



NAVIGATING DIGITAL TAXATION: ANALYZING THE IMPACT AND CHALLENGES OF THE EQUALIZATION LEVY IN BANGALORE

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Abstract

This research looks at the problems that companies had while trying to comply with the Equalizing Levy and how it was put into effect. A total of one hundred people were polled employing a Likert scale to determine general public opinion on the tax. The results show that people have different views on how helpful tax authorities are, how clear the instructions are, and how efficient the administration of taxes is. Understand the range of digital offerings and execute international transactions, two notable hurdles. These kinds of findings can provide light on how to strengthen and carry out the levy better.

Keywords: *Equalization Levy, Digital Taxation, Bangalore, Likert Scale, Survey Analysis, Compliance Challenges.*

Introduction

The growth of the internet economy has changed the rules of international trade as a greater number of businesses shift their activities online. Worldwide, governments are attempting to update their age-old tax systems to reflect the substantial changes in tax regulations caused by the ever-evolving digital world. The Equalization Levy in India is a prime example of a new policy that aims to address concerns brought up by the rise of the online economy by taxing digital services more equitably. In 2016, according to Lahiri A. J. et. al. (2016), the Indian government implemented the Equalization Levy's to tax multinational corporations that generate substantial revenue from Indian consumers but lack a physical presence in the nation.

Beyond its initial focus on online advertising services, the tax expanded in 2020 to include a broader array of digital services, such as computing in the cloud, e-commerce, and more. The tax applies when individuals or companies in India pay for electronic services from vendors outside of India. Examining the implementation of the Equalizing Levy laws in Bangalore, a prominent Indian city for technological and e-commerce, may provide light on its consequences. Enterprises and service providers must adhere to particular regulations and protocols set forth by the Indian government. There is ongoing discussion regarding these strategies actual efficacy (Oberoi, M., & De, D. 2021).

There are a number of ways to evaluate how well the Equalization Levy is being implemented such as how well regulations are defined how well taxes are administered and how much business compliance there is. Clear and thorough guidelines were released to aid in compliance according to the Indian Ministry of Finance (2020). Nonetheless companies have voiced difficulties interpreting and implementing these guidelines especially those in the technology sector (Singal A. & Kapoor N. 2020).

Significant obstacles have been identified including the difficulties in defining the parameters of digital services and the intricate filing and payment processes. The efficacy of the levy is significantly



influenced by the efficiency of tax administration. The efforts made by the Indian government to provide digital tools for compliance and expedite the filing process have been quite helpful. Concerns have been raised though concerning the effectiveness of these instruments and the tax authorities responsiveness to business inquiries and disputes (Mehta S. 2022). The effectiveness of the implementation strategies and any areas that may require improvement will be revealed by an assessment of these factors.

Objectives of the study

- To evaluate the effectiveness of the current implementation strategies of the Equalization Levy in Bangalore.
- To identify and analyse the primary challenges faced by businesses in adhering to the Equalization Levy regulations in Bangalore.

Literature Review

Bunnell et al (2020) examine how the topic of taxes has shifted from traditional physical business models to the difficulties associated with taxing virtual operations in 2020. According to their analysis new tax tools like equalization levies and digital services taxes have emerged to address the particular needs of global digital enterprises. But they issue a warning that political pressures can result in shoddy tax legislation that harms businesses and economies. They support international cooperation to prevent a dispersed global tax system and push for a balanced approach that blends sound taxation principles with the unique difficulties of the digital economy.

Yonah Avi-et al. (2022) evaluate the global tax agreement of the OECD/G20 Inclusive Framework which comprises Pillar Two (global minimum tax) and Pillar One (digital taxes) critically by 2022. The authors voice doubts about Pillar Ones efficacy despite widespread support because of its growing complexity and political concessions. They take note of the debate surrounding digital services taxes or DSTs and forecast difficulties in putting the global tax agreement into practice particularly if the U. s. pursues Pillar One by means of an executive contract. They provide a number of approaches, such as a data excise duty, and suggest splitting the two halves to facilitate deployment, much like the digital taxes backed by the UN.

Digital business models impact traditional tax processes, according to Nellen (2015). In order to resolve the issues brought about by attempting to apply existing rules to digital commodities and services, which are intangible, the study suggests reevaluating the present tax systems. In order to prevent redundancies and imperfections, Nellen highlights the importance of a unified approach for digital taxes, while also discussing ways in which innovation may enhance revenue collection and cooperation.

Research Methodology

The purpose of this statistical investigation was to investigate the difficulties encountered by companies in complying with the Equalizing tax and to analyze the methods used to administer the tax. A systematic survey on a Likert scale was sent to one hundred individuals in order to get their thoughts and experiences about the Equalization Levy. Participants included a wide range of tax professionals and businesses headquartered in Bangalore, which is with a focus on those having some connection to the Equalization Levy. A stratified random sampling was used to pick the respondents in order to produce an accurate representation. Innovation, e-commerce, and consultancy firms were among the primary foci of the sample. When it came to the levy, this strategy worked well for gathering data from many different places. The Equalization Levys' implementing successes and failures were revealed via mathematical examination of quantifiable survey data.

Data Analysis

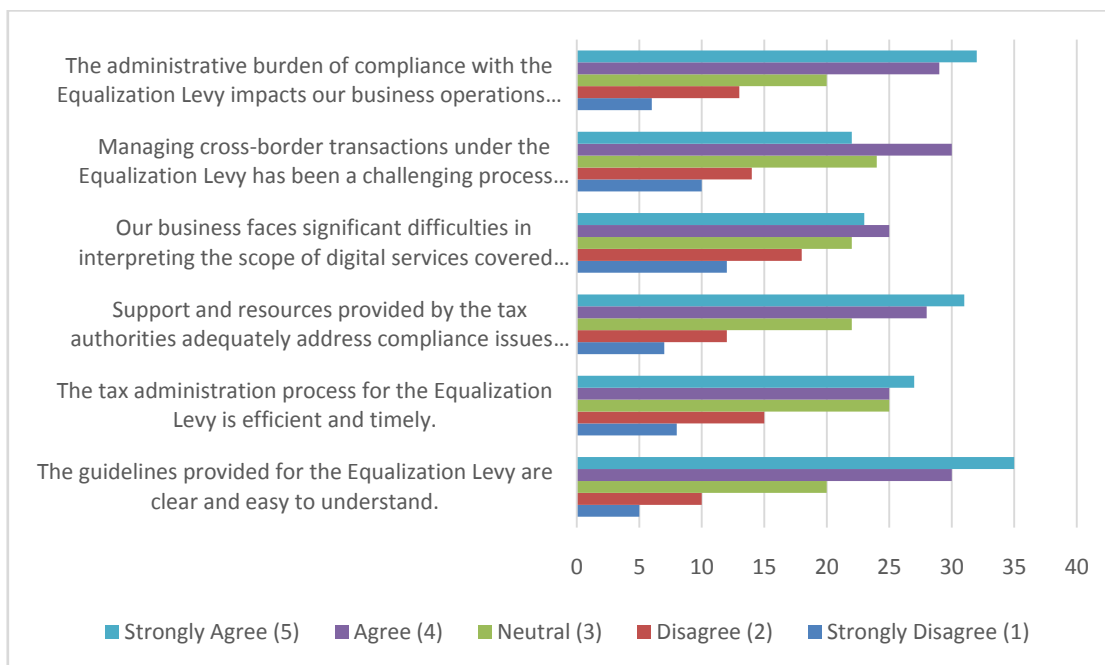


Fig 1: Graphical Representation of Data

Table 1: Frequency Distribution of Survey Responses

Question	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
The guidelines provided for the Equalization Levy are clear and easy to understand.	5	10	20	30	35
The tax administration process for the Equalization Levy is efficient and timely.	8	15	25	25	27
Support and resources provided by the tax authorities adequately address compliance issues related to the Equalization Levy.	7	12	22	28	31
Our business faces significant difficulties in interpreting the scope of digital services covered by the Equalization Levy.	12	18	22	25	23
Managing cross-border transactions under the Equalization Levy has been a challenging process for our business.	10	14	24	30	22
The administrative burden of compliance with the Equalization Levy impacts our business operations negatively.	6	13	20	29	32

The poll found that people had different views on how successful the Equalization Levy is and how difficult it is to comply with. Many respondents were of the view that the Equalization Levy's strategy



for implementation were ineffective. It is encouraging that the rules have been well conveyed, as one-third of the respondents said that the requirements are straightforward to comprehend and follow. Because they disagreed or strongly disagreed, almost 15% of the participants were confused or unhappy. Respondents were more complex when asked about the effectiveness of the tax collecting system. There may be room for improvement in the handling of taxes, since 27% of respondents are confident in its efficiency and 23% are concerned about delays or inefficiency. Out of those who took the survey, only 13% think the tools they have now do a good job of addressing compliance concerns. However, 19% expressed dissatisfaction or severe disagreement, suggesting that the given instruction may have been lacking.

One of the biggest problems with compliance is that it's not clear what kinds of digital services are taxable; 23% of those who took the survey strongly concurred with this assertion. A significant hurdle in dealing with the foreign component of the tax is the fact that 22% of the participants strongly believed that processing cross-border transactions is onerous. Firms are clearly feeling the strain of compliance standards, as 32% of the poll participants significantly believe that these laws have a negative influence on their operations. To fully reap the levy's advantages, a number of important issues need to be addressed, including hazy laws, inefficient handling of taxes, and an excessive burden of paperwork.

Conclusion

Considering the Equalization Levy's stated goal of resolving problems with digital taxes, the article notes that firms have had varying responses to its rollout. There are those who think the levy is successful and many who are worried about the vagueness of the rules, the inaction of the tax authorities, and the lack of sufficient aid. Businesses have several challenges while attempting to comprehend the extent of digital services, manage global transactions, and attend to administrative tasks. Government officials must further assist enterprises, streamline bureaucratic procedures, and clarify rules if the Equalization Levy is to be successful. Resolving these concerns might enhance the tax's overall effect and reduce compliance difficulties.

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