Research Design Document: India

This research design document has been prepared based on the Research Design Guidelines, Research Design Document Format and the Integrated Research Proposal shared by the Network Secretariat for India. This document also takes into account the timeline of the Country Studies approved in Annual Work-plans for Year 1, Year 2 and Year 3. As per the Memorandum of Agreement, between Governance Institute Network International (GINI) and National Institute of Public Finance and Policy (NIPFP), NIPFP would conduct research on the following Research Themes pertaining to India:

- • Theme 1: The Impact of Tax Exemptions and Concessions on Enterprise Development;
- • Theme 2: The Impact of the Value-Added-Tax (VAT) on Enterprise Development; and
- • Theme 3: The Impact of Property Tax on Enterprise Development.

This study requires a comprehensive literature review and key-informant Interviews. Key-informant interviews are important due to the nature of the research questions, non-availability of adequate secondary data, and also to get a critical stakeholder's perspective on tax policy. Based on the quantitative and qualitative information collected, this study would conduct rigorous data analysis for informed policy analysis and make recommendations pertaining to each research question. In other words, for each research question we would have the following line of research enquiry:

- • Obtaining secondary data from various sources and conducting a comprehensive literature review;
- • Conduct Key Informant Interviews;
- • Analyse data through appropriate statistical and econometric methodology

- Suggest policy implications and recommendations

The Research Design Document of India requires us to provide the type of

- secondary data (and sources) required for the literature review;
- stakeholders who will be respondents for Key Informant Interviews;
- parameters of enquiry that will be studied through the above;
- data analysis methods employed; and most importantly;
- policy implications and recommendations expected to be developed.

Secondary Data:

One of the major sources of secondary data for the Research Theme 1 and Theme 2 would be Prowess data base regularly published by the Centre for Monitoring Indian Economy (CMIE). Prowess is a database of large and medium Indian firms. It contains detailed information on over 20,000 firms. These are the companies traded on India's major stock exchanges. The database covers most of the organised industrial activities, banking, organised financial and other services sectors in India. The companies covered in Prowess account for 75 per cent of all corporate taxes and over 95 per cent of excise duty collected by the Government of India. Prowess provides detailed information on each company, which includes a database of the financials covering of 1,500 data items and ratios per company including taxes paid. We also get tax specific information for each companies from the Prowess data base. Besides, it provides quantitative information on, Production, Sales, Consumption of raw material & Energy. This data will be supplemented with official documents emanating from periodic survey conducted on Enterprise Development conducted by the Ministry of Statistics and Programme Implementation and also from Small Scales Industries census conducted by the Government of India. We will obtain data on the MSME sector from the specific Ministries of the Government of India. In addition to the above, some of the rounds of the national sample survey in India do cover unorganized enterprises in India. While these surveys would not provide any information on tax related issues, it could be

used to study the composition of this segment of the economy and derive implications for the issues under consideration.

For Research Theme 3, we are required to integrate the prowess data set and enterprise development survey data with property tax data. It needs to be mentioned that the property tax is levied and collected by the local governments in India, not by the provincial governments. Thus, we will have to try and understand the process of enterprise development and property tax regime in one or two industrial hubs in the country under specific local government jurisdictions of specific states. We are inclined to take Delhi, Coimbatore and Ahmedabad as case studies.

Apart from specific data sources for the three research theme mentioned above, we will undertake a comprehensive review of existing literature, including various survey reports on these sectors conducted by the Government of India and by specific state governments. Apart from this, we will also have a comprehensive survey of literature on the property tax regime and its impact on enterprise development. We would also draw lessons from international experiences by reviewing secondary literature on Asia and other countries across the Globe.

Stakeholders Interview:

One of the primary objectives of the Key-Informant interviews is to enhance our understanding of the sector and to bridge the data gap. This would also help us get a perspective on specific policy issues identified in the review of literature and in the process of gathering secondary data. Also one has to keep in mind that enterprise development has multidimensional aspects and we need to take a comprehensive perspective and inclusive policy focus. Thus, structured and semi structured interviews will have to be conducted with the key management personnel within enterprise development authorities and also with the policy makers. The list thus would include revenue administration officials for both direct and indirect taxes of the central and few state governments, relevant ministries and various chambers of commerce at central

level and in specific states. In addition to the above, we propose to interview some MSME units in the three cities mentioned above to assess their perceptions on the research issues under consideration.

Parameters of Research Enquiry:

There are cross-cutting issues in these three research themes and they are not mutually exclusive. In order to have a clear understanding of the issues, appropriate questions have to be framed. To start with, research theme 2 and 3 intend to understand the incidence of specific taxes (VAT and Property Tax) on enterprise development and the research theme 1 intends to examine the impact of tax exemption and concession on enterprise development. The parameters of research enquiry will have to be in that case, what effect tax exemption had on enterprise development based on the secondary data. We also need to examine the differential impact of tax exemption on big and small enterprises. We will also examine if there is any biases in giving tax exemption and concessions, especially whether the small enterprises are negatively discriminated in favouring tax exemption. It is important to note that government of India has started giving data on tax expenditure across corporate entities, which would be a very meaningful document to carry out research to examine the regressive or progressive nature of tax exemption.

Methodology of Data Analysis

As mentioned earlier, we will have a combination of qualitative and quantitative information on three of the research theme. We will have a combination of exploratory data analysis through appropriate statistical tools and econometric techniques. However, the econometric estimation would depend on the nature and availability of data.

Policy Analysis and Recommendations

One issue that is confronting India is the political economy of tax expenditure and tax exemption versus direct subsidies. Based on the nature of tax expenditure (progressive/ regressive) this research can give definite policy inputs on the design of tax expenditure. This research would also help us understand differential impact of VAT across size class of enterprises. It can also provide useful inputs for policy to consider the costs and benefits of tax expenditures accruing to small enterprises. One can also bring in the gender dimension of this incidence by looking at those managed/owned by women.

Integrated Research Process: India

Theme	Research Questions	Literature Review	Key Informants Interviews (KIIs)	Dependent Variables Studied through Literature Review and KIIs	Data analysis	Policy Analysis
Theme 1: The Impact of Tax Exemptions and Concessions on Enterprise Development	What is the extent to which small enterprises face biases in tax exemptions and incentives?	• Tax expenditures calculated by government institutions, including official statements, methodology and raw data for taxes collected by the central government. • Research papers and reports by non-governmental institutes/ individuals that compute tax expenditures by national and sub-national governments. • Laws and regulations which allow exemptions, allowances, credits, rate relief and deferrals for certain types of enterprises in relation to sales tax and customs	• Serving and former civil servants (especially Customs & Excise and Income Tax Groups including personnel from revenue administration authorities, relevant Ministries, and enterprise development authorities, trade and export control authorities, etc.) • Elected officials (especially relevant parliamentary committees). • Select MSME units.	Essentially, the dependent variables will constitute the ability of small enterprises to grow, create productive jobs and to become compliant with prevailing tax regime (i.e. formalize). These will include: • employment, • value added, • fixed assets, • wage bill, • access to credit, • expenditure on public goods and services, • willingness to formalize (for non-compliant firms) • willingness to emigrate	• Calculate tax expenditures available to small versus large enterprises (based either on secondary data where available and reliable, or calculated using the legal approach and foregone revenue method) for sales tax and customs duties • Map the political economy context of tax expenditures through KIIs with elected representatives to identify the special interest lobbies that support the introduction, extension, enlargement, and maintenance of tax expenditures.	Policy recommendations will be made, considering the costs and benefits of these tax expenditures accruing to small enterprises, especially those managed/owned by women.

		duties.			
What is the extent to which these biases disproportionately impact small enterprises operating in the undocumented economy and/or those owned/managed by women?	• Enterprise statistics for micro-economic data (such as value added for small enterprises, earnings information for self-employed workers, etc.) from enterprise surveys and studies conducted by the World Bank, ILO, UNDP as well as government institutes will include those mandated to promote the development of small enterprises in India (e.g. National Commission for Enterprises in the Unorganized Sector & National Institute of Micro, Small and Medium Enterprises), in addition to databases established by independent think-tanks e.g. the Prowess database created by the Centre for Monitoring the Indian Economy			• Determine the level of parity between the amount of tax expenditures afforded to compliant and non-compliant enterprises will be determined.	
What are the impacts of tax exemptions and concessions on entrepreneurs and SMEs in terms of enterprise performance and productivity, (including any disproportionate impacts on women informal entrepreneurs)?				• Conduct econometric analysis to determine the degree to which lack of parity between tax expenditures for large firms versus small firms, emerges as a strong predictor of labor productivity, and the ability of small enterprises to grow and formalize (as measured by dependent variables).	

	What are the impacts of biased tax regimes on emigration of entrepreneurs and skilled labor, the extent to which this contributes to 'brain drain' in South Asian countries?				• Conduct econometric analysis to determine the degree to which lack of parity between tax expenditures for large firms versus small firms, emerges as a strong predictor of the willingness of entrepreneurs to emigrate.	

| *Theme 2: The Impact of the Value-Added-Tax (VAT) on Enterprise Development* | What is the impact of VAT on small enterprises (particularly those operating in the undocumented economy) and how do it affects enterprise performance and productivity? | • The constitutional, legal, and regulatory injunctions that govern VAT in India
• Periodic Reports by revenue administration authorities, including the Department of Revenue on VAT revenue target setting and achievement
• Consumption patterns and input-output tables from surveys and statistical data compilation authorities of the government, including the Ministry of Statistics and Programme Implementation | • Serving and former civil servants
• Non-state actors including farmers /traders / professional associations, associations of home-based workers, Chambers of Commerce and Industry, Associations of Accountant Firms, NGOs active in this area, and scholars who have written on this issue.
• Representatives of the international donor community who have supported (and are supporting) VAT reforms in India | Dependent variables remain the same as for Theme 1 (mentioned above), with the same parameters (except willingness to emigrate). | • Conduct a tax incidence analysis of VAT on small compliant and non-compliant enterprises, utilizing consumption patterns and input-output tables from the literature review, for measuring progressivity.
• Conduct econometric analysis to test the degree to which VAT burden is a significant determinant of the ability of small enterprises to grow and create productive jobs. | Policy implications and ensuing recommendations will be made for VAT design and administration to achieve greater equity and compliance, and to reduce disincentives for non-compliant firms to join the documented economy. |

	How can weaknesses in VAT administration be addressed through the use of IT?	Periodic Reports by revenue administration authorities, including the Department of Revenue that document past IT reforms including the Tax Information Network (TIN) and e-filing of returns	Government officials, civil society professionals, and technical experts who have been involved in the design and implementation of past IT reforms	•	• Evaluate the impact of these reforms in improving key VAT administration indicators. • Identify key strengths and weaknesses of such reforms in terms of design , sequencing, and implementation i.e. stakeholders involved, capacity constraints overcome, political economy factors tackled, etc.	• Policy implications emerging from past IT reforms distilled into 'lessons learned' • Policy recommendations relating to 'best practice' for the design, sequencing and implementation of future IT reforms

Theme 3: The Impact of Property Tax on Enterprise Development					
What are the weaknesses in property tax policy and administration (including weaknesses in policy, administration, capacity and resources) and what role can IT play in overcoming them?	• The constitutional, legal, and regulatory injunctions that govern property taxation including urban property, agricultural income, and land/property transfer taxes in each country • Research studies conducted on property tax systems by government and non-governmental sources that document IT reforms e.g. the computerization of municipal tax record and the use of Geographic Information Systems (GIS) by the city government of Mirzapur, the use of mobile telephony, emails, and online property tax database by the Chennai Corporation, etc.	• Government officials involved in assessments and evaluations of tax bases, setting and revising of rates, and administering property taxes at the local (and/or higher)levels • Government officials involved in land administration, governing aspects such as land registration and record-keeping, tenure, use, rights, markets, etc. at the local (and/or higher) levels • Government officials involved in IT reforms for property tax administration • Non-state stakeholders of land markets, including real-estate agencies, banks and lending institutions, NGOs advocating for land rights, etc.	• Land acquisition • Land ownership • Land use and control	Analysis will focus on the information gathered through the literature review and KIIs. This will include: • Revenue performance of taxes (yield and growth) • Revenue assignment (de jure and de facto) among tiers of government • Revenue collection (in policy and administration) • The role of IT for potential improvements in property tax administration Analysis will uncover problems such as undervaluation of tax base, exemptions and preferential treatment, lack of political will, inefficiencies in land use, and inadequacies in administration along	Policy recommendations that address: • Weaknesses in property tax systems which cause or worsen informal land development • The adoption, use and impact of IT for improvement of tax administration and • The associated anomalies in informal land markets at the local levels.

				with their e-governance solutions, among others.	