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TAX SYSTEM IN INDIA: COULD REFORM SPUR GROWTH

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Abstract

In this paper, we would be discussing how tax reforms can be a powerful tool for stimulating economic growth by enhancing the efficiency and fairness of the tax system, promoting investment and entrepreneurship, and reallocating resources for productive purposes. The objectives and design of tax reforms may vary across countries but commonly involve reducing taxes, lowering tax rates, broadening the tax base, and eliminating loopholes and exemptions. Nevertheless, caution is necessary as tax reforms can lead to unintended consequences such as reduced government revenue or unequal distribution of the tax burden. Hence, careful planning and implementation are crucial to ensure that tax reforms align with the broader objectives of economic and social development. By spurring growth, tax reforms can drive an increase in overall production, elevate living standards, create employment opportunities, and foster business expansion. In many developing and transitional economies, tax reforms are driven by the need to adapt the tax system to meet the demands of international competition.

Keywords - Direct tax code, revenue, business, tax system, tax reforms.

Introduction

Tax reforms can be a means to stimulate economic growth by improving the efficiency and fairness of the tax system, encouraging investment and entrepreneurship, and freeing up resources for productive use. The specific goals and design of tax reforms vary depending on the country's circumstances and needs, but they frequently aim to reduce taxes, lower tax rates, widen the tax base, and eliminate tax loopholes and exemptions. However, tax reforms can also have unintended consequences, such as reducing government revenue or shifting the tax burden to certain groups, so they must be carefully crafted and implemented to ensure that they support the broader goals of economic and social development.

Spur growth means to stimulate or boost economic growth. It refers to actions or changes that result in an increase in the overall production of goods and services and a corresponding rise in the standard of living. Economic growth is typically measured as a rise in a country's Gross Domestic Product (GDP) over a given time period. When growth is spurred, it means that the economy is expanding, creating more jobs and opportunities for businesses and individuals. One of the most important reasons for tax reforms in many developing and transitional economies has been to evolve a tax system to meet the requirements of international competition[1]

I. Article Review

[1] M. Govinda Rao, Tax Reforms in India: Achievements and challenges, Vol 7, 59-74 (2000)

"India's bold tax reforms 5 years on why it may be too soon to celebrate"

\- Ravi Buddhavarapu

The article basically discusses the impact of India's tax reforms, which were implemented 5 years prior. The author suggests that while the reforms were ambitious and aimed to simplify the tax system, they may have not been successful in achieving their goals. The article highlights some of the challenges faced by the Indian tax system, including the complexity of the goods and services tax (GST), difficulties in tax compliance, and issues with tax collection.

The Direct Tax Code (DTC) has also faced challenges, with a decrease in compliance and disputes over the taxation of multinational corporations. The author argues that it may be too soon to determine the long-term impact of these reforms and that the government needs to address the challenges and make improvements for the reforms to be successful.

The article concludes by stating that India's tax reforms hold great potential for the country, but more time and effort are needed to fully realize their benefits.

Analysis

Tax reform in India has the potential to spur economic growth by making the tax system simpler, more efficient, and transparent. A well-designed tax system can increase the ease of doing business, attract foreign investment, and increase the government's revenue. Additionally, a simpler tax system can reduce the compliance burden for taxpayers, freeing up time and resources for productive activities. However, the success of tax reform in spurring growth ultimately depends on the specific details of the reforms and how they are implemented.

We can increase economic growth through tax reform in India by simplifying the tax system i.e., streamlining the tax system by reducing the number of taxes, simplifying tax compliance procedures, and reducing the tax burden can increase the ease of doing business and attracting investment. Widening the tax base: Widening the tax base by including more taxpayers in the formal economy can increase the government's revenue and reduce the tax burden on existing taxpayers. Improving the efficiency and transparency of tax administration, such as reducing corruption and streamlining dispute resolution procedures, can increase taxpayer confidence and encourage compliance.

Encouraging investment through tax incentives, such as tax holidays, can boost economic activity and create new job opportunities. GST can increase the efficiency of the tax system by replacing multiple indirect taxes with a single tax, which can simplify tax compliance and reduce the cost of doing business. International competitiveness: By reducing the tax burden on businesses, tax reforms can make a country more attractive to foreign investment and increase international competitiveness, leading to an increase in economic growth.

Government revenue: Tax reforms can increase government revenue if they broaden the tax base, as long as the increase in revenue exceeds the reduction in tax rates. These measures can help to make the tax system more efficient, transparent, and supportive of economic growth. However, the success of these reforms will depend on their specific design and implementation, as well as the broader economic environment.

II. An overview of GST

Overcoming the loopholes in the existing indirect tax regime, the goods and services tax (GST) is a major indirect tax regime in India.[2] In 2017, India implemented the Goods and Services Tax (GST), which replaced several indirect taxes with a single tax, aimed at simplifying the tax system and boosting economic growth. GST has brought a lot of changes in the Indian economy, it attracts huge numbers of domestic and foreign investors to set up their businesses in

[2] Gupta Surbhi, Goods and services tax (GST): A comprehensive and uniform indirect tax reform in India, Vol 3, 31-53 (2016)

India.[3] It may be too soon to fully assess the success of GST, as it has only been in place for a few years. However, some arguments made in discussions around India's tax reforms include that while GST has improved compliance and reduced tax evasion, there have been issues with its implementation, such as technical glitches and disputes over jurisdiction between states and the federal government. Additionally, some argue that the tax structure is still complex and the compliance burden on small businesses remains high.

III. Effective Schemes launched by the government in recent times that led to economic growth

There have been a lot of schemes launched as well like the *"Vivad se vishwas scheme"* which was enacted with the goal to reduce pending income tax litigation, generating timely revenue for the government, and benefiting taxpayers. Then we have the *"Faceless Tax Assessment Scheme"* which simplifies the process i.e., a taxpayer does not require to visit an IT Department office or meet a department official for income tax-related businesses. It was launched in 2019 to promote an efficient and effective tax administration.

Recently the government has taken a lot of effective measures, a few of which are, *"The rate of MAT"* has been reduced from 18.5% to 15%. The finance act, of 2020 removed the *"Dividend Distribution Tax" (DDT)* under which the companies do not require are not required to pay DDT. The government is taking a lot of measures to boost our economy

So, it is important to note that tax reforms can also have negative effects if not designed and implemented carefully. For example, tax reforms that shift the tax burden to lower-income individuals can reduce consumer spending and harm economic growth. Similarly, tax reforms that reduce government revenue can limit the ability of the government to invest in infrastructure, education, and other important public goods that support economic growth.

Conclusion

In short, tax reforms have the potential to spur economic growth by creating a more favorable business environment, encouraging investment, and improving government revenues. However, the effects of tax reforms are complex and depend on various factors, including the specifics of the reforms, the state of the economy, and the behavior of individuals and businesses. It is essential to carefully design and implement tax reforms to ensure that they have their intended positive effects and minimize unintended consequences. Additionally, complementary measures, such as investments in education and infrastructure, may be necessary to fully realize the benefits of tax reforms for economic growth. But if we talk about India's economic growth in the past decade, it has significantly been better than the previous decade, all thanks to our government's effective tax reforms which are shaping and putting us in a respectable position in a global scenario.

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