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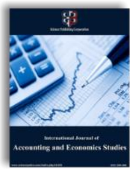

# Economic Consequences of Corporate Tax Reforms in The Post-Pandemic Era

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**Abstract**

Corporate taxes play a crucial role in financing the public treasury and serve as a regulatory tool for public policy, while also holding significant importance in corporate finance. The corporate taxation system has turned into quite a headache—it's burdensome, inefficient, and way too complicated, all thanks to the constant changes in the rate structure. These taxes can be unpredictable when it comes to revenue, since they rely on corporate net income, which tends to go up and down in cycles, unlike other major tax sources. The prominence of corporate taxes can be attributed to several factors. They are politically feasible and manageable from an administrative standpoint. In terms of fiscal principles, corporate taxes are straightforward, cost-effective, reliable, and easy to collect. They have emerged as a vital instrument for fiscal administration. Within the realm of taxation economics, corporate tax occupies a delicate position. One of the advantages of corporate taxes is that they are relatively easy to collect; they can be clearly identified, tracked, and companies cannot easily evade tax obligations. Given the growth of the corporate sector in recent times, corporate taxation now has a broad reach. Additionally, corporation tax tends to present fewer administrative challenges, which is why it holds greater significance in the revenue frameworks of developing countries.

***Keywords***: *Economic Consequences, Corporate Tax, Post-Pandemic.*

## 1. Introduction

The term “corporation” has its roots in the Latin word "Corporate," which can be traced back to Sanskrit and means “to form into a body (Iyengar & Bhattacharya, 2024).” When we talk about corporation tax, we’re referring to the tax that registered companies and corporations need to pay on their income. In simpler terms, this tax is deducted from the corporation's resources, income, or capital. There are two primary types of income taxation: individual income tax and corporate income tax (Annamalah, 2022). In many developing countries, before income tax was introduced, foreign companies faced export taxes on their profits, which were seen as an easy way to tax those earnings. Over the years, many committees, experts, and thinkers have suggested using corporate tax to achieve different economic goals (Sindhu & Archana, 2015). Navigating the world of corporate taxes can feel like a maze, especially with all the incentives and penalties involved (Baggyalakshmi et al., 2023; Danaei & Sourani, 2016). The tax system has become intricate due to ongoing changes and amendments. Over time, various tax concessions have been introduced for corporations, such as depreciation allowances, development rebates, investment allowances, and tax holidays (Nwosu & Adeloye, 2023). However, some economists believe these very concessions can lead to tax evasion, as many corporations exploit them as loopholes (Onuoha & Gillwald, 2022; Abbood, 2022). To really understand where India stands with its corporate tax rate, it helps to look at how it stacks up against other countries (Ziwei & Han, 2023). While India’s corporate tax rate is seen as moderate, the bigger concern isn’t just the rates themselves but how comprehensive they are (Kim et al., 2022).

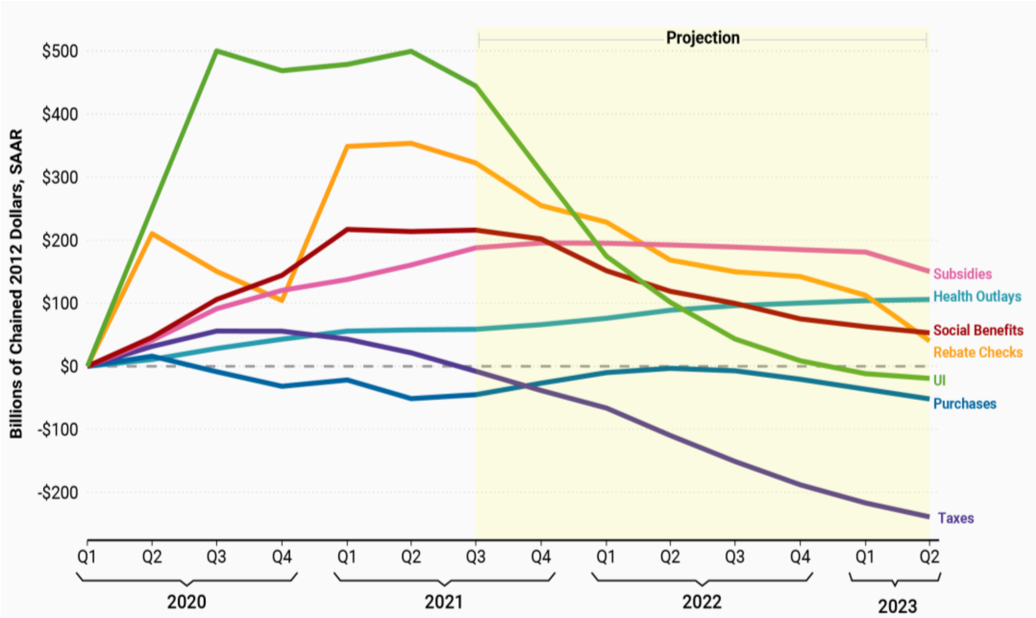


**Fig. 1:** Effects of GDP (source: Louise et al. 2021)

The Tax-GDP ratio in India certainly has room for improvement (Sindhu & Archana, 2015). Even though comparing tax rates between countries can be a bit complicated—thanks to variations in economic development, growth rates, GDP, and population—it still offers useful insights that can inform future decisions.

## 2. Methodology

In this study, we tapped into both primary and secondary data sources. To explore the trends and growth of corporation tax, we gathered secondary data from a range of published materials, including Economic Survey Reports, the RBI handbook, and various Indian public finance statistics over the years. Our analysis involved techniques such as ratio analysis, percentages, regression analysis, and CAGR. We also made use of software tools like Gretl and Excel to help with the data analysis (van der Hoeven & Vos, 2022; Todorović et al., 2022; Magalhães & Christians, 2020). For our other objectives, we collected primary data through a survey research design. We created a structured questionnaire that included several closed-ended questions, along with one open-ended question aimed at evaluating compliance costs. The questionnaire was organized into four sections: the first section addressed the burden of income tax, the second gathered information about taxes paid throughout the year, the third looked into fiscal attitudes, and the fourth provided insights into company profiles (Syukur, 2024). To start, we used a cluster sampling technique, treating each industrial estate as its own distinct cluster (Madhukumar, 2024).

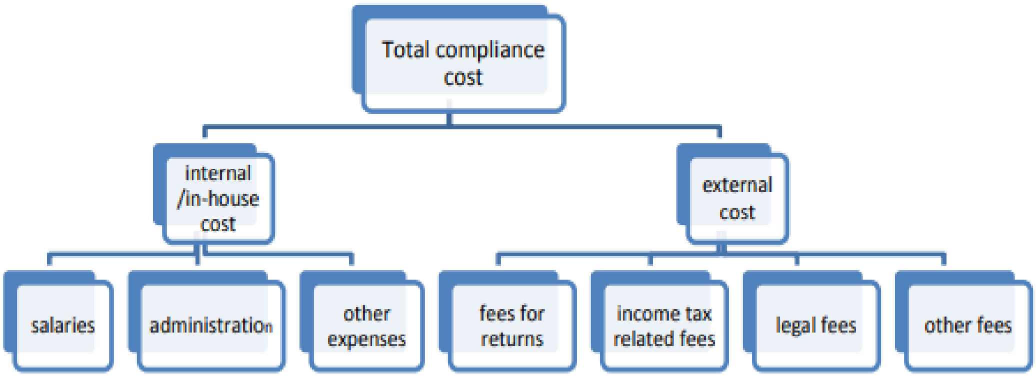


**Fig. 2:** Total Compliance Cost Types

The study relied on the GCCI's Trade & Commercial Directory from 2010 as its sampling frame. We randomly selected companies from various industrial estates listed in that directory. To gather information, we mailed questionnaires with purpose and the reasons for collecting their information. We assured them that their responses would be kept confidential and used solely for academic purposes. We allowed 15 days for them to provide feedback. To encourage responses, we followed up with some companies via phone to remind them about the questionnaires (Harman et al., 2021). Unfortunately, since we didn't get enough replies from the postal survey, we had to change our approach. In some cases, we opted for personal visits and interviews, while in others, we explained the questionnaires and collected them the next day or a couple of days later. The industrial estates in Goa are in two main districts: North Goa and South Goa. As you can see in the map below, gathering this data was quite a challenge and took a lot of time. The researcher worked hard to encourage companies to take part in this crucial survey, to collect insights from a wide variety of businesses in these estates. During our visits, we found that many of the companies we had on our list were either out of business, closed, leased to others, or had relocated (Alm, 2023). This meant we had to adjust our sample to focus on the companies that were still up and running, so we opted for a convenience sampling method. However, in the Verna Industrial Association, we decided to use a snowball sampling approach. For analyzing the data, we turned to SPSS, using tools like percentages, ratios, and one-way ANOVA.

## 3. Results and Discussion

You'll come across mentions of tax compliance costs in numerous studies. Different authors have categorized these costs in various ways, but there's a consistent theme that connects them all. These costs extend beyond just the actual tax payments or any inherent distortion costs. Taxpayers also bear additional costs, such as keeping records, filling out forms, undergoing audits, and hiring accountants to ensure compliance. These expenses are known as compliance costs. Essentially, compliance costs represent the financial burden that taxpayers face while adhering to tax legislation and the demands of tax authorities. This can significantly impact operational costs and potentially reduce profitability. For businesses, compliance costs refer to the expenses incurred while adhering to the different provisions of the Income Tax Act of 1961 that are relevant to them. While developed countries have been examining compliance costs for almost thirty years, research on this subject in India is still in its early stages and hasn't really taken off yet.

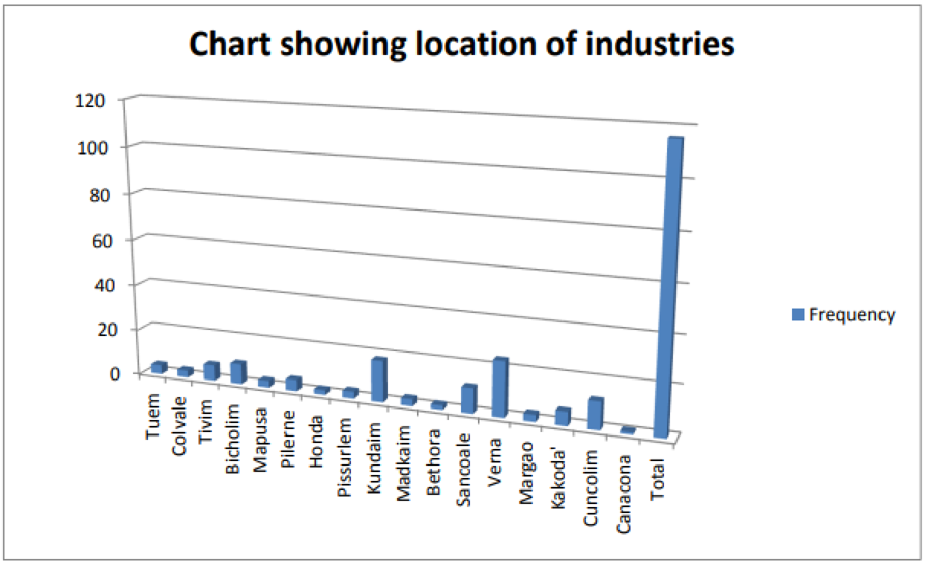


**Fig. 3:** Location of industries

One of the real challenges we encountered was figuring out how to separately account for compliance costs. Since there wasn't a straightforward way to track these expenses, we had to depend on the estimates given by the respondents. Another hurdle was separating accounting costs from tax costs, described as 'joint cost problems.' Even though recent studies have made great progress in separating tax compliance costs from the fundamental expenses of running a business—what Sandford (1995) calls core accounting costs—there's still a good chance that some of these costs overlap.

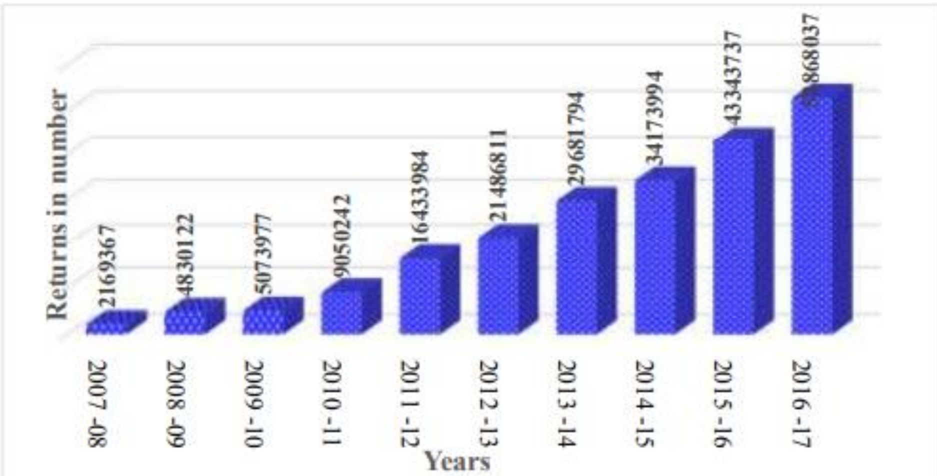


**Fig. 4:** Growth of E-Filed Returns

This overlap brings a bit of uncertainty into the mix, which means that most estimates of tax compliance costs should really be viewed as rough guides at best. There's also a bit of confusion about what exactly should be counted when we measure tax compliance costs. While this topic is sure to spark theoretical debates, we can still pinpoint a core set of costs that are undeniably part of meeting our tax obligations.

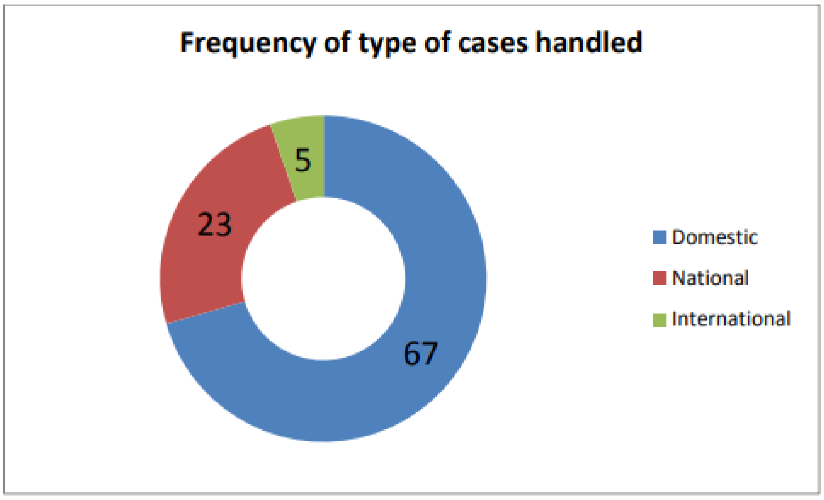


**Fig. 5:** Frequency of Types of Cases Handled

External costs are essentially the payments we make to outside advisors or consultants, usually as fees. In contrast, in-house costs can be broken down into three primary categories: salaries, administrative expenses, and a range of other costs.

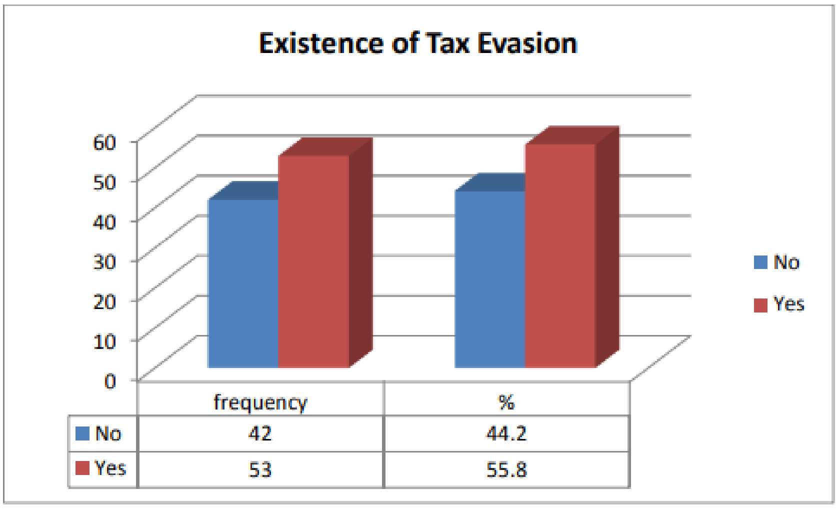


**Fig. 6:** Existence of Tax Evasion

To get a better grasp on compliance costs in relation to different company sizes, we gathered data on several key indicators. For our analysis, we decided to focus on sales turnover as a size metric, rather than the usual profit/loss or tax figures.

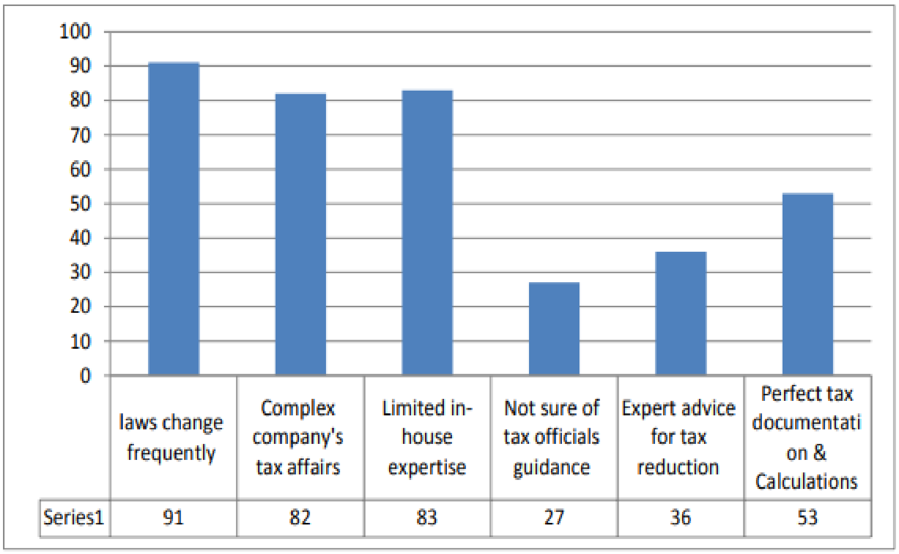


**Fig. 7:** Reasons for Engaging

Interestingly, the time it takes for nearly all companies to prepare their tax records and returns tends to stay consistent. While some companies might be making a profit, others may not owe any taxes if they happen to incur a loss during that assessment year. Because of this, we decided not to use tax payable in our analysis, as it closely aligns with profit/loss figures.

## 4. Conclusion

With the rise of large-scale computerization and online systems, tax procedures have become much simpler for taxpayers and assessors, ultimately saving them time. However, during the initial phase, there are costs associated with upgrading technology and training employees to navigate these new systems and processes. As a result, smaller companies often find it more convenient to seek help from external tax professionals. Compliance procedures bring a lot of benefits to businesses. However, many respondents find TDS systems to be quite a hassle, often causing delays in refunds and consuming a lot of time on compliance tasks, which makes it tough to accurately estimate costs. These compliance costs, often referred to as 'hidden costs,' frequently arise from the complexities of a company's tax situation, a lack of knowledge or expertise in taxation, and the expectation that companies will keep proper tax-related documents and records.

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