Roadmap for India's Growth from Taxation and Regulatory Perspective

The empirical evidence on the link between the economic growth of a country and the level of regulations have been mixed. While Fukumoto 2008[1] and Kirchner 2012[2] have indicated a positive relationship between the volume of the regulations and the economic growth, Botero et al. 2004[3], Di Vita 2017[4] have provided evidence for the negative consequences of the regulations on employment and income of various economies they have researched. It is also to be understood that complex legislations hurt the economy and its growth Foarta and Morelli (2020)[5]. In this article, the author attempts to correlate the role of taxes and regulations for achieving economic growth in India. Read on...

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Indirect tax such as GST, the biggest ever reform in tax structure in India since independence, is levied equally upon all taxpayers irrespective of whether they are rich or poor. The economic growth is enjoyed uniformly by all the consumers. All the sectors of the economy have a bearing of the GST. Obviously, economic growth through growth in GDP, exports, trade, manufacture and services result in growth in indirect tax revenues. More than 160 countries have adopted GST successfully.

As per the information provided in 'India Brand Equity Foundation' (IBEF), the Indian economy registered a V-shaped recovery in GDP. In the first quarter of FY22, India's output registered a 20.1% YoY growth, recovering 90% of the pre-pandemic output in the first quarter of FY20. In FY21, India registered a current account surplus at 0.9% of the GDP. The report states that the Indian government's policy push to accelerate growth via infrastructure spending and capex has improved capital

[1] Fukumoto, K (2008), "Legislative production in comparative perspective: Cross-sectional study of 42 countries and time-series analysis of the Japan case", Japanese Journal of Political Science 9(1):1–19.

[2] Kirchner, S (2012), "Federal legislative activism in Australia: a new approach to testing Wagner's law", Public Choice 153(3):375–392.

[3] Botero, J C, S Djankov, R L Porta, F Lopez-de Silanes and A Shleifer (2004), "The regulation of labor", The Quarterly Journal of Economics 119(4):1339–1382.

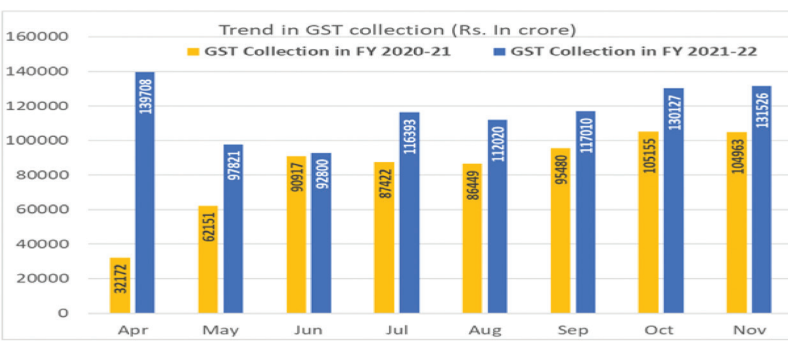
[4] Di Vita, G (2017), "Institutional quality and the growth rates of the Italian regions: The costs of regulatory complexity", Papers in Regional Science 97(4): 1057-1081.

[5] Foarta, D and M Morelli (2020), "Complexity and the reform process", Working Paper.

formation in the economy and therefore, boosted the investment to GDP ratio to 32% in the fourth quarter of FY21.

The growth in economy can be attributed to the consistent growth in tax collections, more particularly indirect tax, despite difficult times faced during the pandemic. IBEF report states that between April 2021 and July 2021, custom revenue collection registered 144% YoY growth, and the GST collection to the Centre increased by 60% YoY, primarily due to recovery of economic activities. The net tax revenue stood at Rs. 5.29 lakh crore (US$ 71.83 billion), registering a 2.5 times growth as compared with the same period last year.

GST collection grew at 25 % YOY to Rs 1.31 trillion in November 2021, the second highest ever after Rs 1.40 trillion in April 2021 and is expected to surpass the Budget projections for 2021-22. The GST collection of Rs 1.31 trillion in Nov 2021 is even 27% higher than that of the pre-Covid month of 2019-20 and has been steadily increasing in last 4 months.



Source: Finance Ministry

The Finance Ministry attributed the recent trend of high GST revenues to the various policy and administrative measures taken by the government in the past to improve compliance such as enhancement of system capacity, nudging non-filers after the last date of filing of returns, auto-population of returns, blocking of e-way bills and passing of input tax credit for non-filers has led to consistent improvement in the filing of returns over the last few months.

E-Way bill is an electronic document generated on the GST portal for causing movement of the goods. It is a mechanism to ensure that the goods being transported comply with the GST laws, tool to track the movement of the goods being transported and above all to check tax evasion. Prior to the introduction of the GST, different States had different rules for the E-Way bills which were not uniform and therefore made compliance and tax payments cumbersome. The digital interface across the country facilitates faster movement of goods across states improving the turnaround time by increasing the average distance travelled thereby reducing the travel time and costs. The steadily increasing volume of E-way bills and the GST collections indicate the revival of our economy even in difficult times.

The need of the hour is not only sustainability in the economic growth but steady increase in the growth to achieve the USD 5 trillion target in the next 3 years.

The GDP growth of India in the 2nd quarter (July to Sept 2021) was 8.4% while for China it was 4.9%, Russia 4.3%, Italy 3.8%, France 3%, USA 2.9%, Germany 1.7%, UK 1.3% and Japan -3%. India is apparently the fastest growing economy even in the current pandemic conditions despite the fact that the economy of India shrunk by 23.9% during the first quarter of 2020-21 compared to the pre-Covid corresponding period in the previous year.

Had there not been a set back due to Covid, India would have achieved much higher

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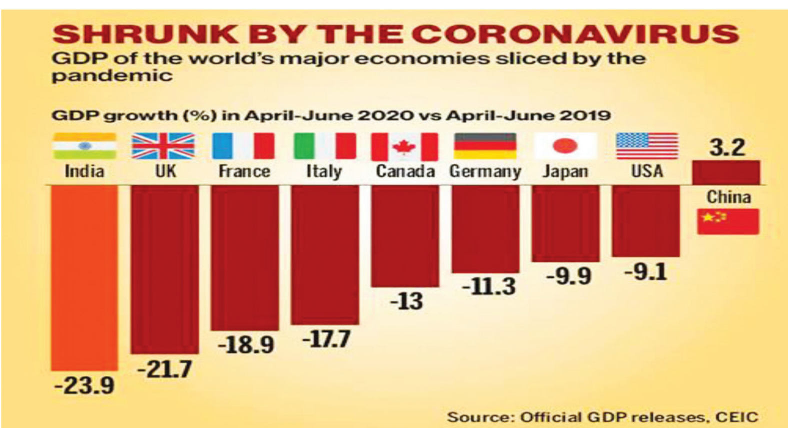
levels of growth in all the areas contributing to the GDP growth.

The Union finance ministry's monthly review of the economy for November stated, 'India is among the few countries that have recorded four consecutive quarters of growth amid Covid-19 (Q3, Q4 of FY2020-21 and Q1, Q2 of FY2021-22), reflecting the resilience of the Indian economy. The recovery was driven by a revival in services, full recovery in manufacturing and sustained growth in the agriculture sectors.'

The International Monetary Fund (IMF) projects that the global economy will grow by 6% in 2021 while it is their forecast that with respect to India the growth during this period will be 9.5%.



The volume of E-Way bills generated during a month is an indicator of the business activity and the economic growth. As it appears, there is a slight dip in the E-way bills in November 2021 compared to previous few months since July 2021. The reasons are mainly attributed to lockdown imposed in several states of the country during the month and quite a few festival holidays across the country.

All is well as far as India's growth strategy is concerned, as it appears! As highlighted in a recent article published by the World Economic Forum, in the past few years, major structural reforms have been launched by the Indian government to boost the long-term outlook of the economy. The article highlights that India's vision on transformation is exhibited through its several initiatives such as Gati Shakti National Master Plan and the Atmanirbhar Bharat mission. The article further states that the government has also announced the National Infrastructure Pipeline and National Monetization Plan to boost infrastructure development.

It is further stated that all these initiates across multiple sectors and several reforms in labour laws, banking reforms, bankruptcy code are clear indications of how India

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is focused to enhance the robustness and vitality of its economy.

Changes in tax laws such as GST will produce the desired results if only various structural changes are brought in the banking regulations to ensure the availability of funds at affordable cost as that was one of the reasons for the economy to face challenges and difficulties. With the improvement in the recovery for the banks of their long outstanding dues through IBC mechanism and through several other initiatives, the trading and industry are now getting funds at affordable costs. And this has supported growth in goods and services sector thereby increasing the tax revenues to strengthen the economy. However, there is still a long way to go before we can call it a day!

India's efforts to promote digital empowerment and last mile financial inclusion are commendable. GST has taken the digitization of trade and commerce to the next level.

The ranking published each year by the World Bank with respect to 'Ease of doing business' is based on the analysis of 12 areas of business regulation in 190 economies. The analysis addresses 3 questions viz., when do governments change

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regulation with a view to develop their private sector, what are the characteristics of reformist government, what are the effects of regulatory change on different aspects of economic or investment activity. In the last survey, India is one of the very few countries which implemented one fifth of all the regulatory reforms recorded worldwide. India ranked 63 among 190 economies making India one of the most attractive destinations not only for doing business but also for investments. It is, therefore, very clear that India is well positioned regarding regulatory reforms. It clearly exhibits that growth is linked to strong and effective regulations.

World Bank in its report in 2019 had indicated that going forward, the country will also have to ramp up its infrastructure efforts not just for roads and bridges but for health and education too. It added further that equally critical is the need to ensure that India's demographic advantage becomes a dividend and that millions of young people entering the workforce every year gain meaningful employment.

It is evident that India has been doing its best in the health sector. India has administered over 135 crore doses of Covid vaccination as of mid- December 2021.

India, the seventh largest country by area and the second most populous country of about 1.4 billion people has been comfortably adapting to various international changes. Several changes in the tax laws have been made to attract foreign investments in a vast range of industries. The changes in GST laws are keeping in mind not only the Indian requirements but as well the demands of the international investors.

According to the International Monetary Fund (IMF), these are the highest ranking countries in the world in nominal GDP as per the latest available data - United States (GDP: 20.49 trillion); China (GDP: 13.4 trillion); Japan: (GDP: 4.97 trillion); Germany: (GDP: 4.00 trillion); United Kingdom: (GDP: 2.83 trillion); France: (GDP: 2.78 trillion); India: (GDP: 2.72 trillion); Italy: (GDP: 2.07 trillion); Brazil: (GDP: 1.87 trillion) and Canada: (GDP: 1.71 trillion). India is ranking 7th in the list. From the current level of US$2.7 trillion, India's roadmap is to reach a level of US$5 trillion in 2024. As the economy slowed down due to pandemic world over, to achieve this ambitious target of US$ 5 trillion it is necessary to fix milestones, monitor them meticulously and have a powerful mechanism to take corrective steps when there are setbacks.

Rai[6] has highlighted an action plan in areas requiring comprehensive, well synchronized and closely monitored action to achieve the projected US$ 5 trillion economy by 2024. The six specified areas are agriculture, infrastructure, banking, real estate and construction, labour and water.

The paper highlights that with respect to infrastructure, as per data from the Finance Ministry, projects worth about INR 11 trillion remain stalled largely in the power, railways and roads sectors. To meet the financing requirements for implementation of many other proposed infrastructure projects in next 5 years, the Task Force on National Infrastructure Pipeline has outlined an investment of INR 102 trillion. Of this, about INR 20 trillion is expected to be funded by private sector.

Here comes the need for proper tax incentives and regulatory mechanism for attracting investments from the private sector to boost economy from domestic and international sources. Hope the government comes out with such incentive plans in the Budget 2022.

Banking sector reform is another major reform taking place in India. In a way, the new GST regime has brought in changes in the structure and operations of banking. The introduction of Insolvency and Bankruptcy

> India's efforts to promote digital empowerment and last mile financial inclusion are commendable. GST has taken the digitization of trade and commerce to the next level.

6. *Vinod Rai, ISAS Working Paper No.324 dated March 30,2020 published by National University of Singapore, (Please provide name of the paper)*

Code (IBC) is a departure from various other earlier laws from the 'debtor in possession' approach to 'creditor in control' regime. IBC aims at maximizing the value of assets of the Corporate Debtor. IBC has brought out a comprehensive and systemic economic reform in India. One of the key aspects of IBC is the early detection of insolvency paving the way for an early resolution to prevent dissolution. The rules and regulations of IBC have been amended from time to time in line with the changing economic scenario. IBC aims at reviving potentially viable firms in a time bound manner. It is however felt that more checks and controls are to be introduced to avoid undue delays in finding a meaningful resolution to the cases referred to and pending under IBC.

Policies and Regulations announced by the governments play a crucial role in achieving growth both in domestic and international business.

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"Government regulation of economic and social activities permeates our lives. While regulation in many instances yields important public benefits, regulations often are imposed on individuals and organizations with too little thought or analysis of what is gained in comparison with the losses incurred in time, money, indecision, and productivity... Further, the growth of government involvement in the market system sometimes constrains our ability to achieve fundamental economic and social goals".[7]

India is well focused on infrastructure strengthening by attracting private sector investments, labour reforms, banking and financial sector reforms, digital transformation, enhancing savings and investment, reviving productivity of industries, attracting foreign investment to generate employment, engaging employable youth in gainful employment for a favourable demographic dividend, strengthening fiscal consolidation, to name a few. The newly set up 'National Bank for Financing Infrastructure and Development' is to address sizeable gaps in physical infrastructure in rural areas. India has pledged to reach net zero carbon emissions by 2070 and to produce half of its energy from renewable resources by 2030. To achieve this ambitious goal, huge investments are

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required to be made to upgrade the power grid and scale up the share of renewables in installed capacity.

India has made remarkable progress over the past two decades in accelerating economic growth and making a dent on poverty. Improving social policy delivery and targeting it better are now fundamental challenges to heal the scars left by the pandemic.[8]

With the multipronged approach of the government in strengthening the economy, creating a strong tax collecting mechanism backed up by an effective digital edge, proactive regulatory measures to attract foreign investments and creating a strong infrastructure with a last mile connectivity, ensuring availability of funds at an affordable cost, advantage of the demographic dividend, to name a few, the Indian economy is poised for a smart recovery and sustainable growth. ■■■

7. *Committee for Economic Development, Modernizing Government Regulation: The Need for Action, 1998, p. vii (https://www.ced.org/reports/single/modernizing-government-regulation-the-need-for-action).*

8. *OECD ECONOMIC OUTLOOK, VOLUME 2021 ISSUE 2: December 2021 -PRELIMINARY VERSION © OECD 2021*