Abolition of Equalisation Levy and Key Amendments in Finance Bill, 2025

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Equalisation Levy Latest News

- The government recently proposed the **abolition of the 6% Equalisation Levy (EL) on online advertisements** as part of the 59 amendments to **the Finance Bill, 2025**.

- This move, **seen as a response to international pressure**, particularly from the United States, **aims to prevent reciprocal tariffs** set to be introduced by the US from April 2.
- The amendments were introduced in the Lok Sabha by Minister of State for Finance, Pankaj Chaudhary.

Equalisation Levy – Meaning, Background and Recent Developments

- Equalisation Levy (EL) is **a direct tax levied on online transactions** made to non-resident or consideration received by a non-resident for specific services.
- This tax is **not a part of the Income tax act of India** but was introduced by **the Finance Act 2016.**
- **Specified services:**
  - *Online advertisement.*
  - Provide digital advertising space or any other facility for the purpose of online advertisement.
  - Any other service notified by the Central Government on this behalf.
- India had already **removed a 2% EL on e-commerce transactions in 2024**, *but the 6% levy on online advertisements remained.*
- **The removal of the 6% EL is seen** as a diplomatic measure to ease trade tensions with the US.

US Concerns and International Taxation

- The US had **threatened reciprocal tariffs** from April 2, 2025, if the digital tax was not abolished.
- The US has long argued that digital service taxes, including India's EL, **disproportionately impact American tech giants** like Apple, Amazon, Google, and Facebook.
- The removal of EL is a step towards addressing US concerns on **unilateral taxation** and **fostering international tax cooperation**.

Expert Opinion on EL Removal

- The removal of the 6% EL is an attempt to **avoid further trade disputes with the US** and adopt a more **accommodative stance**.
  - However, **it remains to be seen** whether this, along with ongoing diplomatic efforts, will **lead to a softening of the US stance**.
- **EL was always a temporary measure** until a global taxation consensus was reached.
  - India's move to abolish it provides **certainty to taxpayers** and reassures partner nations regarding unilateral taxation concerns.
- India has also introduced the concept of **Significant Economic Presence (SEP)** in domestic laws to ensure fair taxation of foreign companies operating digitally within India.

Other Key Amendments in the Finance Bill, 2025

- **Offshore fund investment reforms:** The government has proposed amendments to ease offshore fund investments, making regulations less burdensome.
- **Changes in tax assessment for undisclosed income:**

    - Amendments **redefine tax assessment** for undisclosed income f**ound during search and seizure operations.**
    - The term 'Total Income' has been replaced with '**Total Undisclosed Income**' to ensure that only hidden earnings face penalties, not disclosed income.
    - This clarification **addresses concerns from taxpayers** regarding undue penalties on declared earnings.
- **New power to reconcile tax returns:**
    - Amendment grants tax authorities the power to reconcile an individual's tax return **with their previous filings.**
    - This aims to **flag inconsistencies and improve compliance among taxpayers**.

Conclusion

- The proposed amendments in the Finance Bill, 2025, particularly the abolition of the EL, signal **India's willingness to align with international taxation norms** and **ease trade tensions with the US.**
- Other tax assessment changes **enhance clarity and fairness** in income disclosure regulations, ensuring a **more transparent and taxpayer-friendly system**.
- Experts view these amendments as **largely clarificatory in nature**, addressing taxpayer concerns and promoting **business-friendly policies**.

Equalisation Levy FAQs

Q1. What was the rationale behind the Indian government's decision to abolish the Equalisation Levy on online advertisements in the Finance Bill, 2025?

Ans. The government aimed to adopt a more accommodative stance towards the United States, which had threatened reciprocal tariffs, and to align with global taxation norms.

Q2. How does the removal of the Equalisation Levy impact India's trade relations with the United States?

Ans. The abolition of the levy is expected to ease trade tensions and prevent retaliatory tariffs by the US, fostering better economic and diplomatic ties.

Q3. What are the key amendments introduced in the Finance Bill, 2025, apart from the removal of the Equalisation Levy?

Ans. The bill includes reforms to ease offshore fund investments, amendments to tax assessments under search and seizure provisions, etc.

Q4. What is the significance of replacing 'Total Income' with 'Total Undisclosed Income' in search and seizure tax assessments?

Ans. This change ensures that only undisclosed income is subjected to penalties, addressing concerns about harsh taxation on already declared earnings.

Q5. How does the concept of Significant Economic Presence (SEP) complement India's taxation framework in the digital economy?

Ans. SEP aims to ensure fair taxation of foreign digital companies operating in India by establishing their economic footprint as a basis for taxation.

Source: TH | IE
