Digital tax tussles

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

Highlights:

1. 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.
2. The office of the U.S. Trade Representative (USTR) 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.
3. 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.

Digital taxes:

1. 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.
2. 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 crores.
3. 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.
4. 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.