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TAX REFORMS IN INDIA IN THE GLOBALIZED ERA – AN EVALUATION

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ABSTRACT

India's economy has been among the fastest growing economies in recent years. This growth has been supported by several factors like market reforms, large inflow of foreign direct investment, raising foreign exchange reserves, a blooming information technology and real estate sector and flourishing capital market. In India, since the inception of New Economic Policy (NEP) in 1991, many economic reforms have been announced and introduced. One major reform undertaken is "Taxation Reforms". Government of India has initiated a host of taxation measures after the ushering of economic globalization in India. The effect of taxation reforms on business community, in making the Indian products and services competitive at global level. The main objectives to study and review the globalization challenges with regard to taxation, to explicate the tax reforms initiated after globalization and liberalization of Indian economy and to review the effectiveness of Indian tax reforms in facing globalization demands. In the present day economic order taxation plays a crucial role and in relation to taxation system, corporate sector is a significant stake-holder. The study is successful in exploring the demands of globalization in order to be successful in global environment. Based on the foundation of taxation reforms introduced till date a future course of action is drawn in the form of suggestions to the Government.

KEY WORDS: *Taxation, New Economic Policy and Globalisation*

INTRODUCTION

The 'taxation' was born and shaped with civilization. The structure and complexity of the tax system have been developed along with the development of civil society. The sovereign authority of the Government to extract tax is the life of taxation, Governments' need for resources is its bargaining power and human instinct of reluctance to sacrifice money is the reason for its mandatory imposition. Taxation policy in ancient India was highly logical and based on the principles of economic theory and equity in comparison with the current taxation policies of the government. The tax system of our ancients was quite reasonable, rational, convenient, elastic, appealing and based on the principles of maximum welfare with some exceptions.

India's economy has been among the fastest growing economies in recent years. This growth has been supported by several factors like market reforms, large inflow of foreign direct investment, raising foreign exchange reserves, a blooming information technology and real estate sector and flourishing capital market. In India, since the inception of New Economic Policy (NEP) in 1991, many economic reforms have been announced and introduced. One major reform undertaken is "Taxation Reforms". Government of India has initiated a host of taxation measures after the ushering of economic globalization in India. The effect of taxation reforms on business community, in making the Indian products and services competitive at global level. In this backdrop the present research study makes an attempt to evaluate the reforms and restructuring that have taken place in the Indian taxation system , during post-globalization and liberalization of the economy, based on the reactions of the corporate undertakings representing different industry sectors and individual tax experts across the country.

Friedrich Heinemann (2010) state that, there are a large and growing number of studies on the determinants of corporate tax rates, the literature has so far ignored the fact that the behavior of governments in setting tax rates is often best described as a discrete choice decision problem. The researchers setup an empirical model that relates a government's decision whether to cut its corporate tax rate to the country's own inherited tax and taxes in neighboring countries. Using comprehensive data on corporate tax reforms in Europe since 1980, the study finds evidence suggesting that the position in terms of the tax burden imposed on corporate income relative to geographical neighbors strongly affects the probability of rate-cutting tax reforms. The authors also argue, countries are particularly likely to cut their statutory tax rate if the inherited tax is high and if they are exposed to low-tax neighbors.

Junya Hamaaki (2008) examines the investment responses to past Japanese tax reforms for individual industries. To identify the tax effect, the study estimates investment functions by using a covariate of the change in tax-adjusted caused by tax reform. This method alleviates the measurement error problem and enables the derivation of estimates indicating the valid adjustment cost of investment. The findings suggest that firms' investment responded significantly to tax reforms in the 1980s in general. Also, investments of only a few industries responded to those in the late 1990s, implying that the manner of investment response slightly differs among industries.

Globalization and liberalization have become order of the day. To survive and grow in this economic order rational and competitive tax policies are being adopted by every country. India has also fallen in line with the requirement and has been initiating modifications in direct and indirect taxes. The recent proposals of Direct Taxes Code (DTC) and Goods and Services Tax (GST) are considered as path breaking in the economic restructuring in general and in the taxation area in particular.

Indian taxation measures correlating with its impact on stakeholders after globalization and liberalization of Indian economy. Hence, it is felt that there is a strong need to make an in-depth study of contemporary tax system and proposed tax modifications mainly based on the primary data gathered from the corporate and tax professionals to derive the results which can be of much significance to frame tax policies by the Government in the near future. Hence, in order to fulfill the research gap the researchers have been prompted to undertake a research study entitled "Tax Reforms in India in the Globalized Era – An Evaluation".

OBJECTIVES OF THE STUDY

Following are the main objectives to understand the acceptability of the recent tax reforms for the business community.

1. To study and review the globalization challenges with regard to taxation.
2. To explicate the tax reforms initiated after globalization and liberalization of Indian economy.
3. To review the effectiveness of Indian tax reforms in facing globalization demands.

METHODOLOGY OF THE STUDY

In line with the aims and objectives, and the hypotheses elaborated above, the current study seeks to investigate empirically into the tax reforms in India during globalised era. A close study has been carried out by selecting the corporate houses and tax consultancy/ professional firms who are the major stakeholders of the country's tax system.

GLOBALIZATION AND INDIA

Globalization is seen to be very controversial because it is a process which is taking on social, cultural, environmental, political, and legal dimensions in addition to the predominantly world economic specter of market economy. Globalization in India is generally taken to mean 'integrating' the economy of the country with the world economy. This, in turn, implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India by removing constraints and obstacles to the entry of multi-national corporations (MNCs), through dilutions and ultimate scrapping of restrictive laws like FERA and allowing Indian companies to enter into foreign collaborations in India and also encouraging them to set up joint ventures abroad.

INDIA'S STEP TOWARDS GLOBALIZATION

Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost billion, inflation had roared to an annual rate of 17 per cent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at India and abroad that called for a complete revamp of Indian economic policies and programs.

Major measures initiated as a part of the globalization and liberalization strategy in the early nineties include devaluation of Indian currency against major currencies in the international foreign exchange market, initiating disinvestment process of public sectors, dismantling of the industrial licensing regime, allowing foreign direct investment (FDI) across a wide range of industries including enhancement of FDI limits in private sector banking, allowing FDI up to 100 per cent under the automatic route for most manufacturing activities in SEZs, introducing Non-resident Indian scheme, throwing open industries reserved for the public sector to private participation, and wide ranging financial sector reforms in banking, capital markets and insurance sector etc.

ECONOMIC CHALLENGES OF GLOBALIZATION

Following are the major economic challenges springing from globalization:

·**Devaluation of benefits**: It is true that uninterrupted flow of capital increases investment in the economy and thus accelerates the economic development. That is why flow of capital thought to be strong policy logic related with globalization. But on the other side, it generates many shortcomings with the implementation and use of foreign capital and FDI. Some of its drawbacks like a sudden outflow of capital from economy, outflow of resources in the form of benefits and unplanned utilization of the resources of countries, collectively devaluates the grand benefits accrued because of globalization.

Table – 1 Inward and outward Foreign Direct Investment flows of India, 1970-2015

Pre-Globalization era

Year	Inward	Outward	Net Investment	Cumulative Net Investment
1970	45.46	0.00	45.46	45.46
1971	47.66	0.00	47.66	93.12
1972	17.79	0.00	17.79	110.91
1973	37.91	0.00	37.91	148.82
1974	56.97	0.00	56.97	205.79
1975	85.09	0.00	85.09	290.88
1976	51.11	0.00	51.11	341.99
1977	-36.06	0.00	-36.06	305.93
1978	18.09	0.00	18.09	324.02
1979	48.57	0.00	48.57	372.59
1980	79.16	4.00	75.16	447.75
1981	91.92	2.00	89.92	537.67
1982	72.08	1.00	71.08	608.75
1983	5.64	5.00	0.64	609.39
1984	19.24	4.00	15.24	624.63
1985	106.09	3.00	103.09	727.72
1986	117.73	-1.00	118.73	846.45
1987	212.32	5.00	207.32	1053.77
1988	91.25	11.00	80.25	1134.02
1989	252.1	10.00	242.10	1376.12
1990	236.69	6.00	230.69	1606.81

Source: UNCTAD Stats (updated as of 2016-07-18, 12:09:24)

Table – 2 Post-Globalization era

Year	Inward	Outward	Net Investment	Cumulative Net Investment
1991	75.00	-11.00	86.00	86.00
1992	252.00	24.00	228.00	314.00
1993	532.00	0.35	531.65	845.65
1994	974.00	82.00	892.00	1737.65
1995	2151.00	119.00	2032.00	3769.65
1996	2525.00	240.00	2285.00	6054.65
1997	3619.00	113.00	3506.00	9560.65
1998	2633.00	47.00	2586.00	12146.65
1999	2168.00	80.00	2088.00	14234.65
2000	3588.00	514.45	3073.55	17308.20
2001	5477.64	1397.44	4080.20	21388.40
2002	5629.67	1678.04	3951.63	25340.03
2003	4321.08	1875.78	2445.30	27785.33
2004	5777.81	2175.37	3602.44	31387.77
2005	7621.77	2985.49	4636.28	36024.05
2006	20327.76	14284.99	6042.77	42066.82
2007	25349.94	17233.80	8116.14	50182.96
2008	47102.43	21142.53	25959.90	76142.86
2009	35633.93	16057.84	19576.09	95718.95
2010	27417.12	15947.43	11469.69	107188.64
2011	36190.53	12456.24	23734.29	130922.93
2012	24195.87	8485.75	15710.12	146633.05
2013	28199.42	1678.75	26520.67	173153.72
2014	34582.11	11783.54	22798.57	195952.29
2015	44208.00	7501.45	36706.55	232658.84

Source: UNCTAD Stats (updated as of 2016-07-18, 12:09:24)

From the above table 1 and 2 deal with inward and outward flow of FDI in India and also the net FDI before introducing globalization policies and after introducing globalization policies. Table 1 reveals that the net cumulative FDI flow before 1991 was $1,606.81 million between 1970 and 1990 (for twenty one years). Table 2 reveals the same between 1991 and 2011 (for twenty one years) which is $1, 19,606.87 million. This makes clear that the FDI flow after globalization has increased on an average by approximately 74 times when compared to the pre-globalization period.

The third objective of the study is to find out the effectiveness of Indian tax reforms in facing globalization demands.

Table-3 Number of DTAAs Signed by India during Pre and Post Globalization Period (1965-2014)

Year	Number of agreements signed	Number of cumulative agreements
Pre-Globalization		
1965	1	1
1969	2	3
1982	3	6
1985	3	9
1986	1	10
1987	2	12
1988	1	13
1989	5	18
Post- Globalization		
1991	1	19
1992	3	22
1993	5	27
1994	7	34
1995	2	36
1996	6	42
1997	7	49
1998	4	53
1999	5	58
2000	1	59
2001	1	60
2003	4	64
2004	1	65
2006	5	70
2007	2	72
2008	4	76
2010	2	78
2011	7	85
2013	1	86
2014	2	88

Source: www.incometaxindiagov.in

The above table reveals the number of cumulative agreements signed by India from 1965 along with the year-wise agreements signed. It is evident that up to 1991 India had only 18 agreements out of the total 88 agreements (as of now). So, 70 agreements i.e., 79.55 per cent are singed during globalised era. This is due to increase in the India's international commercial relations and importance attached to taxation issues in the globalised era. As many as seven agreements were signed in a single year in 1994, 1997 and 2011.

FINDINGS OF THE STUDY

Tax revenue as a proportion of GDP in India is lower than the world average. As per the World Bank reports, the tax-GDP ratio of India is 10.4 per cent (for 2011-12) which is less than the world average of 14.6 per cent and much lower than 17.6 per cent in case of European zone. The share of direct tax revenue in total tax revenue of India has shown better performance in post-globalization period against pre-globalization period. Though the indirect taxes have been contributing a larger amount, as a percentage the share has decreased during post-globalization period. As a per cent of GDP the share of direct taxes has significantly improved during post-liberalization period from 2.54 per cent in 1991-92 to 5.69 per cent in 2012-13. On the other hand the share of indirect taxes has decreased from 13.22 per cent in1991-92 to 11.54 per cent in 2012-13.

CONCLUSION

In the present day economic order taxation plays a crucial role and in relation to taxation system, corporate sector is a significant stake-holder. The study is successful in exploring the demands of globalization in order to be successful in global environment. Based on the foundation of taxation reforms introduced till date a future course of action is drawn in the form of suggestions to the Government. The researcher is of the strong opinion that the suggestions made in the study, if not pigeonholed, will go a long way in rejuvenating the Indian tax system to serve the needs of corporate undertakings and making them competitive enough, from tax point of view, in the backdrop of growing and intensifying corporate competition at global level.

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