SHODH SAMAGAM

ISSN : 2581-6918 (Online), 2582-1792 (PRINT)

Covid-19 Impact on Tax Composition : A Study

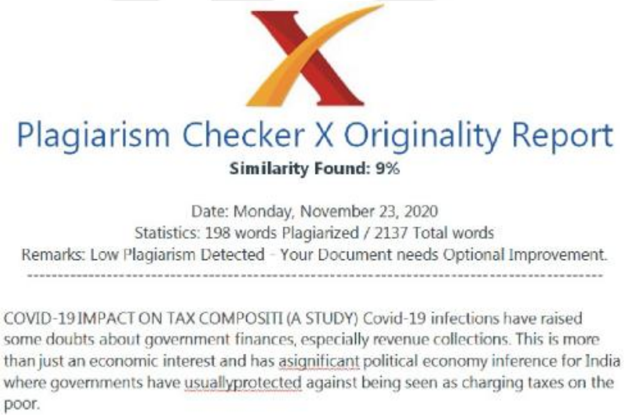
Lal Baboo Jaiswal, Department of Commerce,
Banaras Hindu University, Varanasi, Uttar Pradesh, INDIA

ORIGINAL ARTICLE

Corresponding Author
Lal Baboo Jaiswal,
Department of Commerce,
Banaras Hindu University, Varanasi,
Uttar Pradesh, INDIA

shodhsamagam1@gmail.com

Received on : 23/11/2020
Revised on : -----
Accepted on : 01/12/2020
Plagiarism : 09% on 23/11/2020


Plagiarism Checker X Originality Report
Similarity Found: 9%

Date: Monday, November 23, 2020
Statistics: 198 words Plagiarized / 2137 Total words
Remarks: Low Plagiarism Detected - Your Document needs Optional Improvement.

COVID-19 IMPACT ON TAX COMPOSITI (A STUDY) Covid-19 infections have raised some doubts about government finances, especially revenue collections. This is more than just an economic interest and has asignificant political economy inference for India where governments have usuallyprotected against being seen as charging taxes on the poor.

Abstract

Covid-19 infections have raised some doubts about government finances, especially revenue collections. This is more than just an economic interest and has a significant political economy inference for India where governments have usually protected against being seen as charging taxes on the poor.

Keywords

Covid -19 and Taxes (Direct and Indirect).

Direct taxes are progressive in character- the rich give at a higher rate than poor-and a drop in share of direct taxes in sum income entails retrogression in the tax load. A person earning[1] 10 lakh per year faces a lesser income tax rate than someone who earns [1] 1 crore or additional for every year.

It will not be amazing if the deficit in direct taxes becomes bigger. Company's strength has supposed back on layoffs and pay-cut in April, 2020 in the hope that lock down would yield quick result. Such hopes have been belied. Most institutional and personal predict for 2020-21 GDP have worsened over time. This means that outlook on income and salaries and therefore direct tax collections will get worse overtime.

Anecdotal evidence supports this hypothesis. A mint report by Prasant Kumar Nanda earlier said at least 1, 00,000 workers a day dipped into their statutory retirement savings in June, 2020 as they 65faced with income and job losses. With productivity taking a beating, corporate tax collections will also suffer. In effect, the contribution of indirect taxes, seen by some as touching the poor more than the rich. In overall tax revenue, that was already skewed in India, is likely to become even more so because of the pandemic.

Covid-19 has already stained millions of people. The abrupt pauses in economic doings and employment are far worse than anything on proof, in intensity and speed. The economies of developing countries are being wounded by rigorous but very necessary method to protect people's health, and by cross-border disruptions in supply manacles, tourism, remittances, and commodity prices. The poorest and mainly vulnerable segments of the population are always exaggerated disproportionally during economic downturns. This is compounded during the current emergency as the poor have less option to protect their health and suffer more from disruptions in public services. Recovery will not be rapid, and the future will differ in important conduct from the actuality of only a few months ago. In times of suffering, people look to governments for information, route and fortification.

The present calamity is a global challenge that requires a global response. Indian tax cooperation must be part and parcel of a set of effective and well-coordinated multilateral actions to respond to the crisis. In order to expand the fiscal space, it is more urgent than ever to work together to fight tax evasion and tax avoidance, including unlawful financial flows. At the same time, it has never been more important to move towards a fairer and more equitable taxation of economic activities.

Taxation is profoundly affected by the pandemic. Covid-19 will change taxation in at least three important ways, with lasting implications. First and most immediately, taxation plays a role at this current crisis stage in helping to sustain universal access to basic goods and services through "lifeline" measures. Susceptibility to COVID-19 and to its economic impact are very different across social groups. Taxation can help reimburse for this uneven playing field that is a supplementary argument for progressive taxation. In the same soul, aggressive tax minimization by large taxpayers however legal it may appear – will become even more unbearable to society at large. This increases the importance of, and attention to, the work on Indian corporate taxation now being carried on in the Inclusive Framework.

Second, as the economies of India recover, taxation will also play a role. Developing countries are likely to see a significant decline in their average tax-to-GDP ratio in 2020. This will have lasting implications—after the 2008-09 global financial crisis, it took an average of eight years for revenues to recover to their pre-crisis level. Clearly those countries with limited fiscal space going into the crisis will be hit harder than those that had greater flexibility on both the fiscal and monetary sides. Much direct international financial support and debt relief will be necessary during and after the peak of the crisis, and indeed considerable emergency financing is already flowing from both the World Bank and the IMF. But it is important that we do not lose sight of the imperative to support longer-term tax capacity building, and the importance of mobilizing revenues in the upshot of the crisis. On the other side, taxation must play a role in future macroeconomic stimulus to regain growth. Striking the appropriate balance will not be simple. Stimulus needs to be well timed and proportional with securing the additional revenues needed to restore fiscal sustainability once growth has been put on an upward path. Taxes will play a role in determining the "new normal". Along with moving impartiality, basic shifts in social behaviours make the outcome of the crisis a good flash to "green" our tax systems.

Covid-19 has hit the income of around 60% households across India However, only 28% of them wanted to go ahead with their plan plans once the restrictions are relaxed, the rest have either put their plans on hold or cancelled them. (The study, conducted by Nielsen across 12 cities, also discovered that eight of every 10 respondents)

Changing cunsumer behaviour

Table-1

Allocation of monthly income Before Covid-19 After Covid-19	Impact on different income group (in % points)		
	Low Income Group Up-to □ 50,000	Mid-Income Group □ 50,000 to 1 Lakh	High Income Group Above □ 1,00,000
Investments ~~20%~~ ~~16%~~	-3 ↓	-3 ↓	-3 ↓
Savings (Cash at Banks or Cash in Hand) ~~25%~~ ~~27%~~	No Impact	1 ↑	3 ↑
Loan / CC Payments ~~19%~~ ~~18%~~	-2 ↓	-1 ↓	No Impact
Monthly HH Expenses ~~36%~~ ~~39%~~	5 ↑	3 ↑	No Impact

CC = credit Card. HH = House hold *(Sources: Nielsen)*

Table -1 represents overall no effect of Covid-19 crises on high income group except investment and savings. Investments and savings are adversely correlated to each other regarding high income group. Low income group people increased their house hold expense with adjustment of investment and Loan/ CC payment. Maximum number of people are belongs from medium income group. These group are increased their monthly HH expense by adjustment of investments and saving habits are increased by adjustment of loan/ CC payments.

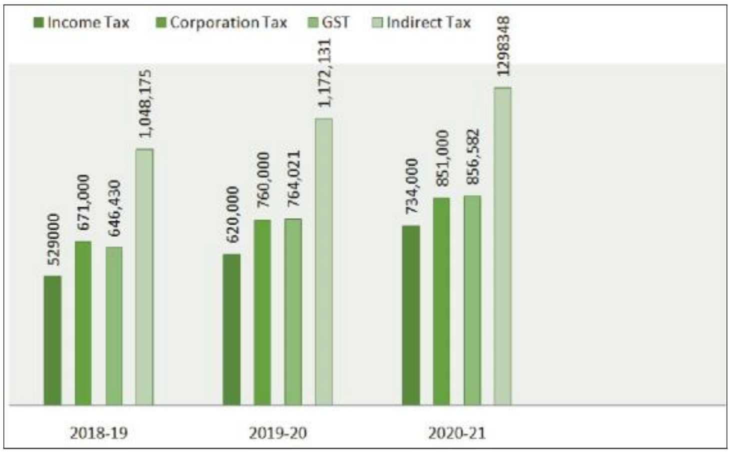
Table 2 : Total Tax Revenue Collection Table

(Figure in Cr.)

	2018-19	2019-20	2020-21 Estimated	Missing Targets		
				2018-19	2019-20	2020-21 Estimated
Income Tax	5,29,000	6,20,000	7,34,000	4,72,523	5,53,808	6,55,637
Corporation Tax	6,71,000	7,60,000	8,51,000	6,63,514	7,51,521	8,41,506
Direct Tax	12,00,000	13,80,000	15,85,000	11,36,037	13,05,329	14,97,143
GST	6,46,430	7,64,021	8,56,582	5,71,743	6,75,748	7,57,614
Indirect Tax	10,48,175	11,72,131	1298348	9,44,460	10,56,505	11,71,405
Gross Tax Revenue	22,48,175	25,52,131	28,83,348	20,80,497	23,61,834	26,67,548

(Sources: RBI)

Chart 1



(Sources : RBI)

Table-2 represents overall actual tax collections are less than estimated tax collection it is great variation in 2020-21.

Chart 2

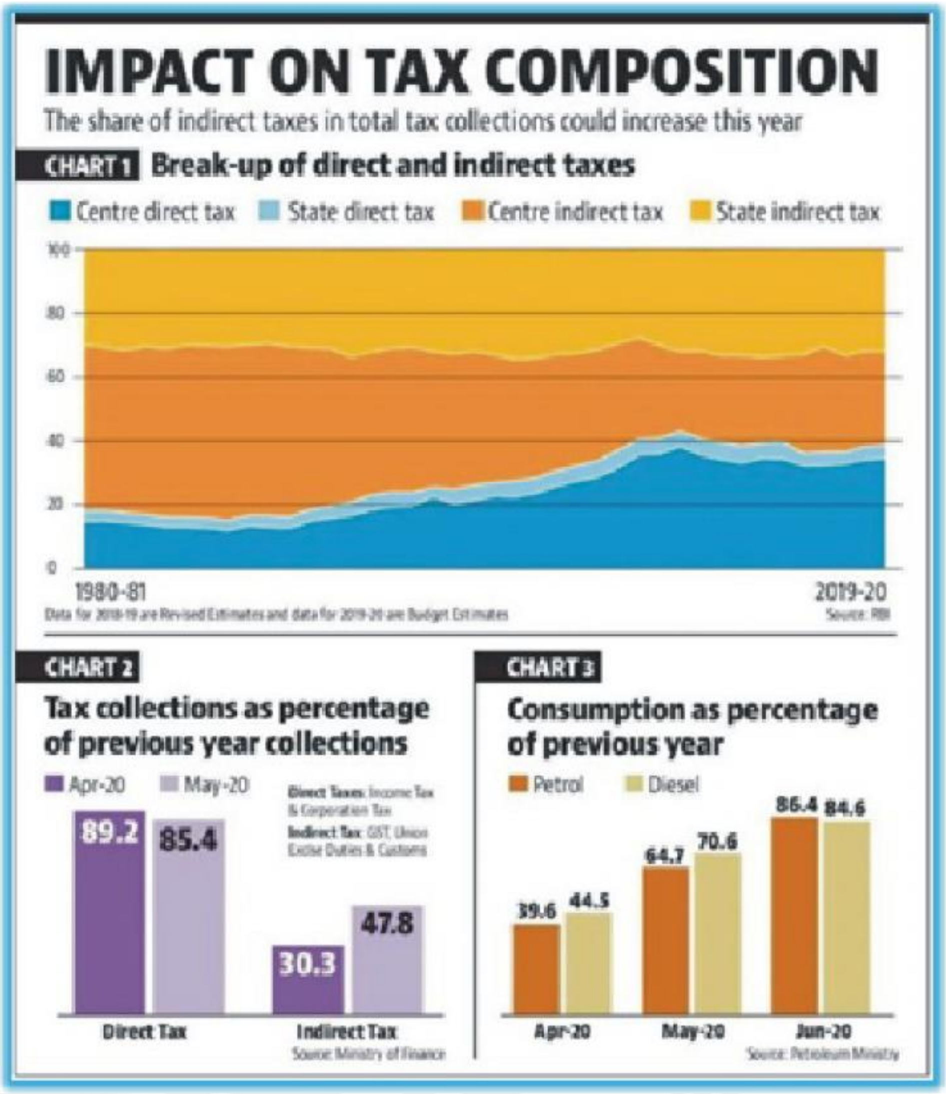
(Sources : RBI)

Analysis of Direct Tax and Indirect Tax

Direct Tax	Indirect Tax
Mean (μ): **1388333.3333333**	Mean (μ): 1172884.6666667
Median: **1380000**	Median: **1172131**
Mode: No	Mode: No
Lowest value: **1200000**	Lowest value: **1048175**
Highest value: **1585000**	Highest value: **1298348**
Range: **385000**	Range: **250173**
Interquartile range: N/A	Interquartile range: N/A
First quartile: N/A	First quartile: N/A
Third quartile: N/A	Third quartile: N/A
Variance (σ2): **24738888888.889**	Variance (σ2): **10431372328.222**
Standard deviation (σ): **157286.00983205**	Standard deviation (σ): **102134.08994171**
Quartile deviation: N/A	Quartile deviation: N/A
Mean absolute deviation (MAD): **131111.11111111**	Mean absolute deviation (MAD): 83642.222222222
r = -354.571 / √((9293.429)(90899.429)) = **-0.0122**	

(Sources : RBI)

On the basis of above Chart-2 it can be said direct Taxes are greater than Indirect Taxes in said periods. Direct Taxes are more by 14.48 % in year 2018-19, in 2019-20 17.73 % and in 2020-21 22.07 %.Average mean indicate also direct tax collection are greater than indirect tax collection. Median value also indicate as mean value. Range value of direct tax is greater. There are no options to interchange the both of taxes i.e. Direct taxes cannot be replace to Indirect taxes. On revenue collection point of view direct taxes are more risker but more financially to government. There are very low degree negative correlation between direct tax collection and indirect tax collection i.e. both of taxes are put separate impact to tax payers.



(Sources: Petroleum Ministry)

Generally Direct taxes are progressive in nature the higher income group pay at a higher rate than the lower income group and a fall in share of direct taxes in total revenue entails retrogression in the tax load.

In the situation of Indirect taxes, Indirect taxes do not create the dissimilarity between higher income group and the Direct taxes are progressive in nature the higher income group pay at a higher rate than the lower income group in a common sense that Petroleum products are sold at similar rate either persons are poor or rich.

India's political economy background has two basic illogicality. Agriculture yields less than 15% of the GDP, but employments more than 40% of workforces.

Examination and Evaluation

1. Unbiased a slight over 50 million of India's 400 million workforces pay income taxes.
2. In July 2019, finance minister imposed a surcharge on the super-rich, which took the peak income tax rate to 42.7%.
3. Towards the end of 2019, the government proclaimed a keydrop in corporate tax rates, which it

then estimated would prime to a revenue loss of Rs 1.45 lakh crore.

4. The portion of direct taxes in the Centre's gross total revenue came down by 2.5% points from the 2018-19 level.
5. RBI data appearances that direct taxes, which include income tax and corporate tax, had a part of less than 40% in total tax revenue of the centre and states.
6. The percentage of direct taxes enlarged sharply in the decade preceding the 2008 financial crisis.
7. The share of direct taxes reached a peak in 2009-10 and has stagnated at a slightly lower value since.
8. An assessment on a year on year source shows direct taxes suffered a higher deficit in comparison to indirect taxes in the first two months of the fiscal year.
9. Entire collection of corporate tax and income tax in April and May was almost 15% less than the collection in the same months of 2019, and similarly, collection of the Goods and Services Tax (GST), customs and excise duties, three major indirect tax heads is more than 50% less than that in 2019.
10. While indirect tax assortments vis-a-vis previous year's assortments improved in May, direct tax records seem to have followed the inverse trend.
11. Together the central and state governments have increased taxes on petrol and diesel rather than passing the benefit of low crude prices to the buyers.
12. With petrol and diesel ingestion creeping back to normal stages, governments will make a pay-out in taxes.
13. Companies might have in a weak position on lay-offs and pay-cuts in the early months of the lockdown, and as the lockdown was not short-lived as the companies would have expected for this means that outlook on profits and salaries, and therefore direct tax collections, will go downhill actively.

The government's goods and services tax collections fell below Rs 1 lakh crore in March, hit by economic disruptions due to Covid-19 outbreak. GST revenue in each of the last four months was above Rs 1-lakh crore mark. In February, the mop-up was Rs 1.05 lakh crore.

"The gross GST revenue collected in March 2020 is at Rs 97,597 crore…," the government said in an official statement Wednesday. Of the total mop-up, the central goods and services tax was at Rs 19,183 crore, state GST was at Rs 25,601 crore, and Integrated GST at Rs 44,508 crore, while cess collected was at Rs 8,306 crore, the statement added. *-ETCFO.com.*

"The March 20 collection (for transactions in Feb 20) is around 8 per cent lower than March 19. While there could be some impact of slowdown that got triggered during to onset of Covid-19 situation (though the impact of lockdown will be reflected in April 20), there is around 7% reduction in filing of GSTR 3B (summary GST returns) over last month. It seems that many businesses may not have been able to pay GST because of liquidity issues being faced after the lockdown,"[1].

The government imposed a 21-day lockdown from March 25 to contain coronavirus disease. Liquidity has been a cause of worry for businesses in the backdrop of disruption seen due to covid-19 outbreak. Also, only 76.5 lakh GST summary returns (or GSTR 3B) were filed during March, 2020 as against 83 lakh returns previous month. *-ETCFO.com.*

"GST collections not witnessing a significant dip this month is encouraging specifically with the numbers expected to reduce in coming months including collections in April. With most businesses being non-operational for a considerable period in March and the relaxation of delayed payments being allowed, the collections in the coming quarter would see quite a fall,"[2] *-ETCFO.com.*

The income tax dispute resolution mechanism in India is multi-layered and time consuming, affecting the environment for doing business in India. The country has an extensive tax appeals system that goes up to the Supreme Court of India. However, this system is subject to overuse. The income tax department is a major generator of tax appeals filed under the current dispute resolution procedure.

Conclusion

It can be said that the present tragedy is a global defy that requires a global retort. Indian tax cooperation must be part and parcel of a set of effective and well-coordinated multilateral actions to respond to the crisis. In order to expand the fiscal space, it is more urgent than ever to work together to fight tax evasion and tax avoidance, including unlawful financial flows. At the same time, it has never been more important to move towards a fairer and more equitable taxation of economic activities.

Government revenue has been severely affected with tax collection going down, and as a result the government has been trying to find ways of reducing its own costs. [Chauhan, Ashish (20 May 2020). The Economic Times. Retrieved 26 May 2020.]

In other ways it can be said Covid-19 unties chances for stirring more conclusively towards supportable and comprehensive growth. Growth and richness exposed to all peoples and nations is a model fine value chasing with these views the revenue collections may have increase in the country and Government can continue various types of social welfare programme.

Refrences

1. Pratik Jain, Partner & Leader, Indirect Tax, PwC.
2. Abhishek Jain, Partner, EY.
3. Distributional effects of VAT, see section 6 of S. Adam and B. Roantree, 'The coalition government's record on tax', IFS Briefing Note BN167, 2015, https://www.ifs.org.uk/uploads/publications/bns/BN167170315.pdf.
4. Longer-term trends, see H. Miller and T. Pope, 'The changing composition of UK tax revenues', IFS Briefing Note BN182, 2016, https://www.ifs.org.uk/uploads/publications/bns/BN_182.pdf.
5. Section 3 of H. Miller and T. Pope, 'The changing composition of UK tax revenues', IFS Briefing Note BN182, 2016, https://www.ifs.org.uk/uploads/publications/bns/BN_182.pdf.
6. N. Amin-Smith, J. Cribb and L. Sibieta, 'Reforms to apprenticeship funding in England', in C. Emmerson, P. Johnson and R. Joyce (eds), The IFS Green Budget: February 2017, https://www.ifs.org.uk/publications/8863.
7. http://www.bbc.co.uk/news/uk-politics-39281754.
8. R. Crawford, C. Emmerson, T. Pope and G. Tetlow, 'Risks to the rules: tax revenues', in C. Emmerson, P. Johnson and R. Joyce (eds), The IFS Green Budget: February 2016, https://www.ifs.org.uk/uploads/gb/gb2016/gb2016ch5.pdf.
9. Office for Budget Responsibility, Fiscal Sustainability Report, July 2014, http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-july-2014/.
10. S. Adam, H. Miller and T. Pope, 'Tax, legal form and the gig economy', in C. Emmerson, P. Johnson and R. Joyce (eds), The IFS Green Budget: February 2017, https://www.ifs.org.uk/publications/8872. For a summary, see H. Miller, 'Tax in a changing world of work', Tax Journal, 20 April 2017, https://www.taxjournal.com/articles/tax-changing-world-work-20042017.
11. Economic and Fiscal Outlook, March 2017.

****