

# Digital tax tussles

The world cannot afford a tariff war to protect digital sector, which has low-tax operations

The United States announced and then immediately suspended a whopping 25% tariff rate on over \$2 billion of imports from six countries including India, signalling Washington's intent to act punitively on its long-held grouse with these nations for their digital services taxes primarily impacting Silicon Valley tech giants. The office of the U.S. Trade Representative (USTR) Katherine Tai said that the tariff proposed on goods from Austria, India, Italy, Spain, Turkey, and the U.K. was approved following a "Section 301" investigation that found these digital taxes to be discriminatory. With the threat of tariffs hanging over these six economies when most of them are limping through a feeble post-COVID-19 recovery, the USTR appeared to project a softening of the blow by adding that the tariffs would be suspended pending ongoing tax negotiations to "provide time for those negotiations to continue to make progress while maintaining the option of imposing tariffs under Section 301 if warranted in the future". The backstory is that the investigation was initiated by the Trump administration in June 2020, and the deadline for approving tariff action based on the investigation would have lapsed this week. The latest policy action comes a few months after the Biden administration similarly approved, then suspended, tariffs on France retaliating for its tax impacting firms such as Alphabet, Amazon, Apple, Facebook and Microsoft.

One thing is clear: if the Biden administration did not subscribe to the notion that taxes on digital services by the titans of Silicon Valley, a significant portion of whose revenues are generated on foreign soil, were discriminatory, it could have distanced itself from the Trump-era investigation into this allegation without any serious political fallout. The fact that Mr. Biden has chosen to use the stick of tariffs to force the pace of negotiations on digital services tax with seven nations suggests that the current White House subscribes strongly to the idea of expanding the global playing field for American tech firms to dominate without fear of being slapped with tax liabilities. In the case of India, that was a mere 2% digital service tax on trade and services by non-resident e-commerce operators with a turnover of over ₹2 crore. Even more, Washington appears to be unafraid to throw serious political heft behind this venture even to the point of risking another tariff war outbreak, compounding the tensions generated by tax skirmishes between the Trump White House and Beijing on this count. The cost for India could be potentially high, as \$118 million worth of its exports will fall under this proposed tariff, and a range of sectors could be impacted. At this point in the fragile, post-COVID-19 recovery, the world can hardly afford another tariff war, and that too one waged to protect a sector that has enjoyed low-tax or tax-free operations across the world for decades.