

## GS Mains Daily Answer Writing

Week 3 (Day 2)

### Model Structures

**1. The digital economy has become a compulsion rather than a choice. What are the characteristics of a digital economy and also discuss how India can secure its interests in a digital ecosystem. (150 words)**

#### Model Structure

##### Introduction

- Digital economy refers to a broad range of economic activities that use digitized information and knowledge as key factors of production. The internet, cloud computing, big data, fintech, and other new digital technologies are used to collect, store, analyze, and share information digitally and transform social interactions.

##### Main Body

- **DIGITAL ECONOMY AS A COMPULSION RATHER THAN A CHOICE**
  - To realise India's aspiration to be a leader in different global technology platforms.
  - In order for India to maintain its leadership in information technology, it is vital for digital technologies to be used to improve public services, deliver financial inclusion and develop efficient trade mechanisms.
  - India has provided leadership and shown promise in the use of digital technologies over the past ten years. It is now time for India to fuel and support the digital economy in order to turn it into a vital growth enabler.
  - The digitalisation of the economy in entirety is a key prerequisite for some of the Government's flagship transformational programs - such as 'Make in India,' 'Startup India,' and 'Skill India'
  - With a growing number of government to citizen (G2C) services reaching a wider audience, more Indians are now becoming a part of the formal/organised economy than ever before.

- India is looking to extend digital literacy to 60 million rural people by March 2020. As more people come online, tools such as JAM Trinity, a union of Jan Dhan-Aadhaar-Mobile numbers will better contribute to nation-building and overall economic progress.
- For such massive data-driven government initiatives as well as private commercial ventures to be successful in the future, they will need to be backed by a technology that combines the best of human and machine capabilities.
- CHARACTERISTICS OF DIGITAL ECONOMY
  - The backbone of the digital economy is the hyperconnectivity between people.
  - The digital economy acts as a catalyst for better communication between buyers, suppliers, workers and stakeholders by interlinking them.
  - The economy is dependent on customer personalization to a considerable extent. Eg. Companies aim to manufacture and deliver goods and services which are as per the demand of the consumer.
  - Businesses are connected with their customers as technology facilitates the exchange of information between suppliers and customers.
- HOW INDIA CAN SECURE ITS INTERESTS IN DIGITAL ECOSYSTEM
  - A vibrant and open innovation policy,
  - Promoting R&D in ICT sector
  - The government should also identify frontier areas—such as artificial intelligence—that can significantly reshape the world
  - The government also ought to tread with caution when regulating disruptive market players.
  - Stricter data protection laws that govern the cross border digital flows are needed.
  - Since the digital economy is heavily based on intellectual property, strict protection to patent and copyright work, whether produced in India or elsewhere, also needs to be implemented.

## Conclusion

- We must work to close the digital divide, where more than half the world has limited or no access to the Internet. Inclusivity is essential to building a digital economy that delivers for all.

## 2. What is the Global Minimum Tax Rate? What are the foreseeable challenges to its implementation in India? How can these challenges be overcome? (250 words)

### Model Structure

#### Introduction

- Finance Ministers from the Group of Seven (G7) rich nations reached a landmark accord on backing the creation of a global minimum corporate tax rate of at least 15%, an agreement that could then form the basis of a worldwide deal.

#### Main Body

- Global Minimum Tax Rate –
  - Major economies are aiming to discourage multinationals from shifting profits - and tax revenues - to low-tax countries regardless of where their sales are made.
  - 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.
  - 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.
  - Now, with its proposal for a minimum 15% tax rate, the USA administration hopes to reduce such tax base erosion without putting American firms at a financial disadvantage, allowing competition on innovation, infrastructure and other attributes.
  - Apart from low-tax jurisdictions, the proposals for a minimum corporate tax are tailored to address the low effective rates of tax shelled out by some of the world's biggest corporations, including digital giants such as Apple, Alphabet and Facebook, as well as major corporations such as Nike and Starbucks.
- Process of tax avoidance –
  - These companies typically rely on complex webs of subsidiaries to Hoover profits out of major markets into low-tax countries such as Ireland or Caribbean nations

such as the British Virgin Islands or the Bahamas, or to central American nations such as Panama.

- India's annual tax loss due to corporate tax abuse is estimated at over \$10 billion, according to the Tax Justice Network report.
- The US Treasury loses nearly \$50 billion a year to tax cheats, according to the Tax Justice Network report, with Germany and France also among the top losers.
- Impact on India:
  - Tax sovereignty: If the proposal comes into effect, India may experience a longer economic hangover than other developed nations with less ability to offer mega stimulus packages. A global minimum rate would essentially take away a tool that countries use to push policies that suit them.
  - Multilateralism will further stumble in such a tax policy. The policy will create haves and have-nots across the world.
  - Deglobalization: Tax-justice advocates will criticize the global minimum of 15% as too low, the global minimum as an unwarranted restriction that will impede their ability to attract investment for countries like India who still have stakes in globalization.
  - Differential treatment: In inhospitable investment environments, lower taxes are one of the few immediate ways in which governments can compensate companies for the many disadvantages they face. For example, North East India and hill states in India.
  - Future of digital taxes: India's digital equalisation levy (or the "Google tax"). Taxes of this kind have been consistently criticised by the US as unfairly targeting a particular sector. The global minimum tax's lack of clarification on the issue of digital taxation may be further dissuading countries like India.
- Measures to overcome the challenges:
  - India attracts foreign investment owing to its large internal market, quality labour at competitive rates, strategic location for exports, and a thriving private sector.
  - Hence India must focus on skill development, lowering cost of transport and improving other ease of doing business indicators to attract more investment.

- India must demand for more clarity on digital equalization levies to assert its right to tax income generated in its jurisdiction.
  - India must “proactively engage” with foreign governments with a view to facilitating and enhancing exchange of information under Double Taxation Avoidance Agreements, Tax Information Exchange Agreements and Multilateral Conventions to plug loopholes.
  - Besides, “effective enforcement actions” including expeditious investigation in foreign assets cases have been launched, including searches, enquiries, levy of taxes, penalties, etc and filing of prosecution complaints, wherever applicable
-