Covid-19 Pandemic: 
Response of the 
Government through 
Public Policy Mainly 
Direct Taxation 

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Abstract 
The sudden occurrence of the Covid-19 pandemic affected millions of lives in India. The Indian government inter alia took immediate steps to give relief to the taxpayers under direct tax laws for sustaining their livelihood and to stabilise the economic growth. Post-lockdown, further measures were undertaken to address genuine concerns and hardships of the taxpayers. The suggestions of the international agencies, economic survey, some revenue officers for handling the emerging situation, and policy decisions taken by the direct tax administration pre- and post-Budget 2021 have been examined. Finally, it was found that an ongoing progressive tax structure and administration is the need of the hour for consistent economic growth and human development.

Keywords 
Government response, public policy, direct taxation, Covid pandemic 

Kosh mulo danda are the keywords said by Kautilya in his famous work, the Arthashastra, which meant that the treasury is the backbone of the administration. This indicates the vital importance of finance for the government in carrying out its functions. The public policy measures are the interventions done by any government through the framing of laws, rules and regulations, and setting its priorities through budgets. The taxation proposals in the annual budgets laid down before the legislature set the financial and monetary priorities for the government. A sudden unexpected occurrence of Covid-19 forced the governments to realign their priorities.

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Historical Background

The organisational history of direct taxes in India could be traced back to the year 1922, from where it developed rapidly not only structurally but also as an administration reflecting the socio-economic philosophy of the country. In 1924, a Board was created as a statutory body under the Central Board of Revenue Act to administer direct taxes. Post-Independence, a direct taxes advisory committee was also constituted, which ultimately led to the legislative enactment of the Income tax Act, 1961, effective from 1 April 1962 and the Central Board of Direct Taxes (CBDT) under the Central Board of Revenue Act, 1963. Thereafter, numerous annual amendments have been carried out in the Income-tax Act through Finance Acts so far.

Three factors (Mellon, 1924, pp. 9–22) are the soul of a robust tax policy wherein it should yield adequate revenue, the tax burden should be reasonable for the bearers, and it must control the factors inhibiting the economic growth and businesses. The Covid-19 had a profoundly adverse impact on the ongoing economic activities, especially for the developing nations, which were already struggling to come out of the recession across the globe. As the policy measures through direct taxation have a direct impact on the money or capital left in the pocket of individuals and the entities, viz. companies, firms, etc., which further provide employment and become partners in growth. Any status quo on the taxation provisions could have a disastrous impact on liquidity in the market, which would lead to the building-up of recessionary tendencies in the economy.

This article intends to evaluate the revival strategies made by the Government of India for resource mobilisation, specifically focusing on the interventions made through the application of direct taxation. It analyses various public policy responses taken by the direct tax administration of the Government of India. It also seeks to evaluate how these policy interventions stand amidst steps taken by other nations.

The suggestions of the relevant international organisations on the handling of the post-Covid-19 economy will also be seen. A report submitted by some officers of the Indian Revenue Service for increasing direct tax revenues under Covid conditions will also be examined. The conclusion concludes the way forward for the taxpayers and the government to promote sustained economic growth and provide productive employment for the eligible workforce.

The Union Government in India took immediate steps on the economic front to address the issue of falling incomes of individuals and entities. The Union Budget announced on 1 February 2021, further enhanced the momentum of these sustained measures.

Policy response recommendation and actions so far are the following

International Organisations’ Recommendations [OECD/IMF/UNCTAD]

Tax incentives (Karen, 2017, pp. 6–7, 363) provided important instruments in the hands of the nations to manage fiscal affairs, particularly for the developing
countries, which use them to indemnify the gaps in their domestic capital due to shortage of incoming overseas investments. Nations are free to make their tax laws to achieve the intended target of collections without interference from other countries. However, with the growth of liberalisation and globalisation, cooperation at the international level across jurisdictions has come up. This will help in making a global market without any restrictions, also called tax arbitrage, and collective intergovernmental action of the nations is required to tackle the international tax matters. The Organisation for Economic Cooperation and Development (OECD) has become one of the front-runners in this direction. The OECD, created to promote world trade and improving the world economy, came with an initial report (OECD, 2020) in April 2020, followed by its updates suggesting various measures for various countries on using tax as a relief measure in coming out of the Covid situation. It advocated exceptional tax measures for restoration of the economic growth and increasing the falling cash flow in the economy due to the Covid slowdown. The key features suggested by the OECD are as follows:

(a) Increasing the international collaboration for seeking new ways of recovery and providing targeted stimulus to the Covid-affected individuals and entities;
(b) Introduction of expansionary fiscal policies and new taxes by the government to generate extra resources needed for fighting the pandemic;
(c) Rationalising tax rates for inclusive growth and reducing the compliance burden on the taxpayer;
(d) Express processing of income returns and issuance of refunds to the taxpayers to enable them to absorb the economic shock;
(e) Extension of deadlines, deferment for payment of taxes, suspension of penalties, adverse debt recovery methods.

The nations have been advised to synergise their individual capabilities through multilateral collaboration to fight the pandemic in a focused and united manner.

The tax equity (Murphy & Nagel, 2002, pp. 4–8) amongst the different sets of taxpayers is an accepted measure, but its implementation has been a challenge for the governments. Amongst it, the vertical tax equity provides differential treatment of taxpayers who are at different slabs of income, while horizontal equity seeks to provide equal treatment for people falling under the same level. Taking into consideration such equitable measures, the Fiscal Affairs Department of the International Monetary Fund (IMF), looking after the international lending, economic and capacity development, suggests the following on the role of taxation during Covid pandemic conditions:

(a) Taxation to play a progressive and inclusive role to provide a level playing field to small and large taxpayers;
(b) With declining tax to GDP ratios in developing countries, taxation has to focus on shaping the new normal for mobilisation of additional revenues after the Covid crisis is over;
(c) Building tax capacities amongst the new taxpayers in the developing countries as a long-term sustainable goal (Gaspar, 2020).
Considering the fact that poor and vulnerable sections of the society have been affected disproportionately during the pandemic, IMF resolved to provide emergency finances to the nations facing fiscal and monetary crisis to tide over the liquidity crunch created due to the ongoing pandemic.

For the developing nations, the economic reforms and technological upgradations are at the core of their transformation (Corea, 1977, p. 177). They need to revisit their old laws and economic structures and intermingle with the global economies for higher income generation. This will lead them to better control over the macroeconomic indicators, monetary and fiscal policy, and external debt management. They can continue their mixed economy set-up but parallelly have to open the doors of the economy to greater liberalisation and globalisation.

Keeping such recommended reforms under consideration, the Secretary General of the United Nations Conference on Trade and Development (UNCTAD) (Kituyi, 2020), the international body entrusted with the task of increasing the capabilities in trade, investment, and development, suggested the following measures for the global economies:

(a) Governments to examine and implement various methods to reignite and stimulate international trade along with a need to keep their markets open and remove unnecessary restrictive trade barriers to create favourable trade conditions;
(b) To increase investment in the key sectors;
(c) Sustain the support efforts to reinvigorate the Micro, Small and Medium Enterprises (MSMEs), which are the backbone of the economies of nations in terms of manufacturing and employment; and
(d) To channelise the funds in greater impact areas that can generate employment for a sustainable and long-term stable recovery.

The UNCTAD advocated a focus on the flow of free trade and for greater cooperation amongst governments, including critical sharing of medical or vaccine assistance on Covid. Apart from suggesting measures for the governments, the role of the private sector has been specially recognised and highlighted for more equitable and sustainable economic growth.

**Measures by Indian Government and Its Impact**

Post-Independence, while adopting a mixed economy, as per the national consensus, India aimed at a self-reliance approach. The goal was to reduce the dependence on foreign capital and technologies (Baru, 1983, pp. 34–35).

In May 2020, *Aatmanirbharta*, a new self-reliant approach, was advocated by the Prime Minister Narendra Modi, and a huge financial package for about Rupees 20 lakh crore was brought by the government for boosting economic growth and countering the adverse impact of Covid. The salient relief measures *inter alia* included the following (PRS, 2020):
(a) Enhancement of borrowing limits for FY 2020–2021, from three to five percent of the respective state governments GDP to ensure greater borrowings by respective state governments for increasing liquidity;

(b) Reduction of Cash Reserve Ratio (CRR) by the RBI, thereby infusing liquidity in the market of ₹137,000 crore through banking institutions;

(c) Introduction of a ‘single ration card’ for the residents of the whole nation and provision for free food grain delivery to the migrated population affected by Covid through applications received from the newly launched dedicated web portal;

(d) Introduction of guarantee-free business borrowings up to Rupees 300,000 crore and creation of a special corpus of ₹10,000 crore for Micro, Small and Medium Enterprises (MSMEs) again to increase disposable funds in the hands of enterprises;

(e) Amending the definition of MSMEs and priority payment of dues within 45 days to them for increasing their cash flow; and as a safeguard during turbulent times, global tenders for an amount up to ₹200 crore for government procurements and disallowing;

(f) Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) rates were cut down by 25 per cent for non-individuals, thereby increasing cash liquidity in the hands to the tune of around ₹50,000 crore;

(g) Concessional credit facilities to two-and-a-half crore farmers and creation of rupees 100,000 crore agri-infrastructure fund for supporting them in getting timely agricultural inputs;

(h) Temporary suspension for initiation of insolvency proceedings under Insolvency and Bankruptcy Code (IBC) on Covid-related debts initially up to six months, done in order to save entities going into debt trap on account of blocked payments due to the sudden impact of Covid;

(i) Creation of special ‘PM Street Vendors’ ‘Aatmanirbhar Nidhi’ for Street vendors to obtain easy working capital loan from banks up to ₹10,000 crore, which is expected to generate liquidity up to ₹5,000 crore and provide collateral-free loans, to the needy; and

(j) In order to introduce greater liquidity through its employees spending, the government introduced new leave travel concession cash vouchers and festival advance schemes.

The collateral-free lending for MSMEs, foodgrain supply to migrant labourers, suspension of insolvency proceedings, working capital loan for street vendors, and RBI measures on CRR were the key measures. The stimulus plans to invigorate MSMEs, which were the backbone of our economy, targeted the poor, including farmers, undertook government reforms, and looked for new horizons of growth in the country. The overall stimulus provided by the government earlier and measures introduced in five parts was stated to be around ₹2,097,053 crore (Sitharaman, 2020).
Direct Tax Measures and Their Impact

The tax laws under normal circumstances must be objective (ibid.; Karen 2017) and neutral for all taxpayers without any special treatment to a certain category. However, the local tax administration of the country could undertake special measures for the promotion of investment, development and channelisation of income and resources as set out in the larger public policy of the day.

Growth of Indian Tax Structure

In the budget year 1949–1950, the tax rates were amended for the first time in independent India. The tax policy led to complicated eleven tax brackets for Personal Income Tax (PIT), having the highest rate of 85 per cent with a surcharge of 15 per cent, making it an effective rate of 97.75 per cent for the persons having income more than rupees 200,000 in FY 1973–1974. Similar policy effects were seen on Corporate Income Taxes (CIT) at that time. In a nutshell, a person did not have any incentive or push to earn more and end up paying almost all in taxes.

The tax policy situation took a drastic turn in Budget 1992–1993 when the government brought down the number of taxation slabs to three only with a maximum rate of 40 per cent taxation and it was seen as moderate. A further considerable impact came in the Budget 2017–2018 when the government almost made nil taxation rate for persons earning up to Rupees 300,000. As an unprecedented step, the government, in Budget 2020–2021, introduced a new optional and simplified PIT regime to be chosen by the individual taxpayer at the start of FY, with tax slab rates of 5 per cent (for income from ₹2.5 to 5 lakh), 20 per cent (income from ₹5 to 10 lakh) and 30 per cent for above ₹10 lakh income. Similarly, the rate of CIT effective from 1 April 2019 and onwards was reduced to 22 per cent from the earlier 30 per cent for the corporates not seeking any incentives or exemptions. For the corporates seeking any incentives or exemptions, it remains 30 per cent, but the Minimum Alternate Tax (MAT) rate, for loss making companies, has been reduced from 18.5 per cent to 15 per cent. As an incentive for new manufacturing companies and to promote entrepreneurship in India, the government introduced a new corporation tax rate of 15 per cent applicable separately to such entities.

The progressive approach is visible in gross direct taxes budget collections/outlays in India, rising from Rupees 155 crore in FY 1949–1950 to Rupees 68,305 crore in FY 2000–2001 and Rupees 12.06 lakh crore in FY 2020–2021.

Direct Tax Measures in the Covid Period

The CBDT of the Government of India, the body responsible for the management of direct taxes in India, took immediate steps to negate the effects of falling economic growth on account of nationwide lockdown in March 2020. The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 was brought, which addressed the issues related to the strict timelines provided under the Income Tax Act, 1961. The important steps were briefly given as under (CBDT, 2020):
(a) The time period for savings under Section 80C falling under Chapter VIA of the Income-tax Act, 1961 for FY 2019–2020 extended from 31 March 2020, to 30 June 2020;

(b) ‘Jhatpat Processing’ initiative was introduced by the CBDT to fast process the Income-Tax Returns (ITRs) and expeditiously grant the refunds. By the end of January 2021, around Rs 1.81 lakh crore of Income-tax refunds were issued to 1.74 crore taxpayers;

(c) Due dates of all ITRs filers were extended up to 31 December 2020, for individual and non-tax audit cases and up to 31 January 2021, for other cases for the assessment year 2020–2021;

(d) To clear up the huge pending direct tax appeals, the government introduced a dispute resolution scheme in March 2020 under the name Vivad se Vishwas (from dispute to trust) Scheme, which is presently extended up to 28 February 2021;

(e) CBDT, in August 2020, introduced a Taxpayer Charter in the form of fourteen-point obligations of the revenue and six-point duties of the taxpayer;

(f) Prime Minister Modi, on 13 August 2020, launched a team-based Faceless Assessment Scheme for scrutinising the ITRs in an e-mode by the Income Tax Department as an initiative to provide transparent governance;

(g) Faceless first-appeal scheme was also introduced by the CBDT in September 2020 as a continuation of the government initiative for fairness and transparency.

On one hand, the faster tax refunds placed the money in the pocket of the taxpayer battered by the pandemic, while on the other, the faceless compliance management provided hassle-free electronic access and response without the requirement of any physical presence. A downward alteration in the rate of taxes helped substantially in lowering the cost of living for the people while any rise in tax rates would entail an overall price rise and, therefore, a balancing act is the challenge for any tax administration and more so during the challenging times.

Some sections of the Indian media reported that the direct taxes collections have not only fallen drastically in the FY 2019–2020, but the tax-to-the-GDP buoyancy has also become negative. Though the direct taxes collections fell in FY 2019–2020 compared to FY 2018–2019; however, the same was temporary, expected, and attributable to historic direct tax reforms brought in India, and higher refunds given to the taxpayers. An amount of ₹1.84 lakh crore was issued as direct taxes refunds in FY 2019–2020, which is 14 per cent higher as compared to the last FY 2018–2019.

‘FORCE’ (Fiscal Options and Response to Covid-19 Epidemic) Report and Its Impact

When a crisis is faced in any country, it responds through significant stabilisation and redistribution measures (Pesuth, 2015, pp. 157–170), especially through taxes. Considering the unprecedented situation, some fifty officers of the Indian
Revenue Service (IRS Association, 2020) submitted a report to the Government giving various recommendations on the mobilisation of revenue and bringing back the economic momentum to battle the Covid. After analysing the impact of the Covid on the India and world economies, the report, *inter alia*, recommended the following taxation measures:

(a) As a short-term measure for generating extra resources, it suggested the raising of direct taxes to 40 per cent for the ‘super rich’ individuals on their total income or reintroduction of the wealth tax on net worth more than Rupees 5 crore.

(b) Levying of one-time Covid cess of four percent on the taxpayer could also further generate ₹15,000–18,000 crore for the government.

(c) In line with the *Vivad se Vishwas* dispute settlement scheme for pending appeal cases, the introduction of a new amnesty scheme for the taxpayers in whose cases the tax demands had been finalised.

(d) For medium-to-long-term measures, it was suggested to provide incentives to the compliant taxpayers, the introduction of base erosion anti-abuse tax, reintroduction of inheritance tax in India, rationalisation of equalisation levy, and most importantly, starting a ‘giving-up’ campaign for the taxpayers to forego their tax concessions and deductions for one year.

(e) As welfare measures, the entities supporting work from home practices might be allowed with extra weighted expense from their books of account while no tax for healthcare sector workers had been proposed for the pandemic year.

The report contained vast and revolutionary ideas on the handling of the economy through the intervention of direct tax measures. It skilfully listed the global tax administration response to fight the Covid pandemic. Various suggestions contained in the report were seen as already implemented by the government in some form or the other. However, the report lacked coherence in the presentation of the ideas and arriving at tax impact for each suggested measure. As per the famous Laffer curve (Pesuth, 2015), with increasing rates of taxation, beyond a certain point, the tax revenue was bound to fall as the unwilling taxpayers would start taking steps for tax evasion rather than paying extra taxes. The reverse approach, though not supported by empirical evidence, suggested that a lowering down of tax rates would increase the optimal tax revenues.

*The Economic Survey 2020–2021 and Its Impact Analysis*

*The Economic Survey* (Ministry of Finance, 2021) stated Covid-19 as a once-in-a-century crisis. As per the survey, due to falling revenue on account of slow economic activity, the government decided to increase market borrowings to ₹12 lakh crore from an earlier permissible limit of ₹7.8 lakh crore. The important steps mentioned in the economic survey with regard to direct tax interventions are as follows:
(a) Reforms for better transparency, responsibility and compliance with the underlying notion of ‘honouring the honest’ taxpayer launched in August 2020.
(b) The new platform had the features that used technological intervention, data analytics and treat taxpayer as an associate in building of the nation. The three pillars of this reform were the taxpayers’ charter of rights and duties, faceless assessment, and faceless appeal.
(c) The government provided direct money transfers to the Jan Dhan account holders and initiated a foodgrain supply programme for the needy migrants and labourers.

The classical theory of economics propagated the idea of public policy intervention for stabilisation of the market and economic growth (Salik, 2018, pp. 116–127). In any welfare State, the large government enterprises were expected to contribute towards capital formation and income generation as they were considered stable and less vulnerable to business fluctuations. However, with expanding and opening economies, the increasing needs of finances were to be met through progressive taxation and government loans. The negative effect of an increase in government loans was the perpetual deficit budgets, and the country might end up entering into a cycle of recession. To overcome this situation, the government had to resort to greater and targeted social spending and putting the money directly in the pockets of the people.

**Union Budget 2021 and Its Impact**

As a constitutional necessity, the Union government has to seek the annual approval of the Parliament for its taxation and expenditure proposals. The IMF gave a code of generalised principles on fiscal transparency (Mitra & Kumar, 2000, pp. 335–394), which was expected to be followed by the member nations.

The Finance Minister of India presented the Union Budget 2021 on 1 February 2021. It listed out the efforts made out by the government so far and laid out the future roadmap taking sustained efforts for the recovery of the economy. Various proposals were brought to bring relief to the stressed sectors, and individuals are briefly brought as under:

(a) Exemption to super senior citizens above seventy-five years of age from filing the ITRs having an only pension and interest income,
(b) Reducing time for not only completion of tax scrutiny assessment to nine months from the end of the financial year in which ITR is filed but also restricting reopening of the completed income tax assessment up to three years from the year in which ITR was filed except serious tax evasions. In a team-based technology-driven assessments, this brought certainty to the minds of the taxpayers and reduced the unnecessary tax burden,
(c) While dispensing with the existing Income Tax, Settlement Commission, a new standing Dispute Resolution Committee was created for small taxpayers with income up to ₹50 lakh and disputed tax amounting up to ₹10 lakh,
(d) Second Income Tax Appeal Authority, that is, Income Tax Appellate Tribunal proceedings were also to be carried out in a faceless manner bringing greater transparency, accountability and efficiency without any human interface,

(e) In order to provide a boost to infrastructure, dividend payments to real estate investment trusts and infrastructure investment trusts were exempted from TDS,

(f) The smaller trusts running educational institutions and hospitals and having turnover up to Rupees 5 crore were provided with tax exemption,

(g) As a labour welfare measure and to bring discipline amongst the employers, the retained employee contribution for provident funds, superannuation funds and other social security funds would not be allowed a deduction if they would not be deposited in permissible time with the designated authority,

(h) For encouragement to local entrepreneurship, eligibility for claiming tax holiday for start-ups was extended by one another year (Sitharaman, 2020).

The tax administration over the years has assured a citizen-centric and friendly system. The reflection of the same can be seen in the Union Budget 2021, where the senior citizens were not only granted ITR filing exemption, but the overall period of scrutiny assessment selection period was also reduced besides rationalising reopening period to three years from the earlier six years. Tax Appeal forum structures were also streamlined and tax exemptions/holidays were provided or extended to boost investments, creation and retention of capital, and stabilisation of the economy. The ongoing pragmatic approach demonstrated results. Even under the pandemic situation, most companies retained their employment and even made promises for fresh future investments in India. The labour welfare measures were ensuring timely deposit of dues of the employees with the designated authorities. The tax exemptions to start-ups were creating opportunities for new ventures and introduction of fresh capital, which is demonstrated through a series of recent Initial Public Offers (IPOs) getting listed in the stock exchange. The positive impact of the steps taken by the government in the Budget 2021 led to a 109 per cent increase in the tax collections in the first quarter of FY 2021–2022 [₹246,519 crore] as compared to same quarter of FY 2020–2021 [₹117,783 crore].

**Overall Impact of the Measures**

The above taxation relief and good governance measures proposed by the government are expected to spur the dwindling revenues and bring the confidence of the taxpayer in the country. The government brought the Fiscal Responsibility and Budget Management (FRBM) Act in the year 2003 for the management of fiscal deficit, imposing a financial restraint and going for prudent budget practices. Going by the path laid down by this Act, the government would have to bring down the fiscal deficit to 3.1 per cent of the GDP while eliminating the primary
budget deficit altogether by FY 2022–2023; however, the occurrence of Covid spoiled the plan and fiscal deficit projected for the FY 2021–2022 was pegged at 6.8 per cent of the GDP, which was lower than the last financial year’s comparative figure of 9.5 per cent. The higher fiscal deficit was the need of the hour as the government would be having lower taxes and other collections, and it had to borrow money from the market to keep the momentum of higher public spending. As a positive indicator during the unpredictable times, as an ongoing fiscal strengthening and consolidation plan, the government planned to bring down the fiscal deficit down to 4.5 per cent of the GDP by the FY 2025–2026.

A downward alteration in the rate of taxes helped substantially in lowering the cost of living for the people while any rise in tax rates would have entailed an overall price rise, and therefore, the balancing act was the challenge for any tax administration and more so during the challenging times.

Direct taxes collections during FY 2019–2020 fell 8 per cent below the target; however, it was more due to a 14 per cent increase in the refunds vis-à-vis previous FY 2018–2019 and the slowing down of economic activity due to the outbreak of Covid-19 in India in February 2020. The direct tax collection target was also reduced by the government from Rs 1,335,000 crore to ₹1,170,000 crore to reduce pressure on the tax administration and to acknowledge the effect of the slowdown of business activity.

The direct tax budget collection target for FY 2020–2021 was kept low by the government at Rupees 905,000 crore and corresponding collection exceeded by five percent during the year. The highest ever refunds of Rupees 261,000 lakh crore were issued during the year to provide more money in the hands of the taxpayers to reignite the demand/supply cycle of the economy and sustaining the livelihood of small taxpayers by giving them timely refunds.

**Measures vis-à-vis Other Nations**

As part of Covid-19 relief packages, countries like Ireland gave relief on PIT, which covered the tax treatment of expenses and benefits for e-workers except for capital intensive items, and proposed a loss relief as part of a job relief package in which losses could be carried back to prior years from the net income/profits. As the job recovery efforts were at the core of post-Covid impact recovery, this would enable the enterprises not only to retain their employees but also liberally grant expenses to the affected personnel as a welfare measure. This initiative sought to provide sustainable measures for creating an enabling environment under the ‘work from home’ (WFH) policy in Ireland.

Similarly, the New Zealand tax administration declared relief measures for advance pricing agreement, reporting and compliance, particularly for possible breaches in advance pricing agreement terms. This would provide a much-needed breather for the reporting entities in terms of reporting and compliance while giving desirable respite for minor violations of the terms of the transfer pricing agreements during the pandemic period. The companies would also be free in making critical business decisions having arm’s length implications, and they would no longer be required to discuss these breaches with the Inland Revenue
Service of the country. These changes were expected to be brought back once the effects of the pandemic were over.

Further, as an exceptional measure, the United Kingdom gave relief on business income tax and temporarily scrapped the applicable business tax rates of values lower than 51,000 pounds. The UK tax administration, Her Majesty’s Revenue and Customs (HMRC), also provided tax rates holiday for all retail, hospitality and leisure businesses in the country. Moreover, a special one-time 25,000 pounds local authority grant were being given to such small enterprises as a pandemic support measure. As a job retention measure, the HRMC also declared to pay 80 per cent of the furlough pay for the pandemic-affected enterprises’ employees subject to a maximum of 2,500 pounds per month for each employee. The SMEs with less than 250 employees were also been allowed to seek a refund of statutory sick payments made by the enterprises to their employees due to Covid-19-related problems with them.

Our neighbouring nation, Bangladesh as part of Covid-related measures exempted the income tax of foreign nationals for a period of three years. The interest payments on foreign loans were also allowed for remittance without any withholding tax. Similarly, the foreign payments related to technical assistance and royalty, etc., were also exempted from withholding tax. As a radical measure, the divested capital gains have been exempted from direct taxation. Tax holidays up to 100 per cent were allowed for new enterprises starting commercial production between January 2023 and December 2024. As a boost to private investment and entrepreneurship, the income of private power generation companies has also been exempted from taxation for a considerable period up to 31 December 2034.

India took multiple measures to revive the economy, business and ensure retention of employment; however, the above unique and special measures adopted internationally also required equal attention and might be considered for implementation in India. The local authority grants of the UK HRMC to small businesses would definitely go a long way in their swift post-pandemic revival. The withholding tax-free remittances from Bangladesh would faster restore the confidence needed for the resumption of declining international trade, commerce and travel of foreign nationals. Therefore, their adoption in India would also be seen as a positive step of the tax administration. The union government took a gradual approach to address the issues arising due to pandemic rather than providing upfront stimulus packages as undertaken by various nations abroad.

**Suggestions for Way Ahead**

The revenue collected from the taxation has a potential role in improving the lives of its citizens (Cobham, 2005, pp. 4–20). It helps to slowly even out the inequalities of wealth and opportunity for poor persons, which is a huge hindrance to human development. The government also uses taxation as a tool to change the behaviour of individuals and other entities and can punish or reward them in the form of economic alternatives.

Considerable time has passed since the outbreak of the Covid pandemic in India, and the government has taken extensive measures to tackle it on various fronts. On
one hand, the government’s focus is to provide impetus to the technology-driven environment, while on the other, it hovers around bringing and implementing suitable policy measures to recover the falling revenues and economy. The Covid relief packages announced by the government to infuse confidence and liquidity in the market draw their strength from the robust taxation system and its prompt responsiveness. The direct tax administration has consistently played a central role in bringing the confidence back in the taxpayer by its adequate and timely interventions.

A higher governmental spending as a percentage of GDP per capita (Oishi et al., 2012) would not necessarily bring high quality of public and common goods on a long-term sustainable basis, without the adoption of progressive taxation. The relevance of direct taxes for social development is based on the efficacy of tax collection, the extent to which current concerns are addressed and ameliorated, and how the Indian Income-tax Act, 1961, is tuned to present situations and circumstances. The various limbs of the organisation have to be energised to facilitate a citizen-centric process of engagement. The philosophy of a tax system goes beyond the economics of revenue collection to being a partner in the nation-building process; the direct taxes in the revenue scheme of things are quintessential for social development, inclusive growth and generation of employment.

In FY 2019–2020, the direct tax buoyancies for the CIT was around one while it was 1.32 for the PIT with an overall buoyancy of 1.12, indicating steadily rising growth trajectories. The growing direct taxes compared to GDP even during difficult times show a robust Indian economy and tax administration efforts are needed to widen the tax base. The establishment of new and additional manufacturing utilities needed land acquisition and infrastructure support, which cannot be achieved in a few months. Similarly, the reforms introduced by the direct tax administration in September 2019 and onwards were expected to show results in the next few months. The Covid relief packages announced by the Indian government to infuse confidence and liquidity in the market draw their strength from the robust taxation system and its prompt responsiveness.

In future, the government may focus on manoeuvring more helpful measures as a targeted approach. Retaining money in the hands of individual taxpayers through rationalisation of direct taxes, as suggested by the OECD, adopting best direct taxes international practices, will have a multiplier consumption demand effect and will fast set in motion the demand–supply cycle. The progress on implementing various progressive schemes brought out by the government for MSMEs must be monitored rigorously as they form a majority of our enterprises providing gainful employment to a large number of people. Sound macroeconomic management of the economy would be the goal of the economy once it is rolled back on track. Policy reform under taxation is an ongoing process and has to leverage the gains as per the emerging situation in the future.

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