India-US Digital Tax Deal

Why in News

Recently, India and the United States have agreed for a **transitional approach on equalisation levy or** digital tax **on e-commerce supplies** beginning from 1st April, 2022.

- Earlier in January 2021 , the Office of the **United States Trade Representative (USTR)** had said that the **Digital services taxes adopted** by India, Italy and Turkey **discriminate against US companies.**

Key Points

- **Background:**
    - On 8th October, 2021, 136 countries, including India, agreed to enforce a **minimum corporate tax rate** (Global tax Deal) of 15%, as well as an equitable system of taxing profits of big companies in markets where they are earned.
        - The deal **requires countries to remove all digital services tax** and other similar unilateral measures.
    - After that, the **US, Austria, France, Italy, Spain and the United Kingdom reached an agreement** on a transitional approach to existing unilateral measures while implementing Pillar one
- **Global Tax Deal:**
    - It is **tailored to address the low effective rates of tax shelled out by some of the world's biggest corporations**, including Big Tech majors such as Apple, Alphabet and Facebook.
    - The global minimum tax rate **would apply to overseas profits of multinational firms** with USD 868 million in sales globally.
        - **Pillar 1 (Minimum tax and subject to tax rules):** Governments could still set whatever local corporate tax rate they want, but if companies pay lower rates in a particular country, their home governments could "top up" their taxes to the 15% minimum, eliminating the advantage of shifting profits.
        - **Pillar 2 (Reallocation of additional share of profit to the market jurisdictions):** Allows countries where revenues are earned to tax 25% of the largest multinationals' so-called excess profit – defined as profit in excess of 10% of revenue.
- **India-US Deal:**
    - India and the US have agreed that the **same terms (as agreed by US, Austria, France, Italy, Spain and the United Kingdom) shall apply between the US and India with respect to India's charge of 2% equalisation levy** on **e-commerce** supply of services and the US' trade action regarding the said Equalisation Levy.
    - Under the agreement, India will continue to impose the levy till March 2024, or till the implementation of the Pillar 1 of the **Organisation for Economic Cooperation and**

Development (OECD) agreement on taxing multinationals and cross-border digital transactions.

    - India and the U.S. will **remain in close contact to ensure that there is a common understanding** of the respective commitments and endeavour to resolve any further differences of views on this matter through constructive dialogue.
    - The **US will terminate the trade tariff actions** it had announced in response to the levy and will not take any further actions.

- **Significance of India-US Deal:**
  - It is beneficial to India as it **can carry on with the present 2% levy with certainty** until Pillar One takes into effect, along with a commitment from the US side to terminate the proposed trade actions and not to impose further actions as well.
  - This would **help prevent the tax loss arising due to online transactions** as India has to roll back **Equalisation Levy (EL) 2.0** any way after Pillar 1.
    - It is to be kept in mind that **Pillar 1 only applies to companies with a global turnover above 20 billion euros**, which is precisely top 100 companies.

Digital Services Taxes (DSTs)

- These 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 **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.

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 2020, 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.**

Source: IE

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