

Policy Analysis Two: Cyber Tax and Politics

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The implementation of a cybersecurity tax policy increases government control of the national economy. A cybersecurity tax policy will create tension between the private sector and government by redistributing wealth and shifting power away from corporations towards the government. Simultaneously, the responsibility of businesses increases due to the policy linking national security with cybersecurity measures. A business will have to strengthen their cybersecurity potentially incurring extra costs in order to avoid financial penalties. A cyber tax will result in an increased government revenue that can be used for public services, social welfare, or as an investment in national cybersecurity efforts. Although, the cyber tax revenue can be used to benefit individuals, it can also create conflict between the citizens and government due to the possibility of businesses passing the taxes on to the consumers. A cybersecurity tax policy can also create conflict between different nations due to its financial impact and disagreements on who should be taxed. Countries can manipulate taxes depending on the nation involved. For example, a high tax rate can be imposed on rival nations while allies may be subject to a low tax rate or none at all. Imposing a cybersecurity tax can also be used as a negotiation tactic and retaliatory measure. The allies of an invaded nation may impose heavy taxes on an invading country in order to discourage it from further action and negotiate a peace agreement. A higher tax rate can be imposed against nations that have high tariffs set in place. The political implications of a cybersecurity tax largely depend on how it is implemented.

Some policymakers see cyber tax in a positive light due to its redistribution of wealth within the nation and at a global scale. The finance ministers of Germany, France, Italy and Spain have expressed their desire to tax companies involved in the digital economy who are conducting business in Europe (Gelepithis & Hearson, 2022). The finance ministers believe that everyone should be paying their fair share of taxes. The idea of fairness in taxation was first

brought on due to businesses taking advantage of tax policies by shifting their operations to low tax jurisdictions. The existence of a digital economy however, has resulted in businesses operating in different nations without having a physical presence within those nations. Despite not having a physical presence in a nation, businesses are profiting from its citizens and utilizing their data. The finance ministers' idea of fair taxes is the taxation of businesses based on where their market is located. The desire for fair taxation resulted in Spain, Italy, and France implementing a digital services tax which strengthened support for fair taxation however, it resulted in political tensions with the United States.

The policymakers in India held similar beliefs with those of France, Spain, Italy and Germany. India's policymakers also had the same fairness-based rationale in implementing cyber tax. In 2016, India passed the 'equalization levy' also known as 'Google tax' which would tax foreign digital services (Noonan & Plekhanova, 2020). Unlike the other countries that passed a digital services tax, India was a developing nation that strived to be at an economic state equal to developed nations. India viewed fairness as a way to ensure every country is at an equal footing. Furthermore, India's large population contributes a substantial portion to the profits of foreign digital firms. Taxation is a way for India to be paid for their contributions. Similar to other countries that passed a digital services tax, India was threatened with retaliatory measures by the United States. The pressure from the U.S. would later result in the abolishment of the equalization levy in 2025 (Ahmed & Kumar, 2025). India's implementation of a cyber tax was a failure however, it furthered the discussion on how to implement taxes in the digital economy and served as a real-life example of the potential implications of cyber tax.

While some countries viewed cyber tax as a fair method of taxation, others viewed it as being unfair. The Trump administration and former U.S. Trade Representative Robert Lighthizer

viewed the digital services taxes imposed by foreign governments as discriminatory to U.S. companies (Magalhães & Christians, 2024). The belief that cyber tax is discriminatory is due to the major digital firms being based in the United States therefore, having a significant impact on the nation's economy. The U.S. government's revenue and the money circulating within the U.S. economy would both decrease due to the taxes. The U.S. prioritizes its own economic interest and has the political belief of putting the nation first. Unlike France, Spain, Italy, Germany and India who viewed fairness in cyber tax as a way to compensate for economic injustices, the United States viewed fairness as each country being equally subjected to the same policy. In their perspective, the U.S. should not be paying the largest amount of cyber tax. The U.S. passed retaliatory tariffs against France and threatened action against India which increased political tensions and delayed the passing of a multilateral agreement on taxing the digital economy. The actions of policymakers from different countries have only created global political tensions however, it is a step forward to understanding how to effectively tax the digital economy.

References

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