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Nexus Between Industry Dynamics and Tax Policies Today

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ABSTRACT

We begin with a historical analysis of tax policies. We then proceed to understand how industries shape tax policies using a case study and the economic and political factors. At this stage, a comparative analysis of industry-based policies is done. Global competition is analyzed after which an industry-based response to policies is undertaken. To conclude, a futuristic view of policies is provided for a full circle from the past to the present to the future.

***Keywords**: Government, Industries, Tax Policies, Socioeconomic Outcomes, Futuristic Regimes.*

I. INTRODUCTION

The taxation system in India can be traced back to ancient times and can be found in scriptures such as the Manusmriti and Arthashastra, which act as traditional sources of law today and provide for a fair system of collection and imposition of taxes. The importance of taxation as a system has been emphasized as essential for the welfare of a state and its beings since in these ancient sources as well as in classic books of economics and law. The official system of taxation was said to have been introduced formally in the 1800s. The Income Tax Act in India was passed in the year 1860 and since then it has undergone many amendments, the most recent draft of the act being The Income Tax Act of 1961.

(A) Impact of Industrial Revolution and Transformation

The impact of the Industrial Revolution has been seen through a lot of transformations in tax policies across the world and not just in a few countries. The degree, nature, and sector in which the impact has been seen varies from country to country but in general, the impact has been seen in a few major areas.

The post-Industrial Revolution world saw a huge shift from agrarian-based economies to industry-based economies. In terms of taxation policies, this was seen through a lesser emphasis

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on agricultural tax and a larger emphasis on industrial policies as well as commercial activities and taxation policies that facilitated an increase in production. The Industrial Revolution led to a drastic transformation in tax policies with the inclusion of the concept of corporate taxes since the service sector also came into existence along with the manufacturing sector. This was the period when corporate tax started being a major contributor to government revenue. Since manufacturing industries gained importance, excise duties started being imposed on manufactured goods which led to an additional and significant source of revenues for governments. Tax incentives directed toward the promotion of industrialization led to exponential industrial growth. Globalization and increase in technology and the high rate of dependency on technology led to various tax reforms to accommodate the changes taking place globally. Hence, tax policies have seen a lot of adaptation on a global and national level based on the economic conditions as seen during the Industrial Revolution.

(B) Industry-led tax reforms in various areas

Technology companies largely advocated for incentives that encourage research and development and also sought reforms of the nature of tax credits, deductions, reductions in corporate tax, and higher depreciation of their investments. Manufacturing and export industries stood for reforms through tax holidays, reductions in corporate taxes, and reforms that helped increase their competitive advantage. Healthcare industries focused on research and development in the medical field and the manufacturing of pharmaceuticals and medical devices. Agricultural industries backed reforms that supported farmers like irrigation facilities and farming infrastructure development. Financial sectors endorsed incentives to promote savings and investment mostly focused on long-term savings and investment. Startups required incentives such as tax holidays, exemptions, and measures to improve startup ecosystems in their initial years of operation. Telecommunication sectors pushed for tax incentives for the expansion of communication infrastructure. In conclusion, industry-led tax reforms are often driven by the specific needs and challenges faced by each sector. Industry associations, business groups, and corporations may engage in dialogue with policymakers to shape tax policies that align with their interests and contribute to overall economic development.

II. Influence and Powerplay of Industries in Shaping Tax Legislation

Industries use techniques like lobbying, campaign contributions, and direct engagement with policymakers to influence tax legislation. They advocate for policies beneficial to them by influencing the drafting and implementation of tax laws. Lobbying is one way through which industries influence the government by exerting pressure on the government to change or alter public policy decisions. In India, there is no specific law that makes lobbying legal.

(A) Case study of industrial influence on tax legislation in India

Telecom industry:

The lobbying efforts by the telecom industry regarding the Goods and Service Tax(GST) in India is one significant case. Even before the passing of the Constituent Amendment Bill for rolling out the Goods and Service Tax(GST) in India, several sectors, including the telecom sector, had begun hectic lobbying for exemption from the new tax.

The telecom industry was lobbying for a lower tax rate as the existing tax structure was already heavy. They stated features like the essential nature of telecom services and their role in driving economic growth. The industry successfully managed to persuade the government to reduce the GST from the initial proposal of 28% to 18%. This helped prevent an increase in costs for consumers, eased the financial burden on telecom companies, and ensured competitiveness. The telecom industry usually pushes for tax exemptions for the development of networks and technology upgrades. They navigate pricing regulations and international tax norms and structure their operations and transactions to optimize tax liabilities, thereby seeking to align tax laws advantageous to their industry.

Moreover, regulatory bodies like the Telecom Regulatory Authority of India(TRAI) impact tax policies indirectly. Recommendations made by such authorities are crucial and can influence policymakers in framing tax laws that impact the telecom sector.

(B) Analyzing various political and economic factors

There is a complex power play of political and economic factors in shaping tax legislation in India.

a. **Political factors**:

- Lobbying power: Industries use lobbying power to align themselves with political parties or influential policy makers which helps them gain leverage in advocating for favorable tax policies. This is backed by financial contributions as well.
- Regulatory capture: In most cases, regulatory bodies become influenced by the industry's interests. This leads to policies favoring industry demands, impacting tax legislation through regulatory recommendations.
- Public perception and political agenda: Techniques like campaigns are often used by industries to shape public perception to influence policymakers

b. **Economic factors**:

- Economic Significance: Sectors like technology, finance, pharmaceuticals, etc, contribute substantially towards GDP (gross domestic product) and employment generation thereby exerting considerable sway on tax policies. These industries contribute significantly to the country's economy.
- Global market dynamics: Industries always look for lobbying tax policies that help maintain competitiveness and provide advantages in the international markets. This is common among multinational industries as industries operating in global markets are affected by international tax laws and trade agreements.
- Growth and Employment: Tax breaks or incentives supporting research, development, and expansion contribute to industry lobbying efforts.
- Competitiveness and market access: Industries secure an advantage over rivals through lobbying for tax reforms that reduce production costs, improve market access, and enhance export competitiveness.

III. Government Tax Policies

Tax is one of the primary sources of revenue a government has. Governments mainly form their tax policies in such a manner that is favorable towards industries. How governments perform tax reforms can be through budgetary measures, fiscal policies, etc.

Taxes act as a crucial source of revenue for the government which they can use for public expenditures such as infrastructure development, housing, and other activities for the overall welfare of the state. Tax policies aim to balance the need for revenue with the economic, social, and political objectives of the state.

(A) Comparative analysis of tax incentives across different industries

In India, tax incentives are given to businesses to attract investment. Incentives are given in various sectors based on varying factors including but not limited to sector returns, economic activity, industry, size, and location of the business firm.

a. **Information Technology and Special Economic Zones:**

Special Economic Zones (SEZs) are a major way of attracting investment to India. The incentives provided to foreign investors looking to commence business operations via an SEZ include ease of operations, less red tape, favorable policies overall as well as tax benefits. This helps make India more attractive for investment.

In terms of taxes, SEZs qualify for tax exemptions on their profits and investments based on their area of operation, the type of SEZ, and their approval date. SEZs are exempted from filing for income tax returns and are hence entitled to a 100% exemption on income tax paid on profits for the first five years of their operations. This exemption reduces to 50% for the next five years after the first five-year period concludes. After the first ten years, the SEZs are entitled to a 50% exemption on reinvested profits.

All businesses need to adhere to Central Government rules to be eligible for deductions to operate Industrial Parks and SEZs and need to adhere to Section 80TTB of the Income Tax Act 1961.

For startups, tax exemptions are provided under Section 80 1C of the Income Tax Act 1961. Concerning the healthcare and pharmaceutical sectors in India, tax exemptions are made for their research and development work. This is done to promote research and development as well as incentivize the production and manufacturing of healthcare products.

Under Section 35 of the Income Tax Act 1961, companies involved in research and development activities will benefit from tax deductions to promote innovation.

b. Manufacturing Sector

In the manufacturing sector and for production units, the Government of India has launched many schemes as part of their taxation incentives including the well-known Make In India scheme to encourage production and manufacturing within India. Budgetary allocations have also been made in the last few financial years to accommodate the goal of "Atma Nirbhar Bharat".

The Government launched the Industrial Corridor scheme to lay out 11 industrial corridors in the country to promote sustainable production.

Various steps have been taken to increase production in the country including the introduction of Goods and Services Tax, reduction in Corporate tax, interventions to improve ease of doing business, FDI policy reforms, measures for reduction in compliance burden, policy measures to boost domestic manufacturing through public procurement orders, Phased Manufacturing Programme (PMP), to name a few, according to the Press Information Bureau of India.

c. Agriculture and Agro-Based Industries:

Under Section 10(1) of the Income Tax Act 1961, all income earned through agricultural activities is exempted from payment of taxes. Agricultural income is defined under Section 2(1A) of the aforementioned act as;

“(a) Any rent or revenue derived from land that is situated in India and is used for agricultural purposes.

(b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.

(c) Any income attributable to a farmhouse subject to satisfaction of certain conditions specified in this regard in section 2(1A).

Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.”

IV. Global competition and industry-tailored taxation

Competition from all over the world impacts how industries advocate for tax legislation. They survive by reducing costs and enhancing productivity and innovation to match international standards. These industries lobby for tax structures that align with international trade agreements for lesser tariffs, customs duties, and tax incentives. Tax policies supporting research, innovation, and technology adoption are sought to ensure they can keep pace with global advancements.

(A) Tax competition and its effect on global industry dynamics:

Tax competition among countries influences global industry dynamics across various dimensions. It influences investment and location decisions, global trade patterns, innovation and technology development, fiscal policy and government revenue, regulatory arbitrage and compliance, etc. Industries decide where to establish their operations depending on the Foreign Direct Investment(FDI). Countries with lower corporate tax rates or tax incentives attract more FDI. This affects global investment flows and impacts industry presence in different regions. Industries often relocate their units to countries with more favorable tax structures impacting the global supply chain and the distribution of production capacities. This affects global trade patterns. Tax competition can influence the volume and direction of international trade flows. This can lead to shifts in import-export dynamics.

Complex tax systems arising from competition can increase compliance costs for industries, influencing resource allocation and operational efficiency as well. Intense tax competition, especially reduction of corporate tax rates can lead to less tax revenue for governments. This impacts the overall business environment as it influences public spending, infrastructure development, and social programs. Countries may engage in efforts toward tax harmonization and establishing minimum tax standards to ensure tax harmonization.

V. Assessing tax policy effects on Industries

Without a doubt, taxation is one of the primary instruments used by the majority of governments worldwide to achieve long-term growth and economic development. It is important to remember, though, which tax components should be prioritized in order to achieve economic growth. For instance, it has been stated in a number of papers and research that customs duties had a favorable effect on industrial growth, but excise duties did not statistically significantly affect it. Consequently, policymakers should exercise caution when deciding which tax components to use as instruments to influence industrial growth that is driven positively.

(A) Impact of various tax policies on industrial growth

India has opted for a mixed economy and planned economic development with the aim of achieving inclusive growth and a socialist social structure. Lower statutory rates combined with a broader base are intended to increase revenue while reducing the burden of marginal taxes and removing distortions. Over the past ten years, India has explored a number of tax reforms in an effort to increase tax collection, savings, and investment relative to regional norms.

a. Agricultural Sector

Environmentally friendly production methods are becoming more prevalent in the agricultural sector as farmers are offered greater benefits for using and purchasing greener inputs and farming practices. Since improved irrigation systems offer benefits that make water conservation easier, water conservation is also being done. The provision of insurance benefits has also lessened the financial risk to farmers. Benefits from insurance also assist by providing farmers with a safety net in the event of a natural disaster.Additionally, it is seen that farmers are adopting more tax-beneficial crop variety strategies like crop rotation. Incentives have also contributed to a significant rise in the acceptability of the agro-based processing businesses, which have given farmers new revenue streams and supported the creation of jobs in the industry.

b. Manufacturing Sector:

Offering incentives to businesses has not only given Indian manufacturing companies a competitive edge over overseas competitors, but it has also drawn international investment to India for production purposes. Businesses have made more money thanks to incentives like lower corporate taxes, and these earnings have been reinvested in more lucrative endeavors. The government has ensured a rise in the adoption of environmentally friendly production techniques by means of tax incentives. Tax incentives have also encouraged businesses to

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reorganize their supply chains, which has increased business efficiency. The Industry 4.0 programmes, which pushed businesses to integrate cutting-edge technology like artificial intelligence into their processes to streamline them, provided another means of boosting productivity.

c. Service sector:

According to the Economic Survey 2017–18, the services sector—which accounts for 55.2% of India's Gross Value Added (GVA)—continues to be the main engine of the country's economic growth, accounting for over 72.5% of GVA growth in 2017–18. 12 Under the previous system, services were subject to a 15% tax rate, which included 0.5% for the Swachh Bharat Cess and 0.5% for the Krishi Kalyan Cess. However, under the GST, this rate has been increased to 18%, which has increased the cost of services and labor contracts. One must be able to return for every business in every state because of the decentralized registration system, which might be difficult in terms of compliance.

In contrast to the previous regime, service providers are now permitted to claim the input tax credit (ITC) on capital goods and inputs, which lowers their costs. There are no taxes on healthcare services, making them inexpensive and freely accessible to everyone, in order to guarantee their affordability for the average person. The creation of technology parks, SEZs, BPO industries, and other infrastructure-related tax incentives have all contributed to increased economic development. In summary, the service sector is affected by GST in a variety of ways. It is advantageous in certain ways, but it also makes doing business more difficult.

d. Banking sector:

One of the most significant industries in India and a major provider of new job opportunities, the banking sector adds approximately 7.7% of the nation's GDP. This industry is subject to strict regulations that do not allow for any room for interpretation. Prior to now, all banks and all branches used a single registration process in accordance with Service Tax regulations. However, banks with branches in several states and Union Territories (UT) must register under the GST regime in each of these states and UT, which will place a significant compliance burden on the banks.

(B) Socioeconomic outcomes of policies:

Tax laws can affect consumer spending, company investment, and total economic activity, all of which have an impact on economic growth. For example, a decrease in personal income taxes might provide people with more disposable income, which boosts consumption and increases the demand for products and services. Furthermore, the distinct socio-economic setting, institutional structure, and political climate of a nation can all influence how tax policies affect economic growth and development. For example, compared to established economies, emerging nations may confront various challenges, and their tax policies may need to address certain issues. Tax laws have a significant impact on the mobilization of domestic resources for development in poor nations.

It is a tough endeavor to strike the correct balance between raising tax income and avoiding placing undue costs on vulnerable groups. Expanding the tax base to include more people and companies in the formal sector is one strategy that is frequently taken into consideration in developing nations. Simplified tax structures, incentives for tax registration, and initiatives to raise tax compliance can all help achieve this. Tax laws can assist generate money, promote economic growth, and give development initiatives a more reliable source of funding by bringing more activities into the official sector.

VI. Futuristic tax regimes

Companies are more likely to view tax authorities as possible collaborators, members of rich data ecosystems, and sources of information about their tax affairs, all while improving society by monitoring moral behavior like paying a livable wage or adhering to anti-modern slavery laws. The spirit of cooperation can spread throughout economies and communities as these new connections—and the trust at their center—become more solidified and mature. This will promote sustainable economic growth, assist companies, and accomplish social responsibility objectives.

Improved cybersecurity has also made it possible for tax authorities to effectively use hybrid working during COVID-19, a period of unusual risk and vulnerability when lawbreakers were looking to take advantage of any openings while public sector organizations were rushing to come up with countermeasures. This needs to stay a priority as thieves find new ways to take advantage of people's vulnerabilities. New procedures, technology enablers, and education should all be used to help and safeguard users while they carry out their essential duties. If Net Zero 2050 is to become a reality, humanity will need to make the greatest profound behavioral shift in its history in the shortest amount of time. Even though it seems like we're lagging behind in the race to Net Zero, there is still hope, even at this late hour.

Redoubling our efforts and acting quickly, efficiently, and cooperatively will still allow us to reset the graph's line to the necessary trajectory, which will take us towards the 2030 goals we need to meet in order to reach 2050. In order to attain the level of widespread consumer involvement necessary to bring about Net Zero, an increasing number of sustainable products and services need to be easily accessible, reasonably priced, and user-friendly for the vast majority of customers. Too many customers are still being pushed into high-carbon, unsustainable solutions at the moment by uncompetitive prices, limited availability, and perceived complexity.

VII. Conclusion

Trust is a critical component in the ongoing evolution of tax authorities, from enforcers to business enablers and active participants for good, providing the resources that deliver governments key social, economic, and environmental policies.Trust can be truly transformational in the tax world. When people trust their tax authority, they are more likely to pay their taxes in full and on time. When citizens feel that their tax system is fair, secure, transparent, and operating in the best interests of society, they are more likely to share their data; more likely to adopt digital processes and modern payment mechanisms; and more likely to use technologies such as cognitive care when they need support.

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