companies.

What is the U.S.'s concern?

- The digital services taxes in these countries primarily impact Silicon Valley tech giants.

- The tariff proposed on goods from them was approved following a “Section 301” investigation.
- The investigation looked into the digital services taxes imposed by the above countries.
- It found that the taxes discriminated against US digital companies.
- They were against tech companies like Apple, Amazon, Google and Facebook.
- The taxes were also inconsistent with principles of international taxation.
- [The investigation was initiated by the Trump administration in June 2020.
- The deadline for approving tariff action based on the investigation is around now.]

What is the rationale for the suspension now?

- The Biden administration seems to agree with the findings of the Trump era investigations on digital services tax (as being discriminatory).
- It is thus likely that Biden is using the tariff proposal as a tool to speed up the international negotiations.
- Negotiations on international taxation are going on at the OECD and in the G20 process.
- In this context, it is to be noted that at this point in the fragile, post-COVID-19 recovery, the world can hardly afford another tariff war.
- Notably, the digital services sector has enjoyed low-tax or tax-free operations across the world for decades.

Source: The Indian Express, The Hindu

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