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Research Paper

Operational Efficiency of Taxation in Kerala: A B-READY Assessment

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Abstract
Taxation plays an important role in determining the business environment in an economy. The World Bank's Business Ready (B-READY) framework evaluates the business environment through three pillars: Regulatory Framework, Public Services, and Operational Efficiency. This study examines the operational efficiency of taxation in Kerala using the B-READY framework, with particular emphasis on firms' actual experiences in complying with tax obligations. The study evaluates key operational efficiency indicators, including the effective income-based tax rate and time and functionality process for tax compliance. Firm-level data from 390 firms in Kerala obtained from the World Bank Enterprise Surveys (2025) were analysed using the B-READY scoring procedures.The findings show that Kerala achieved an overall score of 82.56 out of 100, indicating relatively strong operational efficiency. Digital tax filing and payment recorded the maximum score, while the financial burden on firms also performed strongly. However, significant weaknesses were observed in VAT refund processes, tax-dispute resolution, and the time required for tax compliance. The paper suggest that next phase of tax reform should prioritise reducing compliance time and administrative burdento create a more investment-friendly tax environment and thereby enhance Kerala's business readiness.

Keywords: *Taxation, Operational Efficiency, Business Readiness(B-READY), Tax Compliance.*

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I. Introduction

Taxation serves as a fundamental mechanism through which governments generate revenue necessary for funding public goods, services, and income transfer programs, simultaneously influencing economic growth and social outcomes(Kay*, 1990). Besides raising money, taxes can also be used to encourage or discourage certain behaviours in society, like protecting the environment or promoting health.(Peck, 1936). Different types of taxes, such as income tax, corporate tax, and property tax, affect the economy in various ways. Some taxes can help economic growth, while others might slow it down(Jelena et al., 2018). Optimal tax policy balances efficiency, equity, and administrative simplicity (Busler, 2013). Effective taxation systems require consideration of legal, economic, and institutional factors to optimize revenue collection and support economic development, particularly in the context of trade openness, economic restructuring, and institutional capacity (Garg et al., 2024).

Taxation has a significant influence on the operating environment, investment decisions, and growth prospects of business firms. Firms are affected not only by the direct financial burden of corporate and other taxes but also by the administrative costs associated with registration, record keeping, filing returns, making payments, responding to tax authorities, and complying with changing tax requirements. Taxation systems existing in an economy have an important role in determining the business environment. Complex tax regulations, difficult compliance procedure, and inefficient tax administration leads to increased cost of doing business and discourage formalisation, investment, and business expansion. High tax burdens and complex tax compliance mechanisms are major impediments to ease of doing business, particularly in developing economies and for MSMEs globally (Riwanto et al., 2023; Ugwu et al., 2022). Tax reductions alone do not leads to significant positive impact on economic growth, job creation, personal income and business establishments(Prillaman & Meier, 2012). Tax treatment is integrally linked to institutional quality and governance, influencing the perceived business climate(Gentjan et al., 2019). An efficient taxation system can support business readiness by providing clear and predictable tax regulations, accessible tax services, digital

filing and payment facilities, and effective mechanisms for resolving tax-related disputes. Successful reform examples suggest that simplification of tax compliance and regulatory harmonization can empower small and medium enterprises and improve overall economic performance(Gordon Dickinson, 2013; Riwanto et al., 2023). Therefore, taxation reforms should aim at simplification, transparency, fairness in administration and compliance rather than mere tax reduction to improve ease of doing business and foster sustainable economic development.

The Business Ready (B-READY) is the World Bank Group's new project designed to assess the global business and investment climate. B-READY provides a quantitative assessment of the business environment. B-READY assesses an economy's business environment by focusing on the regulatory framework and the provision of related public services directed at firms and markets, as well as the efficiency with which regulatory framework and public services are combined in practice. B-READY focuses on ten topics that are organized following the life cycle of the firm and its participation in the market while opening, operating (or expanding), and closing (or reorganizing) a business. The main topics include Business Entry, Business Location, Utility Services, Labor, Financial Services, International Trade, Taxation, Dispute Resolution, Market Competition, and Business Insolvency. B-Ready measures data on three pillars Regulatory Framework, Public Services, and Operational Efficiency. The Regulatory Framework comprises the rules and regulations that firms must follow as they open, operate, and close a business. Public Services refers to both the facilities that governments provide directly or through private firms to support compliance with regulations and the critical institutions and infrastructure that enable business activities. Operational Efficiency comprises both the ease of compliance with the regulatory framework and the effective use of public services directly relevant to firms (World Bank, 2025).

Taxation is one of the topics included in the B-Ready. The Taxation topic measures the quality of regulation, administration, and practical implementation of tax systems across the three different dimensions, referred to as pillars. The first pillar Quality of Tax Regulations assesses the quality of regulation related to taxation, encompassing both the legal framework (de jure) and the implementation (de facto) of the legal requirements. The second pillar Public Service Provided to Corporate Taxpayers measures the quality of tax administration by assessing the public services related to tax matters. The third pillar Operational Efficiency of Tax System in Practice evaluates the practical effectiveness of the implemented tax regulations and public services (World Bank, 2025).

Kerala is a diversified economy having a strong human capital base. Kerala stands in top position in social and human development indices like literacy, health and life expectancy. Kerala's economy presents a unique developmental model emphasised on social and human development rather than rapid industrial or agricultural expansion. This focus has resulted in a relatively modest economic growth rate when compared to other Indian states, yet it has led to impressive achievements in human development indices, distinguishing Kerala as a "model" in social progress despite economic challenges (Kannan, 2023). Despite having high human and social development indicators Kerala lags behind in industrial sector. Kerala's industrial structure is largely driven by micro, small, and medium enterprises (MSMEs), traditional industries, food processing, chemicals, pharmaceuticals, rubber-based industries, and emerging technology-oriented sectors. However, Kerala faces challenges, including limited availability of industrial land, relatively high operating and labour costs, environmental and spatial constraints, and the need to strengthen infrastructure and investment conditions. In this context, improving the ease of doing business has become increasingly important for promoting entrepreneurship, attracting private investment, expanding industrial activity, and enhancing the competitiveness of enterprises. Regulatory simplification, digital government services, single-window clearances, improved infrastructure, and more efficient tax and compliance systems can therefore contribute to creating a more predictable and business-friendly environment.

In recent years, the Government of Kerala has taken numerous proactive measures to improve the business readiness of Kerala. However, no proper study has been carried out to measure the effect of these measures on the business readiness of Kerala. Since taxation is a key element in determining the business readiness of an economy, this study examines the operational efficiency of taxation experienced by entrepreneurs in Kerala.

II. Methodology

The Business-Ready (B-Ready) methodology developed by the World Bank was adopted for the study. B-Ready measures the business environment quantitatively across ten different areas. Each topic is measured under three pillars referred as Regulatory Framework, Public Services and Operational Efficiency. Indicators on the Regulatory Framework pillar and Public Services pillar are collected through expert consultations, whereas indicators on the Operational Efficiency pillar are assessed through expert consultations and firm-level surveys. Based on the data collected, B-READY generates scores for each topic area and combined to a set of aggregate scores.

The Taxation topic measures the quality of tax regulation, administration, and implementation from a firm's perspective across the three different pillars. Each pillar is divided into categories and subcategories. Each subcategory has several indicators, each of which consist of one or several components. Relevant points are assigned to each indicator and subsequently aggregated to obtain the number of points for each subcategory, category, and pillar.

The Pillar I assesses the quality of tax regulation, covering de jure and de facto information on the legal requirements. The Pillar II measures the quality of tax administration by assessing the public services related to tax matters. The Pillar III measures the operational efficiency of tax regulation and related public services from a firm's perspective. This study focuses only the Pillar III - Operational Efficiency of Tax System in Practice.

Operational efficiency of tax system is measured through total seven indicators, which categorised into two. Categories are Time and Functionality Processes having five indicators and Financial Burden on Firms having two indicators. Details of categories and indicators are shown in table 1.

Table 1

Pillar III–Operational Efficiency of Tax System in Practice - Indicators

Category	Sub-Category	Indicator	Components
Time and Functionality	Time to File and Pay Taxes	Total Time for Preparation, Filing and Payment	Hours required to prepare, file, and paythree major types of taxes and contributions: corporate income tax, VAT/sales taxes, and labour taxes and social contributions
	Use of Electronic Systems to File and Pay Taxes	Use of Electronic Systems to File and Pay Taxes	Percentage of firms using electronic systems to file taxes in the previous calendar year
			Percentage of firms using electronic systems to pay taxes in the previous calendar year
	Duration of Generic Tax Audit	Total Time Needed to Complete the Audit	The period in weeks between the first interaction with the auditors and the receipt of the final audit report
	Duration of Tax Dispute	Time to Review a Tax Dispute	The period in calendar days between the moment a taxpayer files a claim until the moment the decision is issued
	Use of VAT Refund	Obtaining a VAT Refund in Practice	The percentage of firms who did not apply for a VAT refund due to the process being too burdensome, even when they were eligible for such a refund
			The time to receive a VAT refund adjusted by the number of firms reporting issues with VAT refunds
Financial Burden	Effective Tax Rate (ETR) for Profit Taxes	ETR for Profit Taxes	Financial cost of profit-based taxes for companies measured through the ETR estimate
	Effective Tax Rate (ETR) for Employment-Based Taxes and Social Contributions	ETR for Employment-Based Taxes and Social Contributions	Financial cost of employment-based taxes and social contributions for companies measured through the ETR estimate

The data for the indicators used in pillar III are collected through firm level survey. This paper uses the World Bank's Enterprise survey Data of India (World Bank Enterprise Surveys, 2025). It includes data from 390 firms in Kerala. The raw data were converted to a scale of 0-100, where 0 and 100 represent the lowest and highest scores respectively, using linear transformation method and normal cumulative density function transformation method. The best and worst performers are identified based on B-Ready data 2025. The data were analysed based on B-Ready scoring procedures (World Bank, 2025).

III. Results and Discussions

Operational Efficiency of Tax System in Practice

The results show the operational efficiency of the tax system in Kerala from the firm's perspective, as per the B-Ready methodology of the World Bank. Table 2 presents taxation operational efficiency indicators with values obtained for Kerala and global best as per B-Ready 2025 Data. Table 3 shows the B-Ready Score of Taxation Pillar III – Operational Efficiency of the Tax System in Practice.

Table 2
Taxation Operational Efficiency Indicators

Indicators and Components	Value Kerala	Global Best as per B-Ready 2025
Time and Functionality of Processes		
Total Time for Preparation, Filing and Payment (in hours)	48	12
The percentage of respondent firms that used electronic systems to file taxes	100	100
The percentage of respondent firms that used electronic systems to pay taxes	100	100
The period in weeks between the first interaction with the auditors and the receipt of the final audit report	2	1
The period in calendar days between the moment a taxpayer files a claim until the moment the decision is issued	150	12
The percentage of firms who did not apply for a VAT refund due to the process being too burdensome, even when they were eligible for such a refund	71.1	1
The time to receive a VAT refund adjusted by the number of firms reporting issues with VAT refunds	20	1.5
Financial Burden on Firms		
Effective Tax Rate (ETR) for Profit Taxes	7.12	3.5
Effective Tax Rate (ETR) for Employment Taxes and Social Contributions	4.03	1

Table 3
B-Ready Score of Taxation Pillar III – Operational Efficiency of Tax System in Practice

Indicator		Score	Maximum Score
1	**Time and Functionality of Processes**	**35.76**	**50**
1.1	Time to File and Pay Taxes	8.09	10
1.2	Use of Electronic Systems to File and Pay Taxes	10	10
1.3	Duration of Generic Tax Audit	8.57	10
1.4	Duration of a Tax Dispute	6.41	10
1.5	Use of VAT Refund	2.69	10
2	**Financial Burden on Firms**	**46.8**	**50**
2.1	Effective Tax Rate (ETR) for Profit Taxes	37.6	40
2.2	Effective Tax Rate (ETR) for Employment Taxes and Social Contributions	9.2	10
Total score for Pillar III		**82.56**	**100**

The assessment of operational efficiency of taxation indicates that Kerala has a relatively strong overall performance, but substantial differences exist across some individual dimensions of tax administration. As presented in Table 3, Kerala obtained an overall B-Ready Taxation Pillar III score of 82.56 out of 100. The score reflects the combined performance of two major components: Time and Functionality of Processes and Financial Burden on Firms. The Time and Functionality of Processes received 35.76 out of 50, whereas the Financial Burden on Firms received 46.80 out of 50. Thus, the financial burden dimension accounted for 93.60% of its maximum possible score, compared with 71.52% for time and functionality of processes.

Time and Functionality of Tax Processes

The results demonstrate considerable variations in the efficiency of individual tax administration processes. The time required to file and pay taxes received a score of 8.09 out of 10. However, firms in Kerala reported that the total time required for the preparation, filing, and payment of taxes was 48 hours, compared with the global-best value of 12 hours. Although Kerala's score indicates relatively good performance, the raw indicator reveals that tax compliance requires considerably more time than in the best-performing economies.

The use of electronic systems for tax administration represented the strongest element of this component. Both the use of electronic systems to file taxes and the use of electronic systems to pay taxes received a maximum score of 10 out of 10. The data show that 100% of respondent firms used electronic systems for both filing and payment of taxes, exactly matching the global-best value of 100%. This indicates that firms in Kerala fully adopted digital tax administration.

The duration of a generic tax audit received a score of 8.57 out of 10. Firms reported a period of 2 weeks between the first interaction with auditors and the receipt of the final audit report, whereas the global-best value was 1 week. Although the difference is relatively low compared with some of the other indicators, it suggests that audit procedures should be improved.

A more noticeable gap was observed in tax-dispute resolution. The indicator received a score of 6.41 out of 10, with firms reporting 150 calendar days between the filing of a tax-related claim and the issuance of the decision. In comparison, the global-best was only 12 days. The large difference between Kerala's performance and the global best indicates that dispute resolution is one of the major areas of operational inefficiency within

the tax system. Delayed dispute resolution can increase uncertainty and administrative costs and divert managerial resources away from productive business activities.

The weakest indicator within the time and functionality component was use of VAT refunds, which received only 2.69 out of 10. It shows that 71.1% of firms did not apply for a VAT refund because the process was considered too burdensome, even when they were eligible for a refund, compared with a global-best value of only 1%. Moreover, the time to receive a VAT refund, adjusted by the number of firms reporting issues with VAT refunds, was 20, substantially higher than the global-best value of 1.5. These identifies that the VAT refund process was a significant constraint on the operational efficiency of the taxation system. It indicates response by firms to administrative complexity. When the cost and effort related with processing a refund becomes sufficiently high, firms may choose not to opt refund. This will increase the financial and administrative burden of taxation even when statutory provisions for refund exist.

Financial Burden on Firms

The second major component, Financial Burden on Firms, performed substantially better than the time and functionality components. It received 46.80 out of 50, representing 93.60% of the maximum possible score. This suggests that, according to the B-Ready scoring framework, the financial burden associated with taxation is comparatively favorable.

The Effective Tax Rate for profit taxes received a score of 37.60 out of 40, while the ETR for employment taxes and social contributions received a score of 9.20 out of 10. The ETR values reported for Kerala were 7.12% for profit taxes and 4.03% for employment taxes and social contributions. These values are higher than the respective global-best values of 3.5% and 1%. This suggests that the financial burden is higher in Kerala compared to the world's best-performing economies and highlights opportunities for further improvement.

Overall, the result shows that the digital infrastructure necessary for taxation is well established in Kerala. However, the relatively lower score for the broader Time and Functionality of Processes exhibits that digitalization alone has not eliminated procedural delays and administrative burdens. These suggest that to improve operational efficiency, process simplification, reduction of excess documentation, faster verification procedures, and improved coordination among tax authorities, along with the introduction of electronic platforms, are required. This also shows that significant operational constraints remain in areas that require administrative responsiveness, particularly VAT refunds, tax-dispute resolution, and the time required to complete tax-related procedures in Kerala.

From a B-Ready perspective, Kerala has a better level of Operational Efficiency of Tax System in Practice, with an overall Pillar III score of 82.56 out of 100. This indicates that the operational efficiency of taxation did not significantly affect Kerala's business readiness. As Kerala has made a remarkable progress in digitalisation of taxation system, but further procedural reforms are required to achieve higher operational efficiency This implies that the future tax reform should focus on reducing the time and administrative burden faced by firms in their interactions with tax authorities. Such reforms will result in a more business-friendly taxation environment.

IV. Conclusion

This study assessed the operational efficiency of the taxation system in Kerala from the perspective of firms using the World Bank's Business Ready (B-READY) methodology. The findings indicate that Kerala performs relatively well in the operational efficiency of its tax system, obtaining an overall Pillar III score of 82.56 out of 100. The results suggest that taxation, in its practical implementation, does not constitute a major constraint on Kerala's business readiness.

The strongest performance was observed in the use of electronic systems for tax filing and payment, where Kerala achieved the maximum score. This indicates a high level of digital adoption among firms and shows the progress made in the digitalisation of tax administration. The Financial Burden on Firms also recorded a strong score of 46.80 out of 50 and remains scope for improving the cost competitiveness of the tax system.

However, the analysis also exposes critical gaps in the time and functionality of certain tax procedures that could reduce the overall efficiency of the system. The time required for preparation, filing, and payment of taxes remains substantially higher than in leading economies, while dispute resolution and VAT refund processes are characterized by long delays and high perceived burdens, discouraging firms from fully utilizing available mechanisms. These findings suggest that despite highly developed digitalisation, procedural complexity and delays persist. Addressing these gaps would further strengthen the business environment and contribute to a more predictable, efficient, and business-friendly taxation system in Kerala. Therefore,future tax reform should focus on reducing the time and administrative burden faced by firms.

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