



A COMPARATIVE STUDY OF IMPACT OF DIGITIZATION IN TAXATION BETWEEN INDIA AND BANGLADESH

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ABSTRACT

India as a developing country is committed to increasing tax revenue and achieving fiscal discipline with a view to increasing self-reliance. The external environment influencing the tax performance of India has changed remarkably as the country more and more integrated with the global economy during the 1990s. In recent years, the Government of India has initiated some administrative and policy reforms in the tax system. An improved tax administration in association with some pragmatic policy initiatives has of late resulted in a modest improvement in the tax to GDP ratio. However, the performance is still unsatisfactory as compared to other countries at a similar stage of economic development.

KEYWORDS: Digitization, Tax administration, Tax policy

INTRODUCTION

The term tax has been derived from the French word tax which means to charge. Review of different literature suggests that "tax" was introduced to generate public and state revenues to cope with the situation after major crises like famine, devastation of war etc. Likewise, in the Indian Subcontinent "tax" was introduced to raise additional finances in order to replenish the revenue deficit caused by the Sappy Mutiny of 1857 (K I Interview). Following the Mutiny, the British government took over the rule of India from the East India Company, which was in a bad financial state. To find a way-out, the government appointed a Finance Member in India, named Mr. James Wilson, who introduced a bill to the Indian Legislature entitled "An Act for Imposing Duties on Profits arising from Property, Professions, Trades and Offices" in 1860.

However, the Act did not work well in 1865 and was reintroduced in 1867 as certificate tax, which in turn was converted into regular income tax in 1869. Though the changes over the years improved the tax system in form and coverage, the income tax was altogether abolished in 1873-74 when there was a comfortable budgetary surplus (Bala Swapan Kumar 2009). However, in 1879-80 taxes were raised in the form of license taxes and continued until

1885-86. meantime in 1886 the Indian government adopted the Indian Income Tax Act, which was again amended substantially in 1916 and consolidated in the income tax law of 1916. In 1922 the All-India Income Tax Committee was appointed. It recommended a broad-based "Income Tax Act" and necessary institutional arrangement for tax collection.

Based on the recommendations the Indian government adopted the „Income Tax Act 1922 (Act XI of 1922) and established the Inland Revenue Board as the highest authority for income tax. The very „Act“ tried to address few fundamental issues and peoples“ concern, such as the basis for assessing income, profits and gains, the taxpayer’s choice, etc., but still it was a continuation of the reactive and centralized tax system of the British ruler and people’s views and concerns were not reflected in a structured manner.

CURRENT REVENUE REGIME

The current fiscal regime of Bangladesh consists of direct and indirect taxation. It is governed by the National Board of Revenue (NBR). Revenue is also generated from non-NBR sectors and under the laws and acts of related ministries. The NBR taxes include Customs Duty, Value Added Tax (VAT), Supplementary Duty (SD), Personal Income Taxes (PIT) and Corporate Income Taxes (CIT). Personal and Corporate Income Tax, the single largest source of direct tax, is governed by the Income Tax Ordinance, 1984 (XXXVI of 1984). The income tax laws consist of the following statutes (apart from the main statute) (Bala, Swapan Kumar 2009):

- Income Tax Ordinance 1984 – the parent statute;
- Income Tax Rules 1984;
- S.R.O. (Statutory Rules and Order)/Gazette Notification;
- Income Tax Circular;
- General or Special Order;
- Explanation/Office Memorandum;
- Verdicts of Appellate Tribunal for equivalent fact;
- Verdicts of the High Court Division on question of law; and



- Verdicts of the Appellate Division on judgment of the High Court Division.

Besides fiscal income from direct sources (e.g. income tax) India generates a substantial share of its revenue from indirect sources through import and excise duties (customs duties). Customs duties are normally payable on the following goods: a) imported and exported goods; b) goods brought from any foreign country to any customs station and without payment of duties there, transshipped or thence carried to and imported at any other customs station; and c) goods brought in from one customs station to another.

The customs duties were the biggest contributors to the tax revenue until the late 1980s. That is when their decline started, due to reduced rates and levies to comply with the demands of global and globalized trade and the fiscal policies of market liberalization, and also for shifting of economy from trading to local manufacturing. It then became necessary to think of other options for revenue generation. Given the context, in 1986 the World Bank suggested introducing VAT in Bangladesh. With the aim of greater revenue generation for the government and stimulating economic growth, the VAT Bill 1991 was proposed in the National Parliament on 1st June 1991 and a month later the Bill was passed and made into the VAT Act 1991. The VAT Act 1991 contains over 70 laws that guide a business in VAT related issues, from registration to penalties on non-compliance. It also dictates the structure of the VAT authority and the power it may exert on businesses regarding the three taxes within the realm of the Act as the situation demands.

DISTRIBUTION OF TAX BURDEN AND PROGRESSIVITY IN INDIA

One of the basic concepts of designing and implementing an equitable taxation regime is "Broad Basing", meaning that the taxes should be spread over as wide as possible a section of the population, or sectors of the economy, to minimize the individual tax burden. While indirect taxes (e.g. GST) levied on goods and services affect the rich and the poor alike, direct taxes may create burdens on a certain income group. Indirect taxation is commonly used to generate tax revenue paid indirectly by the final consumer of goods and services. It is paid by everyone in society, regardless their financial situation.

Hence, indirect taxation can be viewed as regressive as it imposes a greater burden (relative to resources) on the poor than on the rich. In contrast to direct tax, the taxpayer and the tax-bearer are not the same person. Hence, to reduce an individual's tax burden, the taxation regime should be diverse and broad-based with an equitable balance of both direct and indirect sources. On the other hand, the term "progressive" refers to the way the tax rate progresses from low to high, with the result that an individual on average pays less than the person's marginal tax rate. This also means that people with lower income pay a lower percentage of that income in tax than those with a higher income. Unlike indirect taxes, direct taxes are linked to the

taxpayer's ability to pay, and hence are considered to be progressive. In India, direct taxes consist of taxes from income tax and other taxes.

The sources of income tax can be classified in 7 categories:

1. Salaries
2. Interest on securities
3. Income from house property
4. Income from agriculture
5. Income from business or profession
6. Capital gains
7. Income from other sources.

Indirect taxes are collected by intermediaries from the person who bears the ultimate economic burden of the tax. The intermediary later files a tax return and forwards the tax proceeds to the government with the return. The major indirect taxes in Bangladesh include: value added tax (VAT), excise duty, trade tax and turnover tax. Nevertheless, the tax structure of Bangladesh is perceived to be regressive as it is heavily dependent on indirect taxes (about 64% in 2014). The gap between direct and indirect tax has reduced since 2005 as the share of direct tax has increased.

REVENUE FORGONE

In Bangladesh there is no good estimate of revenues forgone due to tax exemptions. At the time of preparing tax incentives, the revenues estimates are also not prepared. As a result, the actual cost benefit accounting is not prepared. Whereas Indian tax structure is becoming narrow day by day in terms of exemptions and deduction because of which people avoid paying taxes.

DEFINING AND MEASURING DIGITIZATION

We believe the extent of a country digitization can be measured across six key attributes:

- Ubiquity** – the extent to which consumers and enterprises have universal access to digital services and applications.
- Affordability** – the extent to which digital services are priced in a range that makes them available to as many people as possible
- Reliability** – the quality of available digital services
- Speed** - the extent to which digital services can be accessed in real time
- Usability** - the ease of use of digital services and the ability of local ecosystems to boost adoption of these services
- Skill** - the ability of users to incorporate digital services into their lives and businesses.

ECONOMIC IMPACT

Analysis confirms that digitization has a material economic impact, which we assessed with three variables: growth in per capita GDP, job creation, innovation. We analyzed 150 countries using a classical production function model to assess economic impact, controlling for a number of variables.



We found that an increase in digitization of 10 percentage point triggers a 0.50 to 0.62 percent gain in per capita GDP. By contrast, previous studies that focused mainly on broadband penetration established that a 10percentage point increase in broadband penetration contributes a gain in per capita GDP of just 0.16 to 0.25 percent. Thus the GDP impact from digitization is more than twice as large as the impact of broadband penetration.

Additionally, the economic impact of digitization accelerates as countries transition to more advanced stages. Constrained digital economies realized a 0.5 percent increase in GDP per

Capita for every 10percent increase in digitization. While advanced digital economic show a 0.62 percent increase in GDP per capita forever 10 percent digitization increase.

Comparative growth in GDP: India and Bangladesh

Year	2017	2018	2019	2020	2021
India	8.3%	6.8%	6.5%	4.0%	-7.3%
Bangladesh	7.1%	7.3%	7.9%	8.2%	2.4%

(Source-World Bank)

India witnessed an all-time high GST revenue collection from October 2020 onwards. In the recently released collection figures, the Finance Ministry has revealed that the provisional net indirect tax collections for financial year (FY) 2020–21 recorded a growth of 12.3%; 108.2% of revised estimates of indirect taxes for FY 2020–21 has been achieved. This is a feat in itself.

TAX COMPLIANCE PATTERNS

In our main sample (the set of firms surveyed in the baseline survey), we find that overall compliance is very low: 34.1% of firms are VAT registered; 2.6% of firms paid package VAT in the last year; and 5.7% paid a positive amount of regular VAT in the last quarter. We can also see that a firm becoming registered is not sufficient to ensure payment in practice. There are a substantial number of what NBR refers to as “stop filers”: firms that are registered but who do not file or remit taxes. Note that the NBR believes that essentially all firms in these areas

should be VAT registered and should be paying regular VAT. There is therefore substantial room to improve compliance even on very basic measures such as registration, filing, and non-zero payment. We see substantial variation in compliance across sectors. We also see variation based on firm size, with a very steep gradient in compliance by number of employees. Bangladesh Tax Revenue was reported at 2.886 USD bn in May 2022. This records an increase from the previous figure of 2.752 USD bn for Apr 2022. Bangladesh Tax Revenue data is updated monthly, averaging 433.352 USD mn from Jul 1990 to May 2022, with 383 observations. The data reached an all-time high of 4.694 USD bn in Jun 2021 and a record low of 87.797 USD mn in Jul 1990. Bangladesh Tax Revenue data remains active status in CEIC and is reported by CEIC Data. The data is categorized under World Trend Plus’s Global Economic Monitor – Table: Tax Revenue: USD: Monthly: Asia.

If we look for return filing in India in recent years.

Assessees	Number of Returns 18-19	Number of Returns 17-18	Number of Returns 16-17
Individual	5,52,60,219	4,66,75,114	4,63,79,861
HUF	11,30,554	10,70,688	10,61,945
Firm	12,69,736	11,04,509	10,74,468
AOP/BOI	2,04,048	69,727	76,151
Companies	8,41,942	7,92,268	7,70,092
Others	6,959	1,56,074	1,25,042
Total	5,87,13,458	4,98,68,380	4,94,87,559

(Income Tax Return Statistics 2018-19) Note: Others include Trusts, Cooperative Society, LLP, Local Authority and Artificial Juridical Person.

The income tax department of India has received about 58.3 million income tax returns (ITRs), largely from salaried and individual taxpayers, by July 31. The latest figures are about the same as that of the previous financial year (2020-21). On July 31, 7.24 million ITRs had been filed, shattering all previous single-day records (the maximum being 4.9 million in 2019). All the above collections have been possible because of huge infra-available to file return online.

CONCLUSION

Taxation is indispensable in order to support the basic function of a sustainable state and to create the context for economic growth. An improved tax system is the key to financing public services, reducing inequality, making government more accountable and helping to improve self-reliance. Over time, the NBR has had major achievements as it invested time and efforts to achieve its objectives and to reform the tax system. The tax system in Bangladesh is gradually improving, raising more revenue and reducing the



dependency on aid. However, Bangladesh is still a low tax effort country with a high buoyancy ratio, implying that the policy-makers of Bangladesh have the scope and potential to opt for greater revenue mobilization through internal resources in order to meet the budgetary deficit. This report analyzed seven areas of the tax system: tax system in general; distribution of the tax burden and progressivity; revenue sufficiency and tax leakages; tax exemptions; effectiveness of the tax administration; government spending and transparency and accountability. With the objectives of looking into the complex character of tax systems in order to evaluate the fairness of a tax system under review. The report reveals the situation in Bangladesh and provides a set of recommendations at the end of every chapter for a better understanding by readers. The recommendations indicate that fair taxation is possible if the government follows standard norms of policy implementation and if it improves the transparency and accountability based on participatory approaches.

The study finds that there remains a lot to improve in terms of the tax collection to achieve the desired tax to GDP ratio. Tax exemptions and tax evasion in general also contribute to the low revenue mobilization. The construction of institutions that are independent and easily monitored is an important strategy for curbing corruption and abuse. This should include clear processes and regulations, accompanied by dedicated enforcement capacity. Transparency and inclusiveness are essential in fair tax systems. This implies that citizens should have detailed information about how taxes are assessed, how much tax revenue is collected and how that revenue is used. Measures to enable citizens to monitor the fairness of tax collection efforts and expenditure are crucial. To conclude, researcher only can say that from the above data it is clear that both the countries are making 100% efforts to collect and make collection of taxes easy and fast with the help of technology but India with huge amount of population facing burden of major part not making tax payment. Whereas Bangladesh is showing better performance in tax compliance in terms of percentages because of less population and high degree of faith in tax structure amongst the population. There is a need in India to make people more aware and have a faith in paying taxes.

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