

TAX REFORMS AND EASE OF DOING BUSINESS: AN INDIAN PERSPECTIVE

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ABSTRACT

There has been a lot of tax reforms both direct and indirect, implemented in India in Current decade and these have substantially changed the business scenario and improved India's Rank in Ease of Doing Business report released by World Bank every year. India's rank during last five years has improved from 134 in 2014 to 77 in year 2019. But when we look at the indicator wise increase in ranking it shows that even after implementing so many tax reforms in past few years Change in Paying Taxes indicator has improved marginally just from rank 156 in 2014 to just 121 in 2019 which is comparatively smaller than its overall ease of doing business ranking . Indicator wise analysis shows that still a lot of efforts are required in Tax reforms which still are unaddressed in GST and other Tax reforms. Suggested that as per global best practices of sub indicator of Payments (numbers), Time (Hours per year), Total tax and contribution rate (% of profit) and Post filling index (0-100) needs reforms to increase India Competitiveness in Global Business Ranking.

KEYWORDS: *Tax Reforms, Impact of GST, Tax Reforms, Competitive Environment, EoDB.*

Introduction

As per World Bank Ease of Doing Business data India has Jumped 23 Points from previous year to rank 77 globally with score of 67.23. There are various indicators effecting this like Construction permits, getting electricity, trading across borders, paying taxes, resolving insolvency, enforcing contracts, starting a business, getting credit, protecting minority interests, registering property. India has fared well in some of the parameters very well like construction permits, getting electricity, and protecting minority interests. Paying taxes is one of the indicators which is impeding India's rank in ease of doing Business.

Paying Taxes and its Sub Indicators

Paying Taxes indicator of World Ease of Doing Business Report has 4 sub indicators namely:

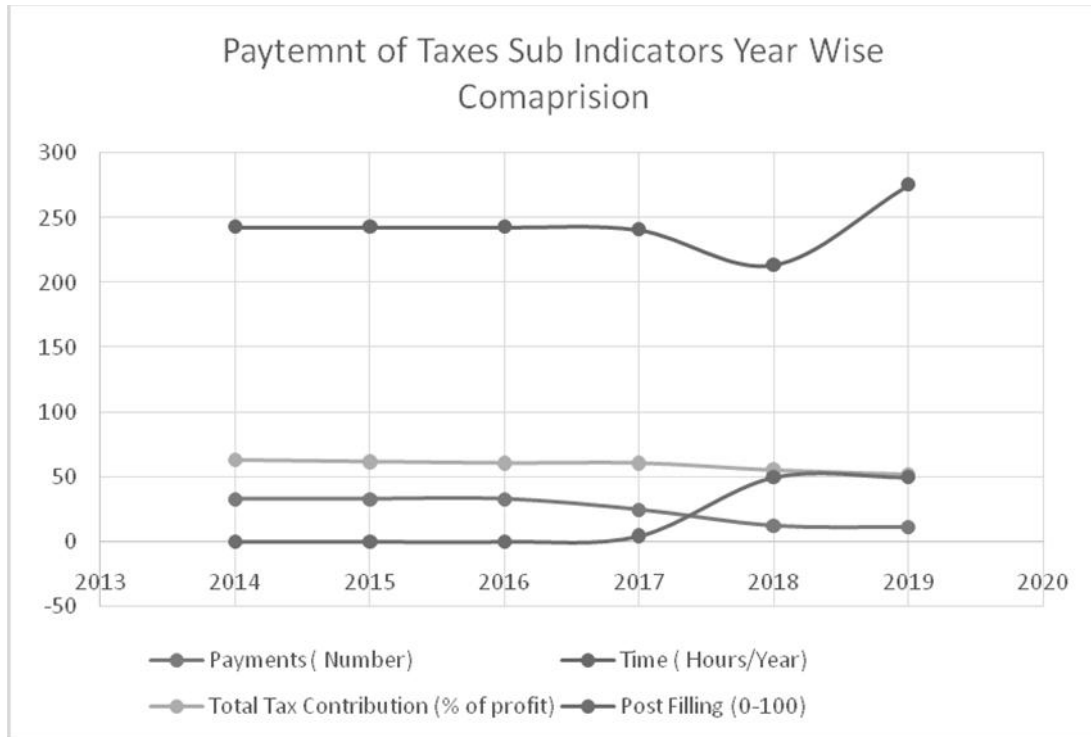
- **Payments (Number per Year):** The number of payments takes into account electronic filing. Where full electronic filing and payment is allowed and it is used by the majority of medium-size businesses, the tax is counted as paid once a year even if filings and payments are more frequent. For payments made through third parties, such as tax on interest paid by a financial institution or fuel tax paid by a fuel distributor, only one payment is included even if payments are more frequent.
- **Time for (Hours per Year):** The time it takes to prepare, file and pay (or withhold) the corporate income tax, value added or sales tax or GST, and labor taxes, including payroll taxes and social contributions (in hours per year).
- **Total Tax and Contribution Rate:** The total tax rate measures the amount of taxes and mandatory contributions payable by the business in the second year of operation, expressed as a share of commercial profits.

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- Post Filing Index:** The post filing index is based on four components—time to comply with GST refund, time to obtain GST refund, time to comply with a corporate income tax correction and time to complete a corporate income tax correction. If both GST and corporate income tax apply, the post filing index is the simple average of the scores for each of the four components. If only GST or corporate income tax applies, the post filing index is the simple average of the scores for only the two components pertaining to the applicable tax. If neither GST nor corporate income tax applies, the post filing index is not included in the ranking of the ease of paying taxes.

India’s Perspective and Tax Reforms

- Various Indirect taxes have been subsumed into GST yet still the number is 11-13 as per Ease of Doing Business Report (EoDB). These include direct and subsidiary taxes and cess which a business has to pay like Corporation Tax, Property Tax etc. From business point of view number of taxes is still on the higher side with the global top achievers like China and Hong Kong having 3 taxes in number per year thus putting India at back foot on this sub indicator.
- Even though the GST has been made fully electronically automated yet the glitches being faced by GSTIN and time being taken to file return by common small and medium sized business entity has increased the time per year from 214 Hours to 275.4 Hours per year.
- Even after implementation of GST the Total Tax and Contribution as % of Profit has remained 52.1 % from Previous 55.3% whereas globally its best performance is 26.1% (32 economies) and even south Asian economies have its percentage as 43.5%. This needs review both the GST and Corporate Tax level and minor taxes which have outlived their utility needs to be abolished. Decreasing the tax rates will not only encourage business entity for more expansion moreover FDI will also increase in India if the tax rates are matched with global best ones and it will also give boost to Make in India initiative of government .
- As far as Post Filing indicator is concerned it shows that time taken by Business entities to get GST input credit has not changed the picture of previous regime of VAT refund etc. Input credit matching and its processing time even after full automation has not given advantage to this indicator. The automation process of input credit on GST and refund of other taxes needs review and need to be robust enough to handle big data.



Reforms and their Impact

Tax reforms both direct and indirect have been introduced in India since 1991 after fiscal reforms. These were aimed at improving efficiency, production and competitiveness of Indian industries and imparting dynamics to the overall growth process. In 1991 government set up tax reforms committee under chairmanship of Sh. Raja J. Chelliah to examine the then tax structure and suggest appropriate changes. Committee gave its report in 1993 and made several recommendations for reforming Indian tax structure. Some of them are:

- Lowering Tax Rate and narrowing to spread: To make direct tax more effective it is necessary to reduce tax rate so that there is less tax evasion and avoidance. There is also need for narrow the spread between the lowest rate and maximum rate. There is a need to provide minimum tax incentives.
- Reducing corporate tax rate differences between domestic and foreign companies to encourage foreign direct investment.
- Rationalizing capital gain tax.

These recommendations have however been somewhat accepted by government but partially.

Similarly Vijay Kelkar Committee on direct rate reforms also gave recommendation regarding Income Tax exemption limit, rationalization of exemptions, capital gain tax etc.

Recently the Tax Reforms Introduced are:

- **Direct Tax Reforms**
 - Tax Information Network i.e on behalf of IT department NSDL has established Tax Information Network. This is a country wide tax related data.
 - Electronic returns acceptance and consolidation system.
 - Online Tax Accounting System OLTAS.
- **Indirect Tax Reforms**
 - GST was introduced from 1st July 2017.
 - Other than GST various other Tax reforms in different areas have place in India like GAAR (General Anti Avoidance Rules). Signing of DTAs (Double Taxation agreements) with different countries both multilateral and bilateral, Signing of APAs (Advance Pricing Agreements) with multinational companies.

These have substantially improved India Ranking on Global Platform. GST is also a major change in tax regime needs to a quiet of amendments both at operational and well policy level.

As per World Bank Ease of Doing Business Report following reforms have taken into account for calculating ranking:

- Doing Business Report 2019: India made paying taxes easier by replacing many indirect taxes with a single indirect tax, the GST, for the entire country. India also made paying taxes less costly by reducing the corporate income tax rate and the employees' provident funds scheme rate paid by the employer. This reform applies to both Delhi and Mumbai.
- Doing Business Report 2018: India made paying taxes easier by making payment of EPF mandatory electronically and introducing a set of administrative measures easing compliance with corporate income tax. This reform applies to both Delhi and Mumbai.
- Doing Business Report 2017: India made paying taxes easier by introducing an electronic system for paying employee state insurance contributions. This reform applies to both Mumbai and Delhi.
- Doing Business Report 2012: India eased the administrative burden of paying taxes for firms by introducing mandatory electronic filing and payment for value added tax.
- Doing Business Report 2011: India reduced the administrative burden of paying taxes by abolishing the fringe benefit tax and improving electronic payment.

In the recent First audit of GST, which is done by the Comptroller and Auditor General (CAG) of India as on July 2019, there were some issues in GST implementation, as the government failed to try the system before implementation leading to inadequate compliance mechanism and lower tax revenue.

The report point out that keystone of system, the invoice matching, had not been put in place even after two years of rollout. It further adds that compliance in terms of number of returns filled had been falling month after month. Even after two years of roll out system validated Input Tax Credit through invoice matching is not in place and non-intrusive e-tax system still remains elusive. The growth in indirect taxes slowed down to 5.8% in 2017-18 over 2016-17 as compared to 21.3% during 2016-17.

Conclusion

Tax reforms have been implemented in India like GST but same requires modification to suit business requirements and make it competitive rather than making things difficult and increasing tax rates. Bottlenecks like Filing issue, input credit, reducing tax rates needs immediate attention and review as due to implantation ranking on this indicator has gone down from 119 to 121. Further subsuming taxes and reducing tax rates as % of profit and time requirements needs review and needs to be aligned to global practices and follow these standards to increase India EoDB Raking and make it globally competitive.

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