

Analysing the Impact of the Taxation Law Amendment of 2019 on Corporate Taxation in India

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Abstract

The Taxation Law (Amendment) Act, 2019 in India has brought major changes in the taxation revenue as well as in legal provisions. The actual ground reality of the Amendment on a microeconomic level is unknown, but a correlation analysis on macroeconomic indicators show that there is a high positive correlation between the corporate tax revenue and the GDP growth. The author also interlinks the effects of tax cuts on the economy with privatization and how it can mitigate the risks of tax evasion. There is a generalized misconception with privatization that it leads to a significant loss in taxation revenue. The study shows that in fact, privatization helps to expand the earnings of the Government by widening the taxation structure and slab, which the author has found through statistics. It is high time to have strong regulatory measures to prevent tax evasion by encouraging more corporate entities to become a part of the tax base.

JEL Code : K22, K34

Keywords : Tax; Taxation Law; Amendment; Privatization; Tax Evasion; Loopholes; Corporate Taxation; India

I. Introduction

IN INDIA, TWO key issues have been denting taxation revenues: corporate tax being on the higher side as opposed to other national regimes; and secondly, several exemptions under the corporation taxation regime¹ that minimised the tax base in India. The Taxation Law (Amendment) Act, 2019 was passed with an objective of resolving these issues. However, the potential effects of the recent amendment have not been a part of much deliberations and discussions in existing literature. Apart from high tax rates and excessive exemptions, issues like double taxation and the resultant tax evasion are also some of the reasons for the low corporate tax base and revenue in India. As per the report of Tax Justice Network 2020, tax evasion in India amounts to around US \$10.3 billion per annum of which a major

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ministries involved must also promote the notion that 'tax rates are minimal' and beneficial for companies in order to encourage companies to file income tax returns and fall within the tax base. Such measures will improve the revenue further in the long term.

To conclude, in the corporate arena, the 2019 Amendment has had a strong positive impact, but its long term effects have to be analyzed in the long run. The short term impact is that there has been a widening of the tax base leading to higher corporate income tax and in turn has contributed to an increase in the nominal GDP growth rate. However, further amendments in rules could be made in order to combat the various structural loopholes in the Indian taxation system, and as discussed in the suggestions above, it paves way for minimising tax abuse. In the coming years, the long term impact of the 2019 will be more evident and that will help the income tax system as well as the Indian economy to grow larger and stronger.

Notes

1. Corporate Tax @ 30% for domestic companies and @ 40% for foreign Companies
2. from 30% to 20%

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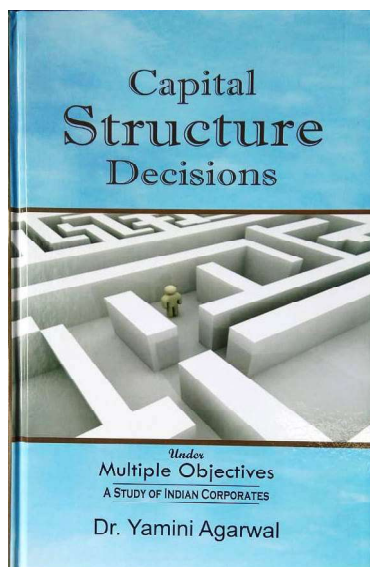
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