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ADDRESSING THE REVENUE LOSS ACROSS COUNTRIES DUE TO COVID-19 PANDEMIC DISEASE

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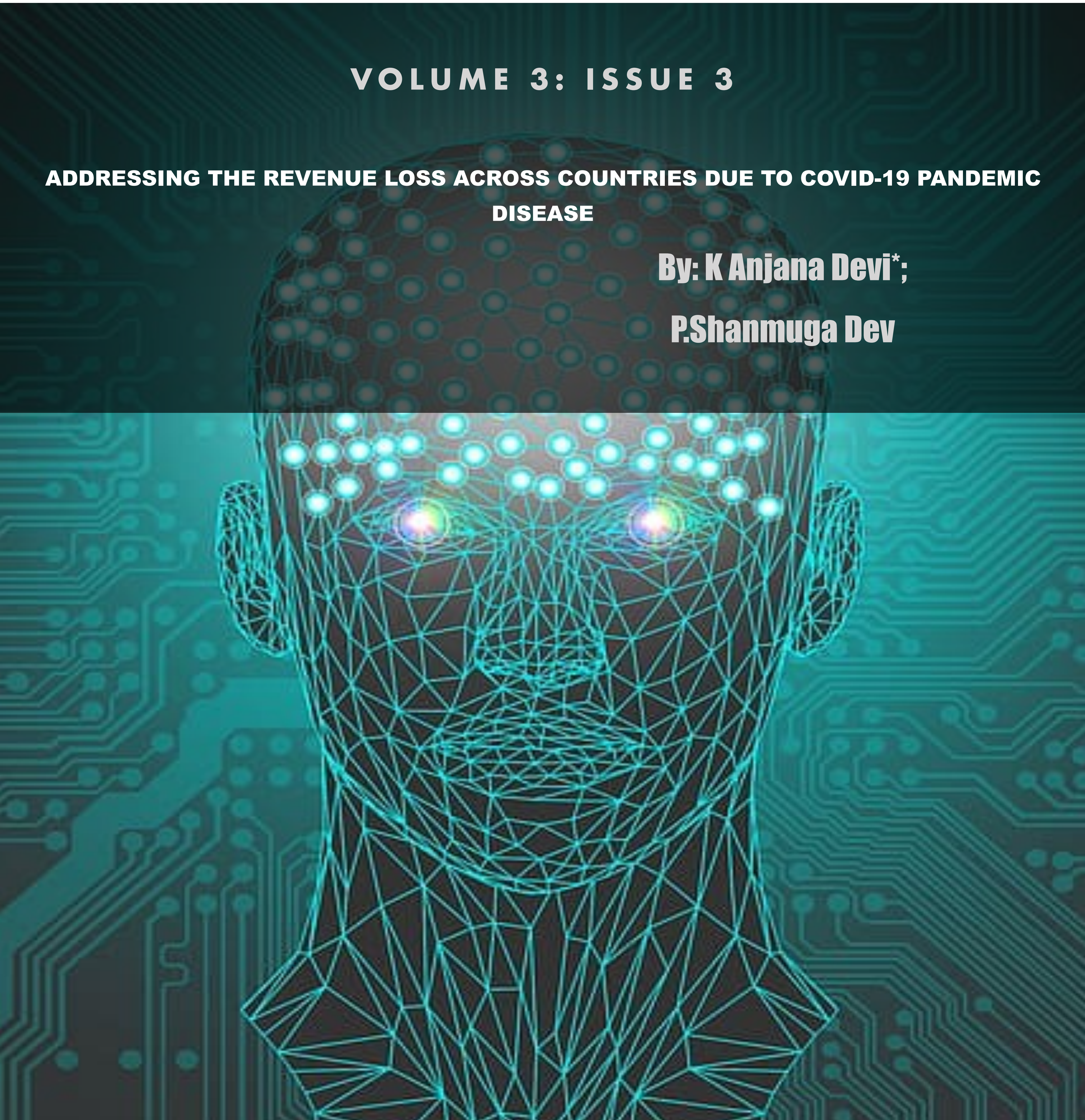

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Abstract:

The Covid-19 pandemic is a public health crisis and global economic shock increasingly affecting low-income countries and lower middle income countries around the world. As the Covid-19 pandemic evolves, many countries are likely to experience recessions, and most are likely to see their public finances deteriorate. With the public health and economic impacts of the Covid-19 pandemic evolving rapidly, tax officials need to be ready to update their forecasts and policy responses as their country's situation evolves. Tax policy responses to Covid-19 in lower-income countries should aim to provide targeted support, not broad-based stimulus, at least for now. The overall economic growth in India slowed to 4.2% in 2019-2020 as both exports and investment started to contract. Governments across the world look for opportunities to streamline taxation to ensure maximum coverage both in terms of sources of income and the number of people under the tax net. This paper mainly evolves with bringing into light the impacts of Covid-19 pandemic on economy. Also it aims to give a comparative study on all taxing policies brought by major countries around the world and their tax reliefs too. With reference to few reports released regarding the state of Indian economy, a clear view of economy is shown in this paper with the help of statistical data.

Key Words: - Covid-19, Indian economy, FDI, Tax reliefs, Atmanirbhar Bharat Abhiyan

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INTRODUCTION:

The Covid-19 pandemic is a public health crisis and global economic shock increasingly affecting lower-income countries around the world. Revenue impacts of Covid-19 should be assessed and used to inform wider policy responses. Tax policy responses to Covid-19 in lower-income countries should aim to provide targeted support, not broad-based stimulus, at least for now. When designing tax policy measures, governments should consider their specific circumstances and constraints. The most effective tax policy measures will be those targeted at specific issues. At this stage, the aim of tax policy and administrative measures should be to provide targeted support to the most affected businesses and individuals so that they can comply with social distancing measures and weather the current crisis. A general stimulus to the economy through broad-based tax cuts is unlikely to be effective when social distancing measures prevent people from working and spending as normal, and businesses are likely to be particularly risk-averse. Broad-based tax cuts would also risk losing valuable revenues needed to fund healthcare and support vulnerable households to survive the economic impact of Covid-19. Stimulus could even be counter-productive if it reduces the effectiveness of efforts to control the spread of Covid-19.

ECONOMIC CRISIS:

The global economic shock is increasingly affecting low-income countries (LICs) and (LMICs) lower middle income countries, around the world. Economic activity and government revenues will fall due to reductions in international flows of goods, labour and capital.[3] Tax officials in LICs and LMICs should take several tax policies and reliefs in order to overcome the loss of revenue. As the Covid-19 pandemic evolves, many countries are likely to experience recessions, and most are likely to see their public finances deteriorate. External finance from international institutions and development partners can help plug financing gaps, but may become stretched as many countries around the world simultaneously seek assistance with Covid-19. All finance ministries and revenue authorities have finite resources. It is likely to be more difficult to design and implement more complicated tax measures when administrative capacities are constrained

IMPACT OF COVID-19 ON ECONOMY

Recently the United Nations Conference on Trade and Development (UNCTAD) released the World Investment Report 2020.[4] According to the report, global FDI flows are forecast to decrease by up to 40% in 2020, from their 2019 value of $1.54 trillion. This would bring global FDI below $1 trillion for the first time since 2005. The FDI is projected to decrease by a further 5% to 10% in 2021.

Developing economies are expected to see the biggest fall in FDI because they rely more on investment in Global Value Chain (GVC) based industries, which have been severely due to Covid-19 pandemic. However the investment flows are expected to slowly recover by the start of 2022.

India's position:

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[3] Hughes, R. (2020) 'Safeguarding governments' financial health during coronavirus. What can policymakers learn from past viral outbreaks?'. Resolution Foundation (www.resolutionfoundation.org/publications/safeguarding-governments-financial-healthduring-coronavirus/).

[4] The World Investment Report focuses on trends in Foreign Direct Investment (FDI) worldwide, at the regional and country levels and emerging measures to improve its contribution to development

India jumped from 12th position in 2018 to 9th position in 2019 among the world's largest FDI recipients. In 2019, the FDI inflows into India may decline sharply in 2020 because of the impact of Covid-19 pandemic and the consequent lockdown measures, supply chain disruptions and economic slowdown. In India, the number of greenfield investment[5] announcements declined by 4% in the first quarter of financial year 2020-21. However the report mentioned that India's large market will continue to attract market-seeking investments to the country.

CONTRACTION OF INDIAN ECONOMY

According to the Asian Development Outlook (ADO)[6] released by the Asian Development Bank (ADB), the Indian Economy is expected to contract by 4% during the current financial year (2020-2021). Main reasons for contraction are, global health emergency created by the Covid-19 pandemic. After the introduction of lockdowns in late March 2020, economic activity in South Asia came to standstill. The lockdown also disrupted the supply chain. The Gross Domestic Product (GDP) slowed to 3.1% in the last quarter (Jan-March) of the financial year 2019-2020. It is the slowest since early 2003.The overall economic growth slowed to 4.2% in 2019-2020 as both exports and investment started to contract. Developing Asia refers to a group of over 40 countries, including India that are members of Asian Development Bank, the growth of 0.1% is expected. However China is expected to record a positive growth of 1.8 in 2020-21. *No V shaped Recovery:* Even as lockdowns are slowly eased and selected economic activities restarted, economies in Asia and the Pacific will continue to feel the blow of the Covid-19 pandemic this year. Despite a higher growth outlook for the region in 2020-21, there will not be a V-shaped recovery. The main issues involved are, the Covid-19 pandemic may see multiple waves of outbreaks in the coming period. This may lead to an increase in sovereign debt and worse to a financial crisis. There is also the risk of renewed escalation in trade tensions between the United States and China.

IMPACT ON GOVERNMENT REVENUES IN LICs AND LMICs:

Many LICs and LMICs collect a higher share of their revenues from taxes on international trade than other countries. While the impact on government revenues will vary depending on the structures of economies and tax systems, some LICs and LMICs may be particularly affected. Some commentators expect global trade volumes to drop more this year than in the global financial crisis

Natural resources revenue:

Lower Income Countries are on average more reliant on revenues from oil and gas, minerals and metals and other raw materials. Some agricultural exports might however see higher demand and price increases.

Revenue from international travel:

[5] A greenfield investment is a type of FDI in which a parent company creates a subsidiary in a different country, building its operations from the ground up.

[6] The Asian Development Outlook analyses the economic and development issues in developing countries in Asia. This includes forecasting the inflation and growth rates of countries throughout the region, including China and India

More than 100 countries had introduced international travel restrictions. Falling international travel will reduce aviation taxes[7] and will particularly affect the hospitality and tourism sectors. Large multinational companies which are often strategically important to economies and revenues in LICs and LMICs, could see their operations affected as expatriate workers are recalled.[8]

COMPARATIVE ANALYSIS OF TAX RELIEF POLICIES ADOPTED ACROSS GLOBALLY:

All finance ministries and revenue authorities have finite resources. It is likely to be more difficult to design and implement more complicated tax measures when administrative capacities are constrained. There is a trade-off between simple, broad-based measures that could be expensive and ineffective, and more complicated, targeted measures that are likely to be cheaper and more effective, but harder to administer. This will be difficult to navigate in many countries. Those countries that are most constrained in their options will need to be particularly careful to ensure they choose policies that maximise impacts and minimise costs. At some stage, the focus may have to shift from support to stimulus as governments seek to regrow their economies, and eventually to fiscal consolidation once the economy has recovered to restore public finances[9]. Each country's precise circumstances and constraints will differ. There is no one-size-fits-all package of policy measures. However, some broad principles could be helpful in guiding the selection of policies that appear better-suited to the issue at hand, and those that are less suited and should generally be avoided.

1. *General reductions in corporate and personal income tax rates do not seem appropriate for the current crisis*
2. *Measures to bolster cash flow of targeted businesses and households may be more cost-effective*
3. *Measures that reduce the cost of labour to businesses so that they can retain more staff.*
4. *Temporarily waiving taxes that act as barriers to the flow of money and information.*
5. *Deferring any planned revenue-raising measures unless vital to cope with the costs of Covid-19*

Russia Covid-19 Tax Relief

Russia will allow small and medium-sized businesses operating in certain industries to defer all taxes for six months, except for VAT and social insurance payments (only for micro-enterprises).[10] A moratorium on tax audits until June 1 is expected to be implemented. Other tax measures include a 13 percent income tax rate on interest accrued on deposits exceeding 1 million rubles (USD $12,700). The government is considering a review of some double tax treaties to impose a 15 percent tax on dividends from Russia.

Italy Covid-19 Tax Relief

In Italy, tax credits will be granted to companies that suffer a 25 percent drop in revenues. In addition, businesses will receive a 50 percent tax credit for sanitation expenses, such as daily cleaning services, masks, and other precautions that help stop the spread of new Covid-19.[11]Banks have been given options to take some loss deductions and convert them to tax credits. And Italy has suspended loan repayments by small and medium-sized businesses through September 30.Businesses are given a 60 percent tax credit on commercial rents.

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[7] African airlines have seen plummeting demand due to Covid-19

[8] Gaspar, V. and Mauro, P. (2020) 'Fiscal policies to protect people during the coronavirus outbreak'. Blog. International Monetary Fund (https://blogs.imf.org/2020/03/05/fiscal-policies-to-protect-people-during-the-coronavirusoutbreak/).

[9] "How tax officials in lower-income countries can respond to the Covid-19 pandemic", Iain Steel and David Phillips, April 2020.

[10] Russia is also providing tax holidays for taxes and social security contributions until May 1 for companies engaged in tourism and aviation industries. Also, the social insurance rate will be reduced from 30 to 15 percent for salaries exceeding the minimum wage. Small and medium-sized businesses will be granted a three-month grace period for rent payments to the government. Pharmaceutical and medical supplies and equipment will be exempted of import duties payments.

[11] Italy also has announced that April-May VAT returns may be delayed until June 30 for businesses with a decline in revenue since March, specifically small businesses with at least a 33 percent decline and large businesses with at least a 50 percent decline. As of April 8, those same businesses may also defer payments of VAT, social security, and welfare contributions, and withholding tax on wages and salaries until June 30.

United States Covid-19 Tax Relief

The United States has adopted a short-term expansion of paid sick leave. Tax payments have also been delayed from April 15 to July 15 without interest or penalties. The CARES Act legislation provides a $1,200 tax rebate for individuals and $2,400 for joint filers, with an additional $500 per child. Among many tax measures for businesses, the act includes a refundable payroll tax credit and allows employers to delay paying Social Security payroll taxes, with half-payment due December 31, 2021 and the rest due December 31, 2022. Also, $150 billion in relief funds will be distributed among the states.

Germany Covid-19 Tax Relief

Germany will make it easier for companies to claim subsidies to support workers on reduced schedules to counter the effects of the pandemic.[12] Tax relief measures include broad deferral options and tax base reduction for trade taxes. Tax deferrals will be granted without interest, but taxpayers must apply before December 31, 2020. [13]The government has also discussed implementing a reform to the *solidarity tax* (a 5.5 percent surcharge on high-income earners) in 2020 rather than in 2021 as previously planned. VAT for catering food services has been temporarily reduced from 19 percent to 7 percent during the period of July 1, 2020 through July 1, 2021.

France Covid-19 Tax Relief

The government is allowing companies to suspend payments of some social charges and taxes and is activating state-subsidized short-time work schemes. The next installment of direct tax payments is being delayed for three months.
Additionally, no new tax audits will be started during the "lockdown period." VAT refunds have been accelerated and there is a temporary VAT discount for March and April VAT returns for businesses facing difficulties.

China Covid-19 Tax Relief

China has reduced its VAT from 3 percent to 1 percent for the cash accounting program for small businesses until the end of May. It also cut VAT on medical, catering, accommodation, hairdressing, and laundry services as well as on masks and protective clothing. Interest charges on business loans below 1 million Yuan to small enterprises will be exempt from VAT (financial services are subject to VAT in China).[14]

Spain Covid-19 Tax Relief

Spain approved tax relief for small and medium-sized businesses and self-employed persons. Those businesses will be able to defer income, corporate, and VAT tax obligations for six months without interest. Spain has also adopted a proposal in response to the Covid-19 outbreak that allocates a €100 billion line of guarantees for businesses.

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[12] This is the same measure which was used to help prevent large-scale layoffs during the 2008 financial crisis.

[13] Germany is also providing up to €50 billion in support for self-employed and small and medium-sized businesses, and up to €500 billion in liquidity measures for affected businesses

[14] China has approved about 1.3 trillion Yuan to boost its economy after the Covid-19 disruption; this includes epidemic prevention and control, aid for unemployment insurance, and infrastructure for its public health system. Qualifying businesses can carry their 2020 losses forward for eight years (up from five years).

Malaysia Covid-19 Tax Relief

Malaysia is exempting accommodation services (including hotels) from the 6 percent services tax and providing sales tax exemptions and lifting import duties on equipment and machinery. Cash or in-kind donations to approved projects to address the COVID-19 pandemic are tax-deductible and can be applied against the gross business income.

INDIAN TAX POLICIES FOR ADDRESSING COVID-19 PANDEMIC DISEASE:

Atmanirbhar Bharat Abhiyan:

Indian Prime Minister Narendra Modi wants to make Indian firms adopt efficiency and quality and prepare India for competition in the global supply chain. The industrial protection his government introduced in the past six years has done precisely the opposite. But not a word from PM about dismantling it. Many are old policy announcements once more repeated. RBI has been actively pushing banks to lend more. In the global crisis of 2008, European banks were not lending. So, the European Central Bank created long-term refinancing operations to lend them money against their past loans, and gave them money to raise lending. Last March, RBI caught on and created a Targeted Long-Term Refinancing Operations (TLTRO) fund — targeted because it wanted banks to target those Small and Medium Enterprises (SMEs) that were in trouble. Now, it has offered them money to lend to finance companies that have got into trouble because of their loans to those SMEs. Such policies of throwing good money after bad are common in difficult times. But one reason why Indian banks are chronically in trouble is that SEBI long ago destroyed the equity market with overregulation. Indian firms have little access to risk capital, and hence raise it from banks, calling it loans. RBI has lent billions to banks to refinance those loans. In other words, banks will be asked to give loans with an informal guarantee that they are gifts, unless the bankrupt firm starts making huge profits someday. Government of India gave public sector banks order after order to give MSMEs favourable treatment, with little effect. The way to promote smaller firms is to create competition in the credit market by allowing many more private banks and, above all, by creating a vibrant equity market.

Super rich tax:

A group of tax officers has suggested hiking tax on super-rich to 40 per cent, levying pandemic cess and imposing higher tax on foreign companies to ensure the government's cash till runs long enough to meet the financial exigencies arising out of the Covid-19 situation. The Indian Revenue Service (IRS) Association has also mooted re-introduction of wealth tax, raising the Google tax and inheritance tax, among others.[15] Some of the short term measures suggested in the paper include a super-rich tax by raising the highest slab rate to 40 per cent for those with an income above Rs 1 crore from 30 per cent, and re-introduction of wealth tax for those with over Rs 5 crore annual income. It noted that the surcharge introduced in the Budget 2021 on the super-rich may generate only Rs 2,700 crores and hence the call to up it on the super-rich. Individuals having a taxable income of Rs 1 crore are considered super-rich. The suggestions has called for imposing a *COVID-19 cess* to help mobilise additional revenues. The one-time cess of 4 per cent can help finance capital investmentThere is a proposal to re-introduce inheritance tax. It can be noted that such a tax regime existed in the country till 1985 wherein the tax rate varied from 10 to 85 per cent. The suggestions has also pitched for a new tax saving scheme like COVID savings certificates wherein individuals and Hindu undivided families can be offered an additional deduction up to Rs 2.5 lakh made in this fund in line with that made under Section 80C.

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[15] A 44-page paper titled 'Force' which stands for 'Fiscal Options & Response to COVID-19 Epidemic', dated April 23, has been sent to the CBDT (Central Board of Direct Taxes) chairman P C Mody and the board members.

The amount invested can have a five-year lock-in period and can generate interest income for investors in line with what government pays for various small scale saving instruments, it noted. To facilitate this, Section 13A and 13B of the IT Act has to be amended to allow political parties and electoral trusts to invest in the aforementioned fund, as per the suggestions.

TDS

The 25% cut in tax deducted at source (TDS) the government has announced as part of the Atmanirbhar Bharat Abhiyan economic stimulus package is not applicable for salaried employees because it would lead to higher compliance burden. “Salary earners would have had to face higher tax and interest at the end of the year (while filing returns), which is why they did not reduce the TDS for salaried segment

Informal plan

The ministries are said to have recommended a land-pooling model to enable more efficient and mechanised agriculture, a model land leasing law that provides tenants and share-croppers access to credit and protects land owners from archaic legal provisions by relying on written contracts and leases as against the current practice of verbal agreements. Incentivising organic farming and zero-budget natural farming through a reserve price for organic produce have been proposed. The ministers recommended a single Mandi tax instead of interstate Mandi taxes.

Introduction to Inheritance Tax:

Around 50 Indian Revenue Service Officer of the Income Tax Department have suggested ways to help bring the economy back on path, due to the Covid- 19, pandemic. The officials have suggested innovative ideas in the name of the “FORCE”, which stands for Fiscal Options & Response to the COVID-19 Epidemic that could boosting economic growth and thereby help increase tax revenue. The one such proposal is bringing back the inheritance tax that was abolished in 1986. Known as the estate tax, it is levied on the value of assets passed on to legal heirs through inheritance.

Experts views on the introduction of Inheritance Tax:

“Democracies across the world have the inheritance tax built into their tax system. We are a nation of inequalities— with a relentlessly rising gap. This government has shown the will for bold structural reforms. Now is undoubtedly the time for a fair tax. The naysayers make some persuasive arguments. But these relate to design flaws. The “how to” rather than “whether to”. This tax is based on data”. “Reintroduction of inheritance tax may negatively impact this sentiment of saving for the future and or passing on the wealth of the next generation”. The Spanish Supreme Court recently issued a judgment confirming that the Spanish inheritance tax legal framework breaches the free movement of capital when taxing non-EU residents on Spanish assets received through inheritance. It is held as state’s civil liability for discrimination against third-country residents in inheritance taxation.

AIIB & ADB LOAN FOR INDIA

The Asian Infrastructure Investment Bank (AIIB) has approved a $750 million loan to India to strengthen the country's battle against the adverse impact of Covid-19 pandemic on poor and vulnerable households. It is co-financed by the Asian Infrastructure Investment Bank and Asian Development Bank. Earlier it approved $500 million for "Covid-19 Emergency Response and Health Systems Preparedness Project" initiated by India. This loan aims to ensure economic resilience to prevent long term damage to productive capacity, including human capital. The support will go towards bolstering economic aid for businesses, including for the informal sector, expanding social safety for the needy and strengthening the country's health care systems. AIIB's sovereign loans to India amounts to $3.06 billion. The current loan will be the second for India under AIIB's Covid-19 Crisis Recovery Facility. The Crisis Recovery Facility has been formed in response to urgent economic, financial and public health pressures and to support a quick recovery after the Covid-19 crisis. The Asian Development Bank has assured Indian Government of $2.2 billion support to fight against Covid-19 pandemic. Earlier, it had provided a loan of $1.5 billion to India.

CONCLUSION:

With the public health and economic impacts of the Covid-19 pandemic evolving rapidly, tax officials need to be ready to update their forecasts and policy responses as their country's situation evolves. Governments across the world look for opportunities to streamline taxation to ensure maximum coverage both in terms of sources of income and the number of people under the tax net. At the same time, governments need to balance the impact of taxes. Given our current system of social security and social demand due to this pandemic there is always an unsettling urge to save for the future, save for the next generation.

SUGGESTIONS

- India should undertake policy measures to reduce the negative impact of Covid-19 and ensure that no further waves of the outbreak occur.
- As India has opened its economy, it needs to improve the supply chain which was disrupted due to lockdown.
- A Labour market recovery will be a key to the economy running again.
- Tax administrations often have access to data through the day-to-day operation of the tax system that can be used to understand the state of the economy and inform policy ahead of official statistics. The extent to which tax data can be used will vary from country to country and across tax instruments.
- Governments will need to think carefully about which policies to prioritise given the limited resources available to them, and the need to bolster spending on health systems and food security.
- Measures may need to be revised on several occasions as the health and economic situation develops.
- Timely analysis of the potential revenue effects of the Covid-19 situation, as well as a range of more targeted temporary measures, could help maximise the benefits and minimise the costs of tax policy changes, and help ensure that health systems have the funding they will need to tackle Covid-19 too.