

# **TAX ADMINISTRATION IN THE TIMES OF AN ECONOMIC CRISIS, COVID-19, VIS-À-VIS INDIA**

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## **Abstract**

Amidst the pandemic, discussions are happening about liquidity, tax compliance and economic development all around the world. The COVID-19 outbreak has proved to be devastating to the economies around the world. India's GDP has been affected by the negative touchdown. Government of India has taken several steps to help the individuals, corporations and startups. It has taken steps to ensure liquidity in the market and boost the economic development process. The present paper talks about the tax administration, including "The Taxation and Other Laws (Relaxation of Certain Provisions) Ordinance, 2020" (hereinafter referred to as "Relaxation ordinance") and "Self-reliant India" that tries to achieve the objective. These policies postponed the deadlines for filing of returns, reduced the rate of return in case of delayed payments, etc.

The paper starts with an introduction explaining the effect of COVID-19 on GDP of India. It talks about how economic slowdown has occurred and created negative spillover effects due to lockdown and post consequences. Further, I shall analyze the amendments via "Relaxation ordinance" and reforms via "Self-Reliant India" in the tax administration of India. Upon scrutinizing the same, I shall make opinion and recommendations as to what could be done more, amidst COVID-19, to help the economy to overcome the barrier post-COVID-19.

# Negative spillover effects of COVID-19 vis-à-vis Economic Slowdown

Invoking the complete picture of the pandemic (i.e. COVID-19), rightly stated by Director-General of the WHO, “.....that this is much more than a health crisis. We are all aware of the profound social and economic consequences of the pandemic”.<sup>1</sup>

## Consumption, investment and GDP

Lockdown and curfew all over the world as a precautionary measure to the pandemic has certainly affected consumption and investment patterns.<sup>2</sup> Consumption and investment forms an integral part of the GDP and are directly proportionate to it.<sup>3</sup> It implies that any loss in consumption or investment leads to loss will lead to the decline in GDP.<sup>4</sup> Thus, the outbreak has posed a serious threat to economic development.

According to World Banks’s latest Global Economic Prospects report,<sup>5</sup> released in June 2020, the world economy is presumed to be contracted by 5.2% and India’s GDP to contract by 3.2% in the fiscal

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<sup>1</sup> WHO Director-General's opening remarks at the media briefing on COVID-19 - 3 April 2020. (n.d.). Retrieved November 08, 2020, from <https://www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19--3-april-2020>

<sup>2</sup> Lenzen, M., Li, M., Malik, A., Pomponi, F., Sun, Y., Wiedmann, T., . . . Yousefzadeh, M. (n.d.). Global socio-economic losses and environmental gains from the Coronavirus pandemic. Retrieved November 08, 2020, from <https://doi.org/10.1371/journal.pone.0235654>

<sup>3</sup> (n.d.). Retrieved November 08, 2020, from [https://www.rbi.org.in/scripts/bs\\_viewcontent.aspx?Id=2486](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2486)

<sup>4</sup> (n.d.). Retrieved November 08, 2020, from [https://www.rbi.org.in/scripts/bs\\_viewcontent.aspx?Id=2486](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2486)

<sup>5</sup> Kose, M. A., & Ohnsorge, F. (n.d.). Global Economic Prospects. Retrieved November 08, 2020, from <https://www.worldbank.org/en/publication/global-economic-prospects>

year 2020-2021 owing to the pandemic.<sup>6</sup> Further, the report mentioned that these figures suggest the deepest recession since World War 2.<sup>7</sup>

India's GDP in the fiscal year 2019-2020 stood at 4.2%.<sup>8</sup> In the fiscal year 2019-2020, the GDP of India was 4.1% in the third quarter.<sup>9</sup> However, the last quarter of the year started showing the impact of COVID-19 on the economy and the GDP contracted to 3.1%.<sup>10</sup> Further, the Indian Economy has contracted by 24% approx. in the quarter ending in June for the fiscal year 2020-2021.<sup>11</sup> IMF has projected that India's GDP will contract by 10.3% in the current fiscal year.<sup>12</sup>

Besides, the situation in India, and other developing countries, the situation could be worse than in developed countries since there is less investment. Also, the situation worsens when there is already a fall in the level of the investment. For instance, the investment in India, as a

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<sup>6</sup> Deb, A. (Ed.). (2020, June 08). India's GDP To Contract By 3.2%, World Economy By 5.2% This Year: World Bank. Retrieved November 08, 2020, from <https://www.ndtv.com/business/covid-19-impact-on-economy-indias-gdp-to-contract-by-3-2-world-economy-by-5-2-this-year-world-bank-report-2242866>

<sup>7</sup> Deb, A. (Ed.). (2020, June 08). India's GDP To Contract By 3.2%, World Economy By 5.2% This Year: World Bank. Retrieved November 08, 2020, from <https://www.ndtv.com/business/covid-19-impact-on-economy-indias-gdp-to-contract-by-3-2-world-economy-by-5-2-this-year-world-bank-report-2242866>

<sup>8</sup> Singh, S. (Ed.). (2020, May 29). At 4.2%, GDP Growth In 2019-20 Sinks To 11-Year Low: 10 Things To know. Retrieved November 08, 2020, from <https://www.ndtv.com/business/gdp-data-january-march-2020-government-releases-economic-data-for-q4-2019-20-amid-covid-19-lockdown-2237359>

<sup>9</sup> Singh, S. (Ed.). (2020, May 29). At 4.2%, GDP Growth In 2019-20 Sinks To 11-Year Low: 10 Things To know. Retrieved November 08, 2020, from <https://www.ndtv.com/business/gdp-data-january-march-2020-government-releases-economic-data-for-q4-2019-20-amid-covid-19-lockdown-2237359>

<sup>10</sup> Singh, S. (Ed.). (2020, May 29). At 4.2%, GDP Growth In 2019-20 Sinks To 11-Year Low: 10 Things To know. Retrieved November 08, 2020, from <https://www.ndtv.com/business/gdp-data-january-march-2020-government-releases-economic-data-for-q4-2019-20-amid-covid-19-lockdown-2237359>

<sup>11</sup> Yasir, S., & Gettleman, J. (2020, August 31). India's Economy Shrank Nearly 24 Percent Last Quarter. Retrieved November 08, 2020, from <https://www.nytimes.com/2020/08/31/world/asia/india-economy-gdp.html>

<sup>12</sup>World Economic Outlook, October 2020: A Long and Difficult Ascent. (2020, October 01). Retrieved November 08, 2020, from <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

share of GDP, was 39.6% in 2011 and it fell to 29.7% in 2019. According to reports, the figure is expected to fall to 27.8 % in 2020 and it might not cross above 31%.<sup>13</sup> Moreover, similar effects have been witnessed in the falling of GDP. As noted above, Indian economy has contracted to the extent of 23.9% in the quarter April-June for the fiscal year 2020-2021 whereas the U.S. economy showed a downturn of 9.5% and Japan's economy announced the shrink of 7.6%.<sup>14</sup> Therefore, the pandemic is taking its toll in India at a significantly worse rate. The New York Times mentioned, "The figures reflect the onset of India's deepest recession since 1996 when the country first began publishing its G.D.P. numbers."<sup>15</sup>

## Unemployment

According to the World Travel and Tourism Council, millions of people are losing their jobs every day since the pandemic began.<sup>16</sup> Again, the reason is the same. Firms are reducing their workforce because consumption has reduced.<sup>17</sup>

2008 economic crisis, often referred to as "The Great Recession",<sup>18</sup> reflected the trend that unemployment persists even post

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<sup>13</sup> Kishore, R. (2020, October 15). How the Covid-19 pandemic has hit GDP growth. Retrieved November 08, 2020, from <https://www.hindustantimes.com/india-news/how-the-covid-19-pandemic-has-hit-gdp-growth/story-7enJJQpWNdPMb2UGAHdomO.html>

<sup>14</sup> Yasir, S., & Gettleman, J. (2020, August 31). India's Economy Shrank Nearly 24 Percent Last Quarter. Retrieved November 08, 2020, from <https://www.nytimes.com/2020/08/31/world/asia/india-economy-gdp.html>

<sup>15</sup> Yasir, S., & Gettleman, J. (2020, August 31). India's Economy Shrank Nearly 24 Percent Last Quarter. Retrieved November 08, 2020, from <https://www.nytimes.com/2020/08/31/world/asia/india-economy-gdp.html>

<sup>16</sup> Bahri, D., & Jain, A. (2020). A deliberative conception of the principle of Force Majeure and impact on business due to COVID-19. *Supremo Amicus*, 21. Retrieved from <https://supremoamicus.org/wp-content/uploads/2020/09/Devyang-Bahri-and-Aradhya-Jain.pdf>

<sup>17</sup> Bahri, D., & Jain, A. (2020). A deliberative conception of the principle of Force Majeure and impact on business due to COVID-19. *Supremo Amicus*, 21. Retrieved from <https://supremoamicus.org/wp-content/uploads/2020/09/Devyang-Bahri-and-Aradhya-Jain.pdf>

<sup>18</sup> Rauchway, E. (2018, September 14). The 2008 Crash: What Happened to All That Money? Retrieved November 08, 2020, from <https://www.history.com/news/2008-financial-crisis-causes>

the crisis, and that it forms a vicious cycle of low investment and low consumption to low GDP to lower level of employments to low consumption and low investment and so on, at least for few years.<sup>19</sup>

## Liquidity

Businesses having been facing another problem of cash flow, and thus decline in liquidity.<sup>20</sup> Banks or any third party is not ready to lend loans easily, unlike before, as they are facing liquidity management issues.<sup>21</sup> This condition is quite similar to a deadlock on businesses to regain the pace and start functioning.

Besides, working in the pandemic from distant and remote areas and holding virtual meetings is becoming quite difficult concerning tax compliance.<sup>22</sup>

Following part of the paper will elaborate on how the tax administration operating in the pandemic is trying to overcome the challenges and working towards the goal of economic development.

## Tax Administration of India

### “The Taxation and Other Laws (Relaxation of Certain Provisions) Ordinance, 2020”

Relaxation ordinance was translated into an act on 29<sup>th</sup> September 2020. The ordinance provided various powers to the central government

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<sup>19</sup> Merle, R. (2018, September 10). A guide to the financial crisis - 10 years later. Retrieved November 08, 2020, from

[https://www.washingtonpost.com/business/economy/a-guide-to-the-financial-crisis--10-years-later/2018/09/10/114b76ba-af10-11e8-a20b-5f4f84429666\\_story.html](https://www.washingtonpost.com/business/economy/a-guide-to-the-financial-crisis--10-years-later/2018/09/10/114b76ba-af10-11e8-a20b-5f4f84429666_story.html)

<sup>20</sup> Sharma, M. (n.d.). COVID-19 Pandemic: A guide to Force Majeure and Material Adverse Change Clause under mergers and acquisition transactions Megha. *Supremo Amicus*, 22. Retrieved from <https://supremoamicus.org/wp-content/uploads/2020/10/Megha-Sharma.pdf>

<sup>21</sup> Liquidity Management in the Time of Covid-19: An Outcomes Report. (n.d.). Retrieved from

<https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/2LIQUIDITYMANAGEMENT9F390BC38A384F209B49304403028E1D.PDF>

<sup>22</sup> Bloodwell, S. (2020, May 14). Tax compliance and COVID-19. Retrieved November 08, 2020, from <https://home.kpmg/xx/en/blogs/home/posts/2020/05/tax-compliance-covid-19.html>

to provide relaxation in terms of deadlines for compliance, interest and penalty and dispute resolution to ensure the liquidity, relief to taxpayers and economic development.<sup>23</sup> Various initiatives under “Self-reliant India”, as shall be covered in the next section, has been accorded legality due to this ordinance.

1. **Tax Compliance:** The ordinance has provided relaxation and extended deadlines in terms of compliance or completion of certain actions vis-à-vis tax administration.<sup>24</sup>
2. **Interest and Penalty:** Payment of tax due between 29<sup>th</sup> March 2020 and 29<sup>th</sup> June can be made till 30<sup>th</sup> June and no penalty or prosecution will be done against the defaulter, though the payment of tax becomes due on 29<sup>th</sup> June. Moreover, the delay in payment after 30<sup>th</sup> June will not attract the penalty more than 0.75% per month which is a meagre amount.<sup>25</sup>
3. **GST-related compliance:** Relaxation and extension of deadline can be provided by the GST Council in case of Force Majeure under the act. Though the pandemic is not covered under Force Majeure, the government has issued a notification that the current pandemic of COVID-19 will be covered under the same.<sup>26</sup>
4. **Donations to PM CARES fund:** The government has ensured that people who can make donations to provide for the needful enjoy tax benefits. Under this scheme, the taxpayer will get a 100% deduction on the amount of donation, i.e. the person donating can deduct the amount of donation from his income and the same amount will not be taxable.<sup>27</sup>

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<sup>23</sup> Ministry of Finance. (2020, September 19). The Taxation and other Laws (Relaxation of Certain Provisions) Ordinance, 2020. Retrieved November 08, 2020, from <https://www.prsindia.org/billtrack/taxation-and-other-laws-relaxation-certain-provisions-ordinance-2020>

<sup>24</sup> The Taxation and Other Laws (Relaxation of Certain Provisions) Ordinance, 2020, Chapter 2.

<sup>25</sup> The Taxation and Other Laws (Relaxation of Certain Provisions) Ordinance, 2020, S. 3(2)(b).

<sup>26</sup> The Taxation and Other Laws (Relaxation of Certain Provisions) Ordinance, 2020, S. 8.

<sup>27</sup> The Taxation and Other Laws (Relaxation of Certain Provisions) Ordinance, 2020, S. 4.

5. Resolution of disputes: The deadline for payment of resolution of disputes related to direct and indirect taxes was extended to 30<sup>th</sup> June 2020.<sup>28</sup>

### **Atmanirbhar Bharat Abhiyaan (Self-reliant India)**

Government of India launched this campaign as a special economic package to benefit various segments of the society and make the citizens self-reliant and independent in all senses amid this pandemic.<sup>29</sup> In this part, we shall analyze the “Rational Tax Systems and Reforms” under this campaign.

1. Reduction in rate of Tax Deduction at Source (hereinafter referred to as “TDS”) and Tax Collected at source (hereinafter referred to as “TCS”):<sup>30</sup> To help various sectors of the economy, the government has provided relief to taxpayers in the form of reduced TDS and TCS. For the specified category, the taxpayer has to pay TDS and TCS at 25% lower than the existing rate. The provision is applicable till March 2021 and will release the liquidity of INR 50,000 crores.<sup>31</sup>
2. Relaxation in Tax Compliance and release of income-tax refunds: The government acknowledged the problem faced by taxpayers concerning the compliance and has extended deadlines for filing of the returns. The due date for filing of the income tax return for the fiscal year 2019-2020 has been extended from 31<sup>st</sup> July 2020 and 31<sup>st</sup> October 2020 to 30<sup>th</sup> November 2020. For the tax audit, the deadline has been moved to 31<sup>st</sup> October 2020 from 30<sup>th</sup> September 2020. Besides, the

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<sup>28</sup> Ministry of Finance. (2020, September 19). The Taxation and other Laws (Relaxation of Certain Provisions) Ordinance, 2020. Retrieved November 08, 2020, from <https://www.prsindia.org/billtrack/taxation-and-other-laws-relaxation-certain-provisions-ordinance-2020>

<sup>29</sup> Atmanirbhar Bharat Abhiyaan. (n.d.). Retrieved November 08, 2020, from <https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan>

<sup>30</sup> Reduction in rate of Tax Deduction at Source (TDS) & Tax Collection at Source (TCS). (n.d.). Retrieved November 08, 2020, from <https://pib.gov.in/PressReleasePage.aspx?PRID=1623745>

<sup>31</sup> Brand India. (n.d.). Retrieved November 08, 2020, from

<https://www.ibef.org/blogs/self-reliant-india-movement-an-opportunity>

date for filing of GST returns has been shifted to 30<sup>th</sup> June 2020. Further, the government has directed to issue all the pending income tax refunds up to INR 5 Lakh which will benefit 14 Lakh taxpayers.<sup>32</sup>

3. Aircraft Maintenance, Repair and Overhaul (hereinafter referred to as “MRO”): Rationalization of Tax Regime for MRO ecosystem is in execution.<sup>33</sup>
4. Devolution of taxes: Devolution of taxes amounting to INR 46, 038 crores has been extended to the state government to ensure initiatives by the state government for its citizens in the hour of need.

## Conclusion and Suggestions

The COVID-19 has affected the economies around the world and disrupted consumption and investment patterns. It led to the spillover effects affecting liquidity and delaying in tax compliance matters. Condition of India is worse when compared to developed nations, evident from the highly contracted GDP of India and comparative analysis of India’s GDP with various nations.

The Government of India came up with Relaxation ordinance to help taxpayers in compliance with related to direct taxes and indirect taxes, lowering down the penalty and interest payments and ensure liquidity and economic development. Also, it included initiatives like PM Cares Fund to ensure that well-to-do people help the needful and get a 100% deduction on the amount donated.

Besides, “Self-reliant India” was launched, to further attain the objective of boosting economic development and making citizens self-reliant in the time of crisis, by including certain tax administration aspect.

Hence, the Government of India is working towards improving the GDP and acknowledging the challenges faced by citizens during the pandemic.

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<sup>32</sup> Atmanirbhar Bharat Abhiyaan. (n.d.). Retrieved November 08, 2020, from <https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan>

<sup>33</sup> Atmanirbhar Bharat Abhiyaan. (n.d.). Retrieved November 08, 2020, from <https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan>



In my opinion, PM Cares Fund is a good initiative and has the potential to attain the objective set out by the government. It can attain more contribution from the government if, in addition to the 100% deduction, the government provides the taxpayer with the concession of another 100 % of the amount of the donation.

According to the current scheme, if the taxpayer A is having an income of INR 100, the tax is set @10% and he is donating INR 10 to the fund, the tax liability upon him is INR 9. According to the scheme proposed, the tax liability should be fixed on INR 80 if he is donating INR 100 and that the liability should be of INR 8.