Current Affairs of the Day

GS Paper II

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Nigeria suspends Twitter 'indefinitely'

1. Nigeria suspends access to Twitter indefinitely, two days after the U.S. social media giant deleted a tweet from President Muhammadu Buhari's account for violating its rules.
2. International human rights groups and diplomats have condemned the move, which followed previous attempts by the government of Africa's most populous country to regulate social media.
3. Amnesty International on Friday condemned the move, calling on Nigeria to immediately reverse the unlawful suspension.
4. VPN app was the second most searched trend on Google in Nigeria, as virtual private networks can enable Twitter users to bypass the ban.
5. Twitter is popular in Nigeria and has played a role in public discourse with hashtags #BringBackOurGirls after Boko Haram kidnapped 276 schoolgirls, and #EndSARS, during anti-police brutality protests last year.

G7 nations agree on uniform minimum corporate tax

1. A group of the world's richest nations reached a landmark deal to close cross-border tax loopholes used by some of the world's biggest companies.
2. The Group of Seven said it would back a minimum global corporation tax rate of at least 15%, and put in place measures to ensure that taxes were paid in the countries where businesses operate.
3. The accord, which could form the basis of a global pact next month, is aimed at ending a decades-long "race to the bottom", in which countries have competed to attract corporate giants with ultra-low tax rates and exemptions.
4. That has, in turn, cost their public coffers hundreds of billions of dollars — a shortfall they now need to recoup all the more urgently to pay for the huge cost of propping up economies ravaged by COVID-19.

What is a global minimum tax and what will it mean?

Finance Ministers from the Group of Seven (G7) rich nations reached a landmark accord setting a global minimum corporate tax rate, an agreement that could form the basis of a worldwide deal.

Race To The Bottom On Corporate Tax Rates

The deal aims to end the "30-year race to the bottom on corporate tax rates" as countries compete to lure multinationals.

Why a global minimum?

1. Major economies are aiming to discourage multinationals from shifting profits — and tax revenues — to low-tax countries regardless of where their sales are made.
2. Increasingly, income from intangible sources such as drug patents, software and royalties on intellectual property has migrated to these jurisdictions, allowing companies to avoid paying higher taxes in their traditional home countries.
3. With its proposal for a minimum 15% tax rate, the Biden administration hopes to reduce such tax base erosion without putting American firms at a financial disadvantage, allowing competition on innovation, infrastructure and other attributes.

Where are the talks at?

1. The Organization for Economic Cooperation and Development has been coordinating tax negotiations among 140 countries for years on rules for taxing cross-border digital services and curbing tax base erosion, including a global corporate minimum tax.
2. The OECD and G20 countries aim to reach a consensus on both by mid-year, but the talks on a global corporate minimum are technically simpler and less contentious. If a broad consensus is reached, it will be extremely hard for any low-tax country to try and block an accord.
3. The minimum is expected to make up the bulk of the $50 billion-$80 billion in extra tax that the OECD estimates firms will end up paying globally under deals on both fronts.

How would a global minimum tax work?

1. The global minimum tax rate would apply to overseas profits. 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 minimum rate, eliminating the advantage of shifting profits.

What about that minimum rate?

1. Talks are focusing on the U.S. proposal of a minimum global corporation tax rate of 15% - above the level in countries such as Ireland but below the lowest G7 level.
2. Any final agreement could have major repercussions for low-tax countries and tax havens.
3. The Irish economy has boomed with the influx of billions of dollars in investment from multinationals. Dublin, which has resisted EU attempts to harmonise its tax rules, is unlikely to accept a higher minimum rate without a fight.

'Bank NPAs set to rise, deposit growth outpacing credit flow'

1. Gross non-performing asset (GNPA) ratios of scheduled commercial banks (SCBs) are expected to shoot up in the coming quarters. This is despite the regulatory interventions to provide relief to both borrowers and lenders in the wake of the pandemic.
2. The GNPA for the banking system was at 7.5% in September 2020, an improvement from pre-pandemic levels. This is expected to shoot up to 13.5% in a base-case scenario and 14.8% in an extreme scenario by September 2021 as per RBI's assessment in the latest Financial Stability Report (FSR).

U.S. delays tariffs against digital services tax

The story so far:

1. During the past week, the United States announced and then immediately suspended a 25% tariff on $2 billion of imports from six countries, including India, as a retaliatory measure against each of these countries' imposition of a digital services tax impacting the giant tech corporations of Silicon Valley, including the likes of Alphabet, Amazon, Apple, Facebook and Microsoft.
2. The purported logic of suspending the tariff for up to 180 days after announcing it is to allow time for ongoing international tax negotiations to continue.

What is the basis of the U.S.'s action?

The essence of the argument made by the USTR office is that a "Section 301" investigation initiated by the Trump administration in June 2020 found digital services taxes imposed by each of these countries to be discriminatory against U.S. tech firms.

Why is Section 301 significant?

1. 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 U.S. national interests under trade agreements and respond to certain foreign trade practices.
2. Until recently, this facility was used by multiple administrations to build cases and pursue dispute settlements at the World Trade Organization (WTO).
3. Under former President Donald Trump, however, this authority 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 U.S. and foreign governments in cases where the latter had deployed trade practices that allegedly disadvantaged or discriminated against U.S. firms.
4. To a great extent, the Trump administration trained its Section 301 guns on China, leading to an escalating tariff war that ultimately engulfed the final years of its tenure.
5. Now, the Biden administration appears to be unwilling to walk back Trump-era 301 investigations in their entirety; rather, it 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.

How will it affect India?

1. The Finance Bill, 2021, introduced an amendment imposing a 2% digital service tax on trade and services by non-resident e-commerce operators with a turnover of over ₹2 crores.
2. According to reports, early estimates by the USTR suggest this tax could yield approximately $55 million annually.
3. Negotiations with Washington 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.

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4. On the other hand, close to $118 million of India's exports to the U.S. would be subject to the tariff proposed by the USTR, impacting 26 categories of goods, including basmati rice, cigarette paper, cultured pearls, semi-precious stones, certain gold and silver jewellery items and specific types of furniture products.

India will have to consider its options carefully at this juncture. On the one hand, it would seek to avoid getting into any escalating matrix of retaliatory taxation with the U.S., as that would damage its growth prospects at a crucial point in its laborious recovery. However, it will also not be able to simply abandon its articulated intent to tax global tech firms, which have generally enjoyed low-tax operations across numerous jurisdictions.