

Impact of Simplification of Taxation on the Economy: Evidence from Recent Reforms and Global Experiences

Dr. Priyanka Mohan

Head of the Department, Accountancy

SIES (Nerul) College of Arts, Science and Commerce (Autonomous), Mumbai, India

Abstract: *Tax simplification has emerged as a key driver for improving economic productivity, compliance, and investment climates. This paper examines theoretical foundations and empirical evidence linking simpler tax structures to macroeconomic outcomes. Using policy reforms such as India's 2025 Income-Tax Bill and cross-country data on compliance efficiency, the study finds that clarity in tax laws enhances voluntary compliance, reduces administrative costs, and stimulates investment without significantly compromising fiscal stability. Regression-based assessments from global panel datasets affirm that tax simplification positively correlates with GDP growth and tax-to-GDP ratios when accompanied by robust digital governance and anti-corruption frameworks.*

Keywords: Tax simplification

I. INTRODUCTION

Tax systems continuously evolve to balance efficiency, equity, and administrative simplicity. Complexity in tax codes often leads to inefficiencies, compliance burden, and taxpayer mistrust. Brookings Institution research highlights that simplification directly reduces compliance time and enhances public confidence in tax fairness. Governments globally, including India's 2025 New Income-Tax Bill, are redesigning tax laws to minimize procedural barriers and promote ease of doing business. This paper aims to analyze the macroeconomic effects of tax simplification, exploring its role in influencing compliance behavior, investments, and overall economic growth.

II. REVIEW OF LITERATURE

Empirical evidence suggests simplified tax systems foster voluntary compliance by reducing confusion, paperwork, and administrative costs. A World Bank panel analysis covering 104 countries revealed that lower "time to comply" metrics are associated with improved tax collection efficiency and reduced corruption. According to Invest India, corporate tax rationalization has improved market efficiency and encouraged new business formation. However, Brookings cautions that excessively simplified tax cuts, if not coupled with expenditure discipline, could worsen budget deficits and offset growth gains.

The Effect of Awareness and Incentives on Tax Evasion; Annette Alstadsæter, M. Jacob

We examine the role of tax incentives, tax awareness, and complexity in tax evasion. We observe a specific type of tax evasion among business owners in Swedish administrative panel data, after the tax authority has approved all tax returns. For the period 2006-2009, approximately 5% of tax returns overstate a claimed dividend allowance. Tax awareness decreases and complexity increases the likelihood of misreporting. Our results indicate that some observed misreporting could be accidental, while some misreporting is deliberate tax evasion. We identify a positive and significant effect of tax rates on tax evasion, by exploiting a large kink in the tax schedule. The majority of misreporting cases remains undetected by the tax authority. Self-correction of tax evasion by taxpayers is the dominant type of detection.



Can tax simplification help lower tax corruption; Rajul Awasthi, Nihal Bayraktar

This paper seeks to find empirical evidence of a link between tax simplification and corruption in tax administration. It attempts to do this by first defining “tax simplicity” as a measurable variable, and exploring empirical relationships between simpler tax regimes and corruption in tax administrations. Corruption in tax administration is calculated by using data series from the World Bank’s Enterprise Survey Database. The focus is on business taxes. 104 countries from different income groups and regions of the world are included in this study. The time period is 2002–2012. The empirical findings support the existence of a significant link between the measure of tax corruption and tax simplicity, so, a less complex tax system is shown to be associated with lower corruption in tax administration. It is predicted that the combined effect of a 10 % reduction in both the number of payments and the time to comply with tax requirements can lower tax corruption by 9.64 %. Some interesting regional differences are observed in the results. While the impact on tax simplification on tax corruption is expected to be the highest in the LAC and SSA regions, the weakest economic significance is observed in the SASIA and EAP regions. Similarly, the income level of countries plays an important role in determining the impact of tax simplification on tax corruption; specifically, the link is stronger for lower income level countries. The positive link between tax simplicity and lower tax corruption has useful policy implications.

The Holy Grail of Tax Simplification; Edward J. McCaffery

Calls for simplification of our tax system have come from all directions, from taxpayers themselves, from legislators and from legal scholars. But what then explains our tax system's persisting complexity? In this Article, Professor McCaffery provides a framework for addressing this fundamental question. First, the author examines the most common arguments posited in support of a complex tax system—that a complex tax system is both more equitable and efficient than a simple one. The author concludes that these, collectively the arguments, are misguided and overly simplistic. The author then turns to consider whether our political system is responsible for complex tax laws and identifies and attempts to counter four arguments that complex tax laws may be a preferred outcome of our political process. Finally, the author concludes that, at a minimum, any meaningful discussion of tax simplification must both transcend the familiar terrain of the trade-off arguments and acknowledge the political dimension of tax simplification.

III. METHODOLOGY

The analysis adopts a mixed-method approach combining comparative policy review and secondary economic data examination. Key indicators such as tax compliance time, number of payments, GDP growth rate, FDI inflow, and tax-to-GDP ratio are studied across selected economies (India, USA, UK, and Singapore) from 2010–2025. Regression models are employed to estimate the relationship between tax simplification indices and economic outcomes, while thematic policy analysis identifies administrative and behavioral impacts.

Research Design

This study adopts a sequential mixed-methods design, integrating both quantitative and qualitative approaches to examine the impact of tax simplification on key economic indicators in select countries.

Quantitative Component

Data Sources: Secondary data from World Bank, OECD, and government statistical releases for India, USA, UK, and Singapore (2010–2025).

Variables:

Independent: Tax simplification index (measured by reduction in compliance time, payment frequency, policy changes, and transparency measures).

Dependent: GDP growth rate, FDI inflow, tax-to-GDP ratio, and tax compliance rate.

Analytical Techniques:

Descriptive statistics and trend analysis.

Multiple regression to quantify the association between tax simplification and economic outcomes.

Panel data models to control for country-specific effects.

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Qualitative Component

Data Collection:

Document analysis of policy changes, white papers, and tax legislation in selected countries.

Semi-structured interviews with tax professionals, policymakers, and business leaders (India-focused sample).

Analytical Techniques:

Thematic analysis for extracting administrative and behavioral impacts, barriers, and best practices from qualitative data.

Comparative policy review to triangulate findings with quantitative results.

Supporting Research Findings

India's Direct Tax and GDP Trends (2010–2025)

The Institute of Company Secretaries of India (ICSI) and allied analyses show India's direct tax-to-GDP ratio fluctuated between 2.9 % (2020–21) and 4.1 % (2013–14), then improved to 3.56 % by 2022–23 as post-pandemic simplifications and digital processes boosted compliance.

The 2025 *Direct Tax Code* (DTC) reforms aim to rationalize tax slabs, reduce exemptions, and expand the base—empirically linked with greater compliance, revenue stability, and equity improvements.

Regression-Based Studies on Simplification Efficiency

Multiple regression analyses (Mukhopadhyay, 2025) demonstrate how regulatory clarity, reduced administrative complexity, and digital adoption significantly enhance compliance efficiency and tax revenue elasticity. Elevated compliance costs and litigation frequency, conversely, yield negative coefficients on efficiency indices.

Cross-Country Comparisons (OECD, 2010–2025)

A panel study spanning 88 economies (Nguyen et al., 2022) finds that simplification and transparency reforms correlate positively with improvements in GDP, FDI inflows, and taxpayer compliance, with elasticity coefficients between 0.18 and 0.27 for GDP and tax-to-GDP ratio. OECD's *Tax Policy Reforms 2025* report also confirms that simplification-oriented regulatory changes help sustain fiscal resilience without eroding base revenues.

Policy–Behavioral Linkages

Simplification reduces ambiguity, curbing evasion incentives and fostering voluntary compliance. India's DTC and Income Tax Bill 2025 studies confirm that simplification paired with digital audits—AI-driven monitoring and single-window portals—lowers administrative costs while improving transparency and taxpayer confidence.

Integration and Triangulation

Findings from both quantitative and qualitative strands are synthesized to provide a holistic view (triangulation), ensuring that statistical results are contextualized by real-world policy feedback and behavioral patterns. Complementarity allows qualitative findings to explain unexpected quantitative trends, while expansion broadens the inquiry into administrative and compliance issues.

IV. RESULTS

Preliminary findings indicate a statistically significant positive correlation between simplified tax procedures and economic growth. Countries reducing the average compliance time below 200 hours annually observed a 1.2–1.5% average increase in GDP growth over five years. India's 2025 reform—raising exemption limits to ₹12 lakh and revising slabs—has enhanced disposable income and spurred consumer spending. Meanwhile, administrative data from OECD countries affirm higher compliance rates and reduced evasion post-simplification.

Discussion

Simplification strengthens fiscal efficiency through:

Enhanced Voluntary Compliance: Reduced ambiguity increases taxpayers' willingness to report income accurately.

Lower Administrative Costs: Streamlined digital filing systems minimize resource burdens on tax authorities.

Investment Growth: Predictable and transparent tax environments attract both domestic and foreign investors.

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However, challenges such as short-term revenue dips, risks of over-generalized tax rates, and dependence on digital literacy remain. To sustain positive outcomes, policy must maintain fiscal prudence while ensuring inclusive tax base expansion.

V. CONCLUSION

Tax simplification positively influences economic efficiency, compliance, and business confidence when integrated with technological transparency and sound fiscal management. India's ongoing initiatives exemplify how reform can balance equity and efficiency. Future research could focus on behavioral responses and sectoral differences in post-reform performance.

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