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Relationship between total tax and contribution rate and ease of doing business score for India, China and USA during 2014-2019

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Abstract
The Purpose of the study was to analyse the impact of Total Tax contribution rate (% of profit) on the Ease of doing Business score in case of the three countries, i.e., India, China, and the USA for the time period of 6 years (2014-2019). The data for the study was collected through the World Bank website. Study was conducted with the help of various graphs, depicting the data and through various excel tools like correlation and regression. The correlation between the two variables is also seen as negative, implying that Total tax and contribution rate (% of profit) does have some effect on the score. It implies that as the Total tax and contribution rate (% of profit) increases, the Ease of Doing Business Score for the countries decreases, and vice-versa. Regression analysis of the data taken has also shown that Total tax and contribution rate (% of profit) in the 3 countries over the 6 year period is explaining only 47% (approximately) change in the Ease of Doing Business Score for the countries. This result is in line with the calculation of the Ease of doing Business Score as there are 10 other parameters that affect the score.

Keywords: Tax contribution, ease of doing business, profit

Introduction

Total Tax and Contribution Rate (% of profit) is the amount of tax or contribution that a business is required to pay, after adjusting for allowable exemptions. It is payable as a share of commercial profits of a company. Over the years, in the 3 chosen countries, there has been some major policy reforms in regard to taxation of corporate sector. One such tax reform is the US tax reform, enacted on 22nd December 2017. Due to which, the United States shifted from a 'worldwide' tax system to a more 'territorial' tax system. The reform saw a permanent reduction in Corporate Income Tax (CIT) from 35% to 21% for resident corporations. Such similar deduction in corporate taxation was also seen in India. On 20thSeptember 2019, the Indian government reduced the existing base corporate tax rate from 30% to 22% for existing firms and for new entrants to the manufacturing sector, the tax rate was reduced from 25% to 15%. In China as well, on 21st March 2019, the Ministry of Finance, State Administration of Taxation, and the General Administration of Customs issued a notice directing amendment in the existing VAT system.

With the expansion and improvement in technology, and the availability of cheap labour across the world, it becomes imperative for a country to attract FDI in order to grow on a global level. This could be one of the reason why superpowers like USA and China are focusing on more economic aggression through tax reforms, and developing countries with availability of cheap labour, like India are following suit to establish themselves as a business hub on the global level. While this race to be the best suited country for business can benefit from major tax reforms every year, it may, however, cause disruptions in the country on the domestic front. It can become difficult for domestic producers to compete with foreign setups, given their lack of preparedness and lack of quality as compared to the firms which are setting up business in their countries with already existing huge and efficient supply chains. While developed countries like China and USA might deal with this domestic disruption situation, the domestic producers in a country like India, which is continuously giving chances to foreign investors through tax cuts and its existing weak labour laws, may become hopeless.

Ease of doing Business Index is a concept, created by the economists at the World Bank Group, which calculates a nation's ranking on the basis of the following parameters:-

1. Starting a business
2. Dealing with construction permits
3. Getting electricity
4. Registering property
5. Getting credit
6. Protecting investors
7. Paying taxes
8. Trading across borders
9. Enforcing contracts
10. Resolving insolvency

These 10 parameters are helpful for an investor to analyse where his investment will yield the maximum of returns. The index is analysed at the end of every year and countries are judged on the basis of the above parameters and then ranked. Higher the ease of doing business score, more profitable it is for the investors to invest their money or start a new venture. Almost every year, countries carry out tax reforms to make themselves look better globally for business and climb up the rankings in the index.

Statistics Applied

The data was collected from the World Bank official records and the correlation between Total tax and contribution rate (% of profit) and the Ease of doing business Score (out of 100) was calculated for the 3 countries over a period of 6 years.

For the same, correlation and regression analysis was carried out, with the help of SPSS software and MS Excel, to obtain the desired results.

Findings

The aim of this study was to find out how does the Total Tax and contribution rate (% of profit) affect the Ease of doing Business Index in the 3 countries from 2014-2019, if at all it does. The data is presented in the below 1 figures:-

Fig.1: Ease of Doing Business Score (Out of 100) for China, India, and USA for the years 2014-2019.)

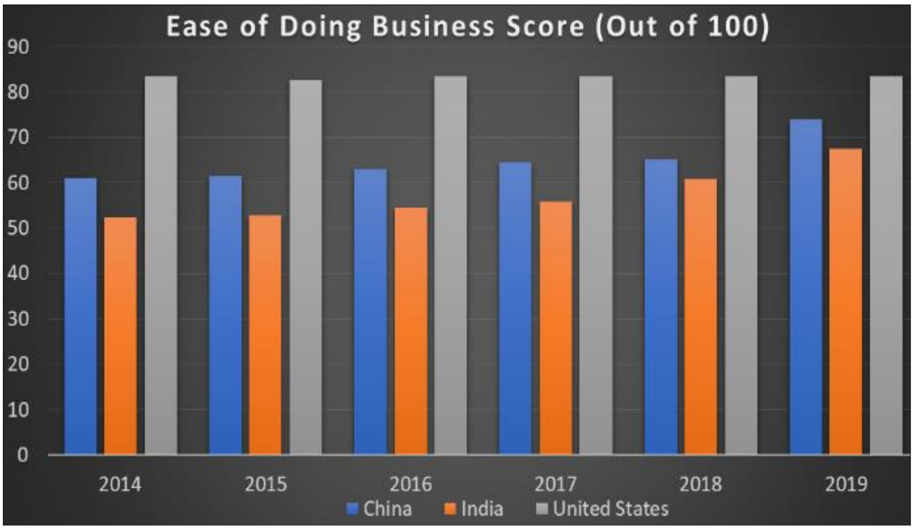

Fig 1: Total tax and contribution rate (% of profit) for China, India, and USA for the years 2014-2019.)

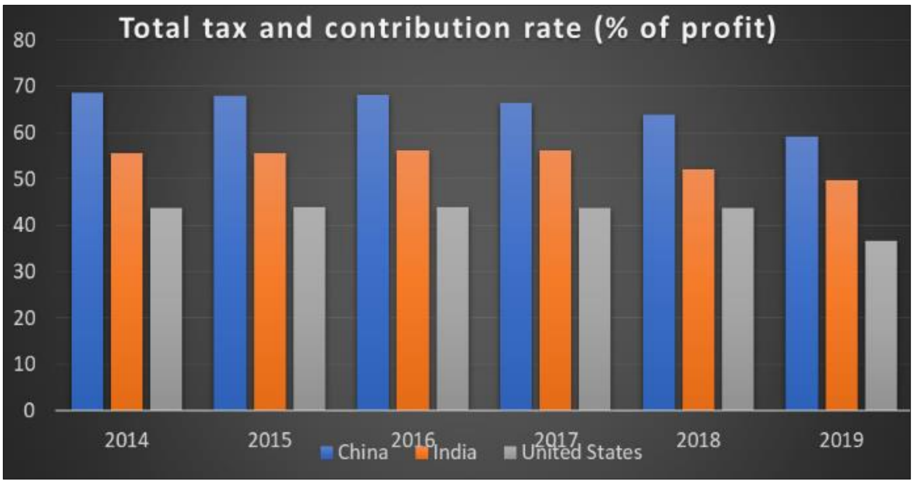

Fig 2: Total tax and contribution rate (% of profit) for China, India, and USA for the years 2014-2019.)

Average Total tax and contribution rate (% of profit)

- For China: 65.73
- For India: 54.20
- For USA: 42.65

Average Ease of Doing Business Score (out of 100):-

- For China: 64.92
- For India: 57.37
- For USA: 83.42

Correlation
Further, it was found that there was a correlation of (-0.70) between the two sets of data. This implies that there is a significantly high negative correlation between the two variables.

Regression
Regression analysis was also carried out to investigate the effect of Total tax and contribution rate (% of profit)in the 3 countries over the 6 year period on the Ease of Doing Business Score (out of 100).

Regression Statistics	
Multiple R	0.690441592
R Square	0.476709592
Adjusted R Square	-0.046580816
Standard Error	13.71168823
Observations	3

Fig 3: Regression Analysis

According to Fig.3, the regression statistic simply that Total tax and contribution rate (% of profit) in the 3 countries over the 6 year period is explaining only 47% (Approximately) change in the Ease of Doing Business Score for the countries.
This result is in line with the calculation of the Ease of doing Business scorecard as there are 10 other parameters on with the score is judged

Conclusion
From the above analysis, it can be seen Total tax and contribution rate (% of profit) of a country decreases, the Ease of Doing Business score of a country, out of 100, increases. As we can see from the above, USA has the minimum average total tax and contribution rate (% of profit) for the given time period and the country has the highest (Out of the 3 countries) average ease of doing business score, out of 100, for the given period.
In case of the regression analysis, it is seen that the variable Total tax and contribution rate (% of profit) is able to explain for only 47% of the change in the Ease of doing Business scorecard. This implies that the variable may not be the best predictor for Ease of doing Business scorecard, but it does hold some value and should be further looked upon and improved in order to attain more accurate results.

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