

# COVID-19: REVIVAL OF INDIAN ECONOMY THROUGH TAX MEASURES

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**Abstract:** India offers a well-structured tax system for its population. Tax is one of the most important sources of revenue to the Government and at the same time one of the deciding parameters for economic growth. Unfortunately, In the year 2019 the world battles the COVID-19 pandemic, countries are moving to stringent measures like lockdowns and curfews. With markets crashing, the global economy is staring at a deep distress. The Government of India has begun working on an economic package to deal with the impact of the pandemic. The basic objective of this article is to evaluate the impact of covid-19 on Indian Economy and what are all the bold tax measures taken by the Indian government to revive the Indian Economy from covid crisis.

**Index Terms** - Revenue, pandemic period, union budget, tax reliefs.

## 1.INTRODUCTION

In India, Tax was introduced for the first time by Sir James Wilson. India's First Union Budget was introduced by Pre-independence finance minister, James Wilson on 7 April, 1860.

Tax is money that people have to pay to the government. A tax is a compulsory financial charge or some other type of levy imposed on a taxpayer by a governmental organization in order to fund government spending and various public expenditures.

### The Tax Structure in India is divided into Direct and Indirect Taxes.

While **direct taxes** are levied on taxable income earned by individuals and corporate entities, the burden to deposit taxes is on the assessee themselves. On the other hand, **indirect taxes** are levied on the sale and provision of goods and services respectively and the burden to collect and deposit taxes is on the sellers instead of the assessee directly.

### Purpose of Collecting Tax:

The purpose of taxes is to provide the government with funds for spending without inflation. Taxes are used by the government for a variety of purposes, some of which are:

- Funding of public infrastructure
- Development and welfare projects
- Defense expenditure
- Scientific research
- Public insurance
- Salaries of state and government employees
- Operation of the government
- Public transportation
- Unemployment benefits

## 2.OBJECTIVE OF THE STUDY

The basic objective of this article is to evaluate the impact of covid-19 on Indian Economy and what are all the bold tax measures taken by the government to revive the Indian Economy.

## 3.IMPACTS OF COVID-19 ON INDIAN ECONOMY

- Economists have revised their economic projections significantly downward as the virus spreads around the globe, with the most pronounced negative effects expected in the second quarter.

- Many forecasters show the global economy with growth below zero for 2020. Impacts will vary by country and region, depending on the extent and duration of the health crisis.
- Unemployment rose from 6.7% on 15 March to 26% on 19 April and then back down to pre-lockdown levels by mid-June.
- Among the various sectors, aviation, hospitality and travel were the worst hit due to the lockdown. Indians were forced to stay home and these sectors either sent their employees on 'leave without pay' or laid them off.
- The Indian economy was expected to lose over ₹32,000 crore every day during the first 21-days of complete lockdown, which was declared following the coronavirus outbreak.
- The strength and pace of recovery, however, is highly uncertain and will depend, in part, on the strength of the monetary policy and fiscal stimulus measures adopted by the government.

#### 4.REVIVING INDIAN ECONOMY - BOLD TAX MEASURES

The government has acted decisively to counter both COVID-19 crisis and protecting national sovereignty but needs to act similarly on the economic front. In this backdrop, what should be India's response? The only answer is reforms for attracting new investment and employment generation. There are certain bold tax reforms which can enable us to turn this crisis into opportunity which are discussed in this article. These tax reforms are tax neutral and will boost growth without resulting in loss of tax revenue.



Figure 1: reviving the economy

##### 4.1 Tax Immunity for Global Bonds

We need to revive the investment cycle and raise capital to enable the businesses to meet their requirements for re-commencing and reviving the businesses. The government is already facing a huge fiscal deficit and does not have additional resources on this front. We need to tap external sources to revive our investment cycle and bring growth back. The immunity scheme for attracting foreign funds in 2016 did not meet the desired objective due to high tax rate of 60% and the other fallouts. The decision of central government to grant 100% tax exemptions for sovereign wealth funds for their investments in infrastructure sector is expected to give a boost to the infra investments in India. A large number of non-resident Indians and foreign investors are interested to invest in India

##### 4.2 Incentivising Tax Compliance

It is estimated that the tax collection for FY 2020-21 will be substantially lower than the tax collection for FY 2019-20 and the budgeted revenue. Under these circumstances, a new tax deduction should be allowed to the taxpayer to the extent of 75 per cent of the incremental taxable income for FY 2020-21 over the taxable income reported for FY 2018-19. This will ensure firstly that the tax base of FY 2018-19 is preserved before granting any benefit. Secondly, the incremental income would result in effective tax of about 7.5% in case of companies opting for a new tax regime and about 11 per cent in case of individuals. This will result in massive increase in tax compliance and channelize funds into the formal economy. This apart from resulting in additional direct tax collection would also result in massive increase in GST due to additionally induced investment and consumption.

##### 4.3 Incentivising Employment Broad basing section 80JJAA

It is only by preserving jobs that we can ensure consumption and revival of the economy. It is estimated that during COVID-19 crisis, 19 million jobs have been lost in the formal economy and even a larger number in the unorganized sector. The

present provisions of section 80JJAA though well intended are grossly inadequate to meet the current massive challenge of unemployment. At present, under Section 80JJAA, deduction of 30% of additional employee cost for three financial years is available to all assesses who are subject to tax audit under section 44AB for both manufacturing and service sectors.

## 5.HOW TO IMPROVE TAX COLLECTION IN INDIA?

- To improve tax collection there is need to create a conducive tax administration.
- Incentivising tax collection and tax intelligence agencies, probably with higher allowances and compensation.
- Electronic surveillance through technology upgradation.
- Quick settlement of disputed cases.
- Ensuring equity, certainty, convenience and simplicity in taxation.

## 6.WHAT WOULD HAPPEN IF EVERY INDIAN STARTED PAYING THEIR TAXES?

- If everyone starts paying their taxes, it will be the best thing that ever happens to this country.
- This will help the country to reduce the Fiscal Deficit. This will reduce all the expenditures the country has to make in terms to interest payments. Point to be noted that a country cannot totally eliminate the Debt out of its total earnings. Borrowing Money has its own pros and cons.
- Provided that there is complete transparency, accountability in the Public Expenditures, there will be a sudden increase in the development pace of the country.
- Caution must be followed because if the growth rate is excessively high, this will lead to Burnout Syndrome. This will lead to exhaustion of resources and there will be a tipping point after which the country will start on its way of destruction.
- Increase in public developmental expenditure, increase in production, income multiplier effect, increase in social living standards.

## 7.CONCLUSION

While tax policy is one of the most important levers that government have in addressing issues that have been brought to the foreground as a result of the COVID-19 crisis, it is an important one. In light of the outbreak of the global COVID-19 pandemic, providing relief from compliance and statutory reliefs will certainly help taxpayers navigate these unprecedented times. While it could take some time for the economy to show signs of recovery, other economic measures by the Indian Government are expected to bring back normalcy in the country.

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