US Suspends Retaliatory Tariffs on India

Why in News

Recently, the US **suspended imposition of retaliatory tariffs** against six countries, including India, that had begun imposing **digital services tax** on companies such as Google and Facebook.

- Other than India, the countries slapped with this tariff proposal are **Austria, Italy, Spain, Turkey, and the United Kingdom.**

Digital Services Taxes

- **DSTs** are the **adopted taxes on revenues that certain companies generate from providing certain digital services.** E.g. digital multinationals like Google, Amazon and Apple etc.
- The **Organisation for Economic Cooperation and Development (OECD)** is currently hosting **negotiations with over 130 countries that aim to adapt the international tax system.** One goal is to address the tax challenges of the digitalization of the economy.
    - Some experts argue that a **tax policy designed to target a single sector or activity is likely to be unfair** and have complex consequences.
    - Further, the **digital economy cannot be easily separated out from the rest of the global economy.**

Key Points

- **Background:**
    - Tariffs were imposed after the office of the **United States Trade Representative (USTR)** noted that the **Digital services taxes adopted by India, Italy and Turkey discriminate against US companies** and are inconsistent with international tax principles.
        - **Under Section 301** of the **Trade Act of 1974,** the **USTR enjoys a range of responsibilities and authority to investigate and take action** to enforce US national interests under trade agreements and respond to certain foreign trade practices.
- **Reason for Suspension:**
    - **Multilateral Solution:**
        - To **allow time for ongoing international tax negotiations** to continue. The US is **seeking a multilateral solution** while maintaining the option of imposing tariffs under **Section 301** if warranted in the future.
    - **Damage to Global Economy:**

        - The six countries potentially impacted are passing through a weak post **Covid-19** recovery and **opening a new trade war front could be damaging** not only to them, but also to the broader global economy.
        - The **combination of depressed economic activity** owing to the effects of the **pandemic** and tectonic **shifts in global supply chains** engendered by the **US'** trade war **with China** has **already left many economies in a weakened condition.**
    - **Change in Administration:**
        - Under the previous US government (Trump) USTR **was used to promote what his administration considered to be free, fair and reciprocal trade,** specifically to close the gap or **balance of trade** between the US and foreign governments.
        - However, the new administration (Biden) appears to be **seeking a middle path of waving the stick of the USTR** while **allowing some space for continued tax negotiations with the nations concerned.**
- **Impact on India:**
    - **Loss of Revenue:**
        - The **tax levied by the** Finance Bill, 2021**, could yield approximately USD 55 million annually.**
        - Negotiations with the US that may result in the scaling back of this tax would **imply that a part of this revenue would be lost to the exchequer,** depending on the final rate agreed.
    - **Impact on Exports:**
        - Close to **USD 118 million of India's exports** to the US would be subject to the **tariff proposed by the USTR, impacting 26 categories of goods such as:**
            - Basmati rice, cigarette paper, cultured pearls, semi-precious stones, certain gold and silver jewellery items and specific types of furniture products.
    - **Growth Prospects:**
        - Any escalation matrix of retaliatory taxation with the US **would damage its growth prospects at a crucial point in its laborious recovery.**
        - However, India will also not be able to **simply abandon its articulated intent to tax global tech firms,** which have generally enjoyed lowtax operations across numerous jurisdictions.

India's Tax on Digital Companies

- The government had moved an **amendment in the Finance Bill 2020-21 imposing a 2% digital service tax (DST)** on trade and services by non-resident e-commerce **operators with a turnover of over Rs. 2 crore.**
    - This effectively expanded the scope of equalisation levy that, till last year, only applied to digital advertising services.
    - Earlier, the **equalisation levy (at 6%) was introduced in 2016 and imposed on the revenues generated on business-to-business** digital advertisements and allied services of the resident service provider.
- The new levy **came into effect from 1st April 2020.** E-commerce operators are obligated to pay the tax at the end of each quarter.
- The idea is to **tax payments made to offshore entities which do not have a physical presence** here and therefore the income tax department cannot subject such income earned from India to tax.

Way Forward

- As India is racing towards becoming a digital giant, the 2% DST should be negotiated to avoid any hurdles in its implementation. **India should consider its options carefully at this juncture.**
- Further, there needs to be **international consensus on taxation on a digital economy.**

Source:TH