



drishti

## What Makes Doing Business Easier

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This article is based on **“What makes doing business easier”** that was published in The Hindu on 06/11/2019. It talks about the challenges to ease of doing business in the economy.

In the latest ranking for countries in **ease of doing business**, the **World Bank** has placed India 63<sup>rd</sup> out of 190 countries — an improvement of 14 places from its 77<sup>th</sup> position last year.

- India figures in the top ten most improved countries in the world for the third consecutive year.
- India’s **score improved** from **67.23 (2019) to 71.0 (2020)**.

### Challenges to Ease of Doing Business in India

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- **Economic Slowdown:** The viability of a business depends on the vitality of the economy in which it is embedded.
  - **Aggregate Demand Dip:** Indian economy is facing an aggregate demand slowdown which is mainly characterized by very slow growth of agriculture sector. This has put a break on **consumption growth** which is the main driver for Indian economy.
  - **Income Distribution:** Income distribution shifts away from the overwhelming majority of the population to a handful few, increasing income gap. This is evident from the fact that the sale of luxury cars had fared well than sales of the most basic items of clothing during the Diwali.

- **Legislative Challenges:** The structural reasons for slow growth of business comprises of regulatory framework which includes a plethora of overlapping laws and compliance requirements in setting-up and running a business.
  - **Subjective interpretation of the law:** Tax laws are prone to the subjective interpretation of tax officers which causes undue hardships to taxpayers and leaves **scope for “tax terrorism”**.
  - **Overlapping Laws:** The Companies Act, 2013 and the Foreign Exchange Management Act (FEMA), 1999, have overlapping provisions, which act as deterrents to the ease of doing business in India.
- **Asymmetrical Policy Response:** The government measures are mainly directed toward reforming formal sector, while almost 85% of our workforce is engaged in unorganised sector.
 

For long, economic policies had remained impervious to the challenges faced by its smaller businessmen. Neither the grand industrial policy statements of the Nehru era nor Narendra Modi’s ‘Make in India’ programme appear to have realised that they need to be enabled too.

## Measures taken to Improve Ease of Doing Business

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- **Insolvency and Bankruptcy Code: The Insolvency and Bankruptcy Code of 2016** has introduced new dimensions in resolving insolvency in India. It is India’s first comprehensive legislation of corporate insolvency.
 

Under Fast-track Corporate Insolvency Resolution Process (CIRP) for mid-sized companies, the process for insolvency shall be completed within 90 days with a maximum grace period of another 45 days.
- **Goods and Service tax (GST):** The idea of ‘**one nation, one tax**’ has made it easier for people to start a business, and ITC (Input Credit) mechanism ensures an uninterrupted flow of cash for businesses and reduced price of goods/services for the end consumers.
  - The **Goods and Service Tax** came into effect from 01 July 2017. It subsumes eight taxes at the Central and nine taxes at the State level.
  - Further simplification of returns processes, addressing concerns for India’s huge MSME/SME sectors etc. are necessary steps that need to be taken to reap the kind of benefits envisioned during GST inception.

- **Technology Based Governance:** The Government has taken innumerable steps to enhance digital adoption in India.
  - The eBiz platform of the Department of Industrial Policy and Promotion (DIPP) integrates several processes across (government) departments to make the process of incorporating a company simpler.
  - Registration under Employee State Insurance Corporation (ESIC) and Employee Provident Fund Organisation (EPFO) are available at **Shram Suvidha portal** as a common online service with no physical touch point.
  - **e-Sanchit**, an online application system, allows traders to file all documents electronically.
  - The **Employee State Insurance Corporation (ESIC)** has developed a fully online module for electronic return filing with online payment. This has substantially reduced the time to prepare and file returns.
- **Taxation Relief:** Reduction of corporate tax from 30% to 25% for mid-sized companies.
  - The tax rate for new domestic manufacturing companies is now **15%** (17.01% inclusive of surcharge and cess).
  - Domestic companies can opt for concessional tax regime @ 22% (effective tax rate: 25.17% inclusive of surcharge and cess). Such companies cannot claim any other income tax incentive or exemption and are also not be liable to pay the Minimum Alternate Tax (MAT).
- **Fixed Term Employment:** The provision for Fixed Term Employment- hiring employees for specific period- earlier applicable to only textile industries has now been proposed to be extended to all sectors.

## Way Forward

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- **Creating Demand:** To address an aggregate-demand growth slowdown, an active macroeconomic policy is needed. Spending must focus on the rural sector to raise agricultural yields and build the infrastructure needed to support non-farm livelihoods so that pressure on the land can be reduced.
  - **Investment:** Recent initiatives of corporate tax cut could feed a private investment surge but it could also add to the ongoing shift in income distribution. Therefore, spinoffs of public spending could lead to growth in business activity.

- **Legal Barriers:**
  - Companies Act should be reviewed in order to minimise criminalisation of violations.
  - Taxation laws should be made simpler and tax administration should be impersonal. Direct Tax Code (DTC) will be the right step in this direction.
  - The GST law should be stabilised and the technology backbone should be strengthened rather than making more changes.
  - Human interface between tax officers and taxpayers should be reduced while automating the tax machinery.
- **Make in India:** The program represents a comprehensive overhaul of processes and policies and represents a complete change of the Government's mindset - a shift from issuing authority to business partner.
  - Emphasis on manufacturing would help in solving employment crisis and will lead to increased purchasing capacity, thus boosting domestic consumption.

However, it would be unwise to judge the state of the business activity by observing movements in the **ease of doing business index** as it is just the reflection of regulatory measures taken in two big cities of Delhi and Mumbai. Therefore, more comprehensive measures incorporating the whole territorial region of India would do just in tackling the crippling economic conditions.

### ***Drishti Inputs***

The 'ease of doing business index' is not the true reflection of business activity in the country. Examine the above statement and also suggest the policy measures taken to improve business activity in the economy.