

TaxNewsFlash

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United States and India reach agreement regarding "equalization levy" (digital services tax)

The U.S. Treasury Department today announced that the United States and India have reached an agreement on a transition from India's existing "equalization levy" (digital services tax) to a new international tax framework (under the Two-Pillar solution of the OECD/G20 Inclusive Framework) to be implemented in 2023.

According to today's [Treasury release](#), the agreement represents "a pragmatic solution" so that the countries can work together toward implementation of the multilateral tax regime. The agreement also allows for the United States to terminate U.S. trade measures adopted in response to the equalization levy.

Background

Measures in India's Finance Bill, 2020 expanded the scope of the "equalisation levy" to include consideration received by e-commerce operators from e-commerce supply or services, subject to tax at a rate of 2%. The effective date was 1 April 2020. Read [TaxNewsFlash](#)

The United States took steps in reaction to the equalization levy in India. For instance, the Office of the U.S. Trade Representative (USTR) in January 2021 issued reports and findings from the Section 301 investigations of digital services taxes adopted by India and other countries. Read [TradeNewsFlash](#)

The Organisation for Economic Cooperation and Development (OECD) in October 2021 provided a tax report to the G20 finance ministers and central bank governors regarding the Two-Pillar solution to address the tax challenges arising from the digitalization of the economy. Specifically, 136 of the 140 members of the OECD/G20 Inclusive Framework on BEPS reached a political agreement on the Two-Pillar solution as well as a detailed implementation plan.

The U.S. Treasury Department in October 2021 announced that Austria, France, Italy, Spain, and the United Kingdom agreed that (as part of Pillar One) they will withdraw all unilateral measures regarding the imposition of digital services taxes. Read [**TaxNewsFlash**](#)

Earlier this week, the United States and Turkey announced an agreement similar to the one with India but regarding Turkey's digital services tax. Read [**TaxNewsFlash**](#)

Read a [**November 2021 report**](#) [PDF 332 KB] prepared by the KPMG member firm in India

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