



Indian Digital Tax Discriminatory: USTR

Why in News

Recently, the Office of the [United States Trade Representative \(USTR\)](#) has said that the **Digital services taxes** adopted by **India, Italy and Turkey** discriminate against **US companies** and are **inconsistent with international tax principles**.

Key Points

- **The Office of the United States Trade Representative (USTR):**
 - It is responsible for **developing and coordinating US international trade**.
 - [Section 301 \(US Trade Act\)](#) gives the USTR broad authority to **investigate and respond to a foreign country's action which may be unfair or discriminatory** as well as negatively affect US commerce.
 - Adopted through the **1974 Trade act**, the Section allows the US President to **impose tariffs or other curbs on foreign nations**.
 - However, the law **mandates consultations with trading partners**.
- **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 [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**.
- **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**.
- **USTR's Investigation Report:**

- The **DST in India is discriminatory** because it exempts Indian companies and targets non-Indian firms.
 - This hits US firms which **dominate the technology industry**.
 - 119 companies that it identified as likely liable under the digital services tax, 86, or 72%, were American.
- USTR estimates that the aggregate tax bill for US companies could exceed **USD 30 million per year**.
- The USTR has determined that India's DST is unreasonable or discriminatory and burdens or restricts US commerce and thus is **actionable** under **Section 301 (US Trade Act)**.

▪ India's Stand:

- India has described the **equalization levy as a fair, reasonable and non-discriminatory tax** aimed at all offshore digital economy firms accessing the local market and has **denied it targets US companies**.
 - It seeks to **ensure a level-playing field** with respect to e-commerce activities undertaken by entities resident in India as well as those not residents in India or without permanent establishment in India.
- The government of **India will examine the determination/decision notified by the US** in this regard, and would **take appropriate action keeping in view the overall interest of the nation**.
- There was no retroactive element or extra-territorial application involved in the levy which applied only on the revenue generated from India.
 - It is a recognition of the principle that in a digital world, **a seller can engage in business transactions without any physical presence, and governments have a legitimate right to tax such transactions**.

DIFFERENT STROKES

USTR probe:

India's digital services tax (DST) from Apr 2020 is **'discriminatory'**, as it targets only non-residents



Indian official:

US probe ignores the **2016 levy on domestic firms**; levy's scope was only widened last year to level playing field

DST taxes firms' revenue rather than income, so it's inconsistent with **global tax principles**



Several global tax measures, including those on royalty and technical fees, are not levied on income

Firms should not be subject to a country's **corporate tax absent a territorial connection** to it



Almost all US states have laws on **remote sellers/market-place facilitators**, which tax even non-US resident entities

▪ Concerns:

- In the backdrop of an improper functioning of the [World Trade Organization \(WTO\)](#), the move could signal the **start of more unilateral action by the US especially on the digital services front.**
- In India's case, the probe could **potentially affect the outcome of a bilateral trade deal** that India has been looking to forge with the US.

Way Forward

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

[Source:IE](#)

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