Jus Corpus Law Journal

Open Access Law Journal – Copyright © 2025 – ISSN 2582-7820
Editor-in-Chief – Prof. (Dr.) Rhishikesh Dave; Publisher – Ayush Pandey

Transforming India's Economy: Corporate Tax Reforms as A Driving Force Behind Economic Change

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Received 12 December 2024; *Accepted* 14 January 2025; *Published* 17 January 2025

The evolution of corporate tax reform in India is assessed within this paper for its prospective influence on boosting investment, repositioning corporate competitiveness, and generally furthering economic prosperity. The report identifies how amendments to tax rates, exemptions, and deductions modify the profitability profile and investment strategies of corporations to thereby conclude the associated influence on business. It attempts to address the challenges these newly established reforms in tax pose, especially on compliance, revenue growth, and international competitiveness. Based on a comparative analysis, the paper presents a more practical policy agenda that strives for the potential benefits from these reforms that can be gleaned from the Indian experience. Based on a comparative analysis, the paper presents a more practical policy agenda that strives for the potential benefits from these reforms that can be gleaned from the Indian experience. Lastly, the study provides several policy recommendations to make corporate tax reform effective in India.

Keywords: *corporate tax reforms, economic growth, investment, tax compliance.*

INTRODUCTION

Corporate tax reform forms the very fabric of economic policy, and, in its essence, it would stimulate investment, enhance competitiveness, and promote growth. As an emerging economy on the world scene, India considers an efficient corporate tax structure critical to attracting FDI and fostering domestic enterprises. This paper analyses the critical development of corporate tax reforms for India and estimates their impact on the country's economic trajectory.

Historically, the corporate tax structure in India was characterised by high rates and complex rules that discouraged investment and slowed down the economy. However, the changes introduced over the past few decades, particularly the sweeping changes of 2019, have aimed to simplify the tax structure and reduce rates to bring India closer to global standards. Such changes are not mere fiscal reforms; they represent a conscious effort to enhance India's competitiveness in the global marketplace and boost economic vibrancy.

This paper looks at some of these basic elements by examining the historical development of such reforms, the reasons for recent changes, and their effects on business and the wider economy. Considering the prospects and challenges associated with these reforms, it tries to contribute to the existing debate on corporate taxation in India as well as gain insights into the long-term implications of policy.

HISTORY OF CORPORATE TAX REFORM IN INDIA

Corporate tax reform in India has undergone significant changes since independence, aimed at promoting economic growth, attracting foreign investment, and simplifying the tax structure. Post-independence, India inherited a tax system from the British, with the Indian Income Tax Act of 1922 initially governing the tax framework.[1] The **1960**s and **1970**s were characterised by very high corporate tax rates, often exceeding **50%**, which discouraged investment and economic growth. In **1961**, the Income Tax Act was revamped to provide a more comprehensive tax structure, but the high rates persisted.[2]

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[1] 'History of Taxation in India' (*Levare Consultants Pvt. Ltd*) <https://www.levare.co.in/articles/history-taxation-india> accessed 02 December 2024

[2] M G Rao, 'Tax System Reform in India: Achievements and Challenges Ahead' (2005) 16(6) Journal of Asian Economics <https://journals.scholarsportal.info/details/10490078/v16i0006/993_tsriiaaca.xml&sub=all> accessed 02 December 2024

The severe economic crisis necessitated structural reforms, including comprehensive tax reforms aimed at stabilising the economy, enhancing revenue productivity, and promoting economic growth. The reforms were guided by the Tax Reform Committee **(TRC)**, which focused on broadening the tax base, lowering marginal tax rates, reducing rate differentiation, and improving tax administration. The economic reforms of 1991, initiated by Prime Minister **P.V. Narasimha Rao** and Finance Minister **Dr. Manmohan Singh**, marked a pivotal shift. Faced with a severe balance of payments crisis, the government reduced corporate tax rates and simplified the system to attract foreign investment and stimulate economic growth. These reforms included introducing tax incentives for infrastructure, exports, and other key sectors.

Based on the recommendations of the TRC, the distinction between closely held and widely held companies was done away with, and the tax rates were reduced to a uniform **40%** in **1993-1994**.[3]

The TRC headed by **Dr Raja J. Chelliah** in **1997** further recommended reducing corporate tax rates and broadening the tax base, leading to a reduction in the corporate tax rate for domestic companies to **35%** and the **10%** tax on dividends was shifted from individuals to companies.[4]

The 2000s saw continued efforts to simplify and rationalise the tax system. The Kelkar Committee in 2002 suggested further simplification, reduction in exemptions, and lower tax rates, resulting in the introduction of the Minimum Alternate Tax **(MAT)** to ensure companies with minimal income still paid a minimum tax. Although the Direct Taxes Code **(DTC)** of **2009**, which aimed to simplify the tax structure, reduce tax rates, and eliminate various exemptions, was not implemented, it influenced subsequent reforms.[5]

In the **2010**s, major overhauls and modernisation efforts were undertaken. The Finance Act of 2015 reduced the corporate tax rate to **25%** for new manufacturing companies, promoting the **'Make in India'** initiative and phasing out various tax exemptions and deductions. The introduction of the Goods and Services Tax (GST) in 2017 streamlined indirect taxes, benefiting

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[3] Anirdam Das-Gupta, 'Reform of Income Tax Administration: A Proposed Schedule' (1993) National Institute of Public Finance and Policy <https://www.nipfp.org.in/media/medialibrary/2014/10/REFORM_OF_INCOME_TAX_ADMINISTRATION_A_PROPOSED_SCHEDULE.pdf> accessed 02 December 2024

[4] *Ibid*

[5] 'Report of the Task Force on Direct Taxes' (*The 1991 Project*, December 2002) <https://the1991project.com/sites/default/files/2023-07/2002%20Kelkar%20Task%20Force%20Report%20on%20Direct%20Taxes.pdf> accessed 02 December 2024

companies by reducing the cascading effect of taxes. A substantial reduction in corporate tax rates was announced in September 2019 by Finance Minister **Nirmala Sitharaman** to boost the economy, reducing the tax rate for domestic companies to **22%** and for new manufacturing companies incorporated after October 1, 2019, to **15%**.

The **2020**s have seen further efforts to modernise and simplify the tax administration. The introduction of faceless assessment and appeals in 2020 aimed to reduce human interface and promote transparency. Additionally, under the Atmanirbhar Bharat Abhiyaan, further tax reliefs and incentives were provided to promote self-reliance and domestic manufacturing amidst the **COVID-19** pandemic.[6] Recent developments include ongoing efforts to simplify the tax compliance process, such as pre-filled tax returns, digital tax administration, and initiatives to enhance ease of doing business.

These corporate tax reforms have progressively reduced tax rates to align with global standards, making India more competitive for businesses. Continuous efforts to simplify the tax structure, reduce exemptions, and broaden the tax base have been key features of these reforms. The focus has been on attracting foreign direct investment (FDI), encouraging domestic manufacturing, and fostering economic growth. Modernisation through digital initiatives has enhanced transparency and efficiency in tax administration, reflecting India's adaptability to changing economic landscapes and its commitment to creating a favourable business environment.

CURRENT TAX STRUCTURE AND POLICIES

The Indian government needs to collect taxes for the proper functioning and development of the country. The tax structure of India can be categorised as Direct and Indirect Taxes. Indirect tax is being collected in the form of G.S.T whereas Direct tax is being collected from the income generated by individuals and businesses. The direct tax paid by businesses on their net profits is called corporate tax. In India, both domestic and foreign companies must pay the tax according to the tax rate imposed on them as per the Income Tax Act of 1961.[7]

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[6] S R Patnaik et al., 'Faceless appeals, CBDT extends faceless assessments to the second level' (*Cyril Amarchand Mangaldas*, 29 November 2021) <https://tax.cyrilamarchandblogs.com/2021/11/faceless-appeals-cbdt-extends-faceless-assessments-to-the-second-level/> accessed 02 December 2024

[7] Income Tax Act 1961, s 4(1)

The Corporate Tax Rates in India for domestic companies are structured as follows: Companies with a turnover of up to **INR 400 crore** in the previous year are taxed at **25%**, while those with a turnover above **INR 400 crore** face a tax rate of **30%**. Additionally, there are surcharges of **7%** if the total income exceeds **INR 1 crore** or **12%** if the total income exceeds **INR 10 crore**, and a Health and Education Cess of **4%** is imposed on the amount of income tax plus surcharge.

Under Section **115BAA**, domestic companies are offered a concessional tax rate of **22%**. Including surcharge and cess, the effective tax rate comes to approximately **25.17%**. This rate is designed to encourage domestic companies to opt for a simpler tax regime without availing of certain exemptions and incentives.[8] For new manufacturing companies incorporated on or after **October 1, 2019**, and commencing production by **March 31, 2023**, a special tax regime is available under Section **115BAB**. These companies benefit from a reduced tax rate of **15%**. When factoring in surcharge and cess, the effective tax rate is around **17.16%**. This provision aims to promote investment in the manufacturing sector and boost the 'Make in India' initiative by offering a lower tax rate for new manufacturing entities.[9]

The general corporate tax rate for foreign companies in India is **40%** and **35%** for Foreign Companies with a permanent establishment in India. In addition to this base tax rate, if the income ranges between **INR 10 million** and **INR 100 million,** then the surcharges will apply at the rate of **2%** on the total amount or **5%** if the income exceeds **INR 100 million**. In addition to this, a Health and Education Cess of **4%** is imposed on the amount of income tax. These surcharges and cesses are additional taxes applied over the base corporate tax rate, leading to a higher effective tax rate for foreign companies operating in India.

The latest corporate tax reforms, as outlined in the Union Budget **2024-25**, include several key changes aimed at simplifying the tax structure and promoting economic growth:

[8] Finance Act 2019, cl 115BAA
[9] Finance Act 2019, cl 115BAB

Tax Reduction for New Manufacturing Entities: New manufacturing entities commencing operations by **March 31, 2023**, will benefit from a reduced corporate tax rate of **15%**. However, companies availing of certain exemptions will continue to be taxed at the earlier rate of **22%**.[10]

Digital Economy Tax (DET): A new **2%** levy is imposed on digital transactions conducted by non-resident entities earning revenues exceeding **INR 2 crore** in India. Additionally, Indian e-commerce operators are required to deduct Tax Deducted at Source (TDS) at **1%** on payments exceeding **INR 1,00,000** annually to individual sellers.

Goods and Services Tax (GST) Changes: To promote sustainability, essential items such as renewable energy equipment and electric vehicles are taxed at a reduced rate of **5%**. Conversely, luxury goods and services are subjected to a higher GST rate of **28%**. Online gaming platforms now attract an **18%** GST on platform fees, and cryptocurrency transactions are taxed at a GST rate of **28%**.

Angel Tax Abolition: The abolition of the angel tax has provided greater flexibility for startups in fundraising without the need to justify premium valuations. This move aims to ease the process for startups to attract investment and grow their businesses.

Capital Gains Tax: The capital gains tax rates have been standardized across different asset classes. Short-term capital gains **(STCG)** are now taxable at a rate of **20%**, while long-term capital gains **(LTCG)** are taxable at **12.5%** without the benefit of indexation.

THE INDISPENSIBLE ROLE OF CORPORATE TAX REFORMS IN TODAY'S DYNAMIC ECONOMY

Economic Growth and Competitiveness: India's corporate tax rates have historically been higher compared to other emerging markets. Before the **2019** reform, the base rate was **30%** for large companies and **25%** for smaller companies, excluding surcharges and cesses, which pushed the effective rate higher.[11] Many competing economies in Asia, such as Singapore **(17%)**,

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[10] Sanjay Tolia, 'India: Corporate - Taxes on corporate income' (*PwC Tax Summaries*) <https://taxsummaries.pwc.com/india/corporate/taxes-on-corporate-income> accessed 02 December 2024

[11] Indrajeet Sharma, 'Tax Evasion: Challenges and Solutions' (*Tax Buddy*, 24 September 2024) <https://www.taxbuddy.com/blog/tax-evasion-challenges-and-solutions> accessed 02 December 2024

Hong Kong **(16.5%)**, and Vietnam **(20%),** had significantly lower corporate tax rates. This disparity made India less attractive for foreign direct investment (FDI).

Boosting Investment: High corporate taxes deter both domestic and foreign investments. A lower tax rate can incentivize companies to reinvest their profits into business expansion, innovation, and infrastructure development.[12] The government reduced the base corporate tax rate to **22%** for existing companies and **15%** for new manufacturing firms. This was aimed at boosting the investment climate, encouraging business activities, and promoting the **Make in India** initiative.[13]

Addressing Tax Evasion and Compliance: High tax rates coupled with complicated tax laws lead to increased tax evasion and avoidance. Simplification of the tax structure and lowering rates will improve compliance and widen the tax base. A high rate of tax often leads to growth in the black economy. Reduced taxes reduce incentives for businesses to hide income and, therefore, increase transparency and accountability.[14]

Revenue Neutrality and Broader Tax Base: Reducing tax rates necessitates the elimination of various exemptions and incentives that are complicating the tax system. This will keep the revenue intact by broadening the tax base. With the lower tax rate, the incentive to evade taxes decreases, so compliance increases and overall tax revenues may also increase even with the lower rate.

Stimulating the Manufacturing Sector: Lowering the corporate tax rate for new manufacturing companies to **15%** is aligned with the **Make in India** initiative. This is designed to attract new investments in manufacturing, thus boosting industrial growth and employment. As global

[12] 'Major Initiatives: Make in India' (*PMINDIA)* <https://www.pmindia.gov.in/en/major_initiatives/make-in-india/> accessed 02 December 2024

[13] 'Corporate tax rates slashed to 22% for domestic companies and 15% for new domestic manufacturing companies and other fiscal reliefs' (*Press Information Bureau*, 20 September 2019) <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1585641#:~:text=In%20order%20to%20promote%20growth,not%20avail%20any%20exemption%2Fincentive> accessed 02 December 2024

[14] Anshika Vashist, 'The Concept of Tax Evasion and its Impact on National Economy' (*Legal Service India*) <https://www.legalserviceindia.com/legal/article-3712-the-concept-of-tax-evasion-and-its-impact-on-national-economy.html> accessed 02 December 2024

companies look to diversify their supply chains, competitive tax rates make India a more attractive destination for setting up manufacturing units.[15]

Fiscal Stability and Government Revenue: Although reducing corporate taxes might lead to a short-term decline in revenue, the long-term gains through enhanced economic activity, higher compliance, and a broader tax base can lead to a stable and growing revenue stream for the government. The principle of the **Laffer Curve** suggests that there is an optimal tax rate that maximises revenue.[16] Lowering taxes might move India closer to this optimal point, where economic activity is sufficiently stimulated to offset the lower rates.

REFORMING CORPORATE TAX POLICIES TO FUEL INVESTMENT AND BOOST ECONOMIC GROWTH

In 2019, the government reduced the corporate tax rate to promote economic growth and attract foreign investments in the country.[17] This made India's corporate tax rates more competitive globally, putting it on par with leading economies. Due to the lower tax rate, India will be a more enticing destination for foreign investments, consequently spurring economic growth in the country. The main purpose of the tax reform is to raise India's tax rate closer to world standards to ensure competitiveness in the international business world. Because of the new tax regime, the new manufacturing companies can now use their platforms to boost their production and contribute towards overall growth, thus fueling the country's economic development.

Tax reforms in India, combining lower statutory rates with base broadening, could lead to a pro-growth fiscal adjustment. This would involve removing exemptions, improving tax administration, and reducing tax-induced distortions. This would also increase direct tax revenue, enhance return on investment, and improve the neutrality of the tax system. Also, it

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[15] 'Make in India: Revitalising India's Manufacturing Sector' (*ACKO*, 18 January 2024) <https://www.acko.com/health-insurance/make-in-india/> accessed 02 December 2024

[16] CFI Team, 'Laffer Curve' (*Corporate Finance Institute*) <https://corporatefinanceinstitute.com/resources/economics/laffer-curve/#:~:text=The%20Laffer%20Curve%20says%20that,that%20maximizes%20tax%20revenue%20collection> accessed 02 December 2024

[17] Corporate tax rates slashed to 22% for domestic companies and 15% for new domestic manufacturing companies and other fiscal reliefs (n 13)

has been discovered that lower tax rates increase investments, especially for bigger domestic businesses.

Reforms also attracted many businesses and nurtured growth in tandem with the tax reforms. India also embarked upon more general initiatives to liberalize the economy and enhance the infrastructure. Together with tax competitiveness and a business environment, it has placed India in a strong position as a potential investment location for both domestic and foreign enterprises. The manufacturing sector in India is also going to witness steady GDP growth, mainly because of tax cuts and investment reforms, as new domestic companies will face a 15% tax rate. This would attract global capital and facilitate growth.

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BENEFITS OF CORPORATE TAX REFORMS

Boosting Investment and Job Creation: Due to the tax reforms, foreign companies were attracted to invest in India, which led to an increase in the number of jobs and economic growth by promoting investment, entrepreneurship and innovation throughout the nation. A study by the **National Institute of Public Finance and Policy** found that firms that are qualified for their tax cuts increased their investments by approximately **3.1%** in **2019** to **6.7%** in **2020**.[19] The reduction of taxes has stimulated more investments in the form of businesses, increased capital

[18] Supriyo De, 'Recent Reforms in India's Corporate Income Tax Regime: Rationale, Impacts, and Improvements' (2023) National Institute of Public Finance and Policy, 393 <https://www.nipfp.org.in/media/medialibrary/2023/04/WP_393_2023.pdf> accessed 02 December 2024

[19] Adam Hussain, 'Effect of Tax Cut on Investment: Evidence from Indian Manufacturing firms' (2023) National Institute of Public Finance and Policy <https://www.nipfp.org.in/media/medialibrary/2023/02/WP_390_2023.pdf> accessed 02 December 2024

expenditure and economic growth, resulting in a higher output and improved productivity, contributing to economic expansion.

Increase Profitability: Lower tax rates create a major impact on the profitability of domestic businesses. Domestic businesses may keep more of their earnings and can reinvest them in the company or give them to shareholders as they will owe less in taxes. By giving more dividends to the shareholders, they will attain greater levels of faith towards the company and are motivated to reinvest more. The exiting units' tax rate dropped from around **34.94%** to **25.17%**, while new units enjoyed a lower effective rate of **17.01%**. Domestic Companies are encouraged to boost their investments as a result of this reduction, which has increased profitability.[20]

Simplified Tax Structure: Simplifying and improving the corporate tax system, as India has done with the introduction of the Goods and Services Tax (GST), helps reduce the costs associated with business compliance. Before GST, there were different indirect tax compliances on different levels of the supply chain. But now, the indirect tax mechanism has been streamlined to one single tax for the entire supply chain. Businesses may become more resilient and financially sound by concentrating more of their efforts on successful endeavours and operations rather than tax-related issues. The corporate tax environment has changed significantly as a result of the government's introduction of optional lower tax rates for businesses prepared to renounce certain deductions. About 58% of corporate tax income as of FY 2022–2023 comes from this streamlined tax system, demonstrating how widely firms are adopting it.[21]

Boost Consumer Spending: Reducing corporate tax rates can enhance consumption by passing reduced tax liabilities at a low price to the customers. This rise in consumer spending will benefit many different economic sectors and might lead to more economic growth and activity.

DRAWBACKS OF CORPORATE TAX REFORMS

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[20] 'Government lost Rs 1 Lakh crore in taxes in FY'21 due to corporate tax cut, says MOS Finance' *The Economic Times* (08 August 2023) <https://economictimes.indiatimes.com/news/economy/finance/government-lost-rs-1-lakh-crore-in-taxes-in-fy21-due-to-corporate-tax-cut-says-mos-finance/articleshow/102544590.cms> accessed 02 December 2024

[21] 'Union Budget 2024-25: Key Tax Reforms and Relief Measures' (*Press Information Bureau*, 25 July 2024) <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2024/jul/doc2024726355001.pdf> accessed 02 December 2024

Limited Resources for Public Investments: Reducing tax rates for businesses means the government revenue is decreased. Since taxes are the major source of revenue for the government, reducing tax rates for businesses means that the government revenue is decreased. If the government has less money, spending on the development of infrastructure or improvement in healthcare, education and any other social welfare programs will significantly reduce. Since taxes are leakages and Government spending is an injection, decreased injections will result in decreased **GDP,** hence making it difficult for the country to grow and progress. A growing disparity between the two revenue channels is demonstrated by the fact that, in **FY24,** revenue generated through personal income tax was **Rs 10.44 lakh crore,** while corporate tax revenue was just **Rs 9.11 lakh crore.** According to this structure, relying solely on corporate taxes to fund necessary public services is not viable.[22]

Inequality and Regressivity: Income inequality increases when high-income corporations or capital owners benefit from corporate tax cuts. As a social impact, it would worsen the disparities between different income groups in society.

Impact on Public Services: Corporate tax cuts can reduce revenue from taxes, which affects the government's ability to provide essential public services. This can cause a reduction in services, low-quality public infrastructure, and restricted government programs that benefit the general public.[23]

IMPACTS ON GDP AND ECONOMIC GROWTH DUE TO REFORMS IN CORPORATE TAX

The GDP of a country faces a huge impact because of corporate tax reform. Taxes are being cut to lower prices, which will aid the nation in various ways to raise its GDP. The recent tax cut due to the reform will attract many foreign companies to invest, and because of increasing

[22] Monika Yadav, '10 years of Modi government: Tax reforms, challenges' *The New Indian Express* (12 May 2024) <https://www.newindianexpress.com/business/2024/May/12/10-years-of-modi-government-tax-reforms-challenges> accessed 02 December 2024

[23] Dr Gurpreet Kaur, 'Analysis of India's New Corporate Tax Regime: Key Features and Perspectives' (*Tax Guru*, 12 January 2024) <https://taxguru.in/income-tax/india-new-corporate-tax-regime-analysis.html> accessed 02 December 2024

investment, the profitability will also increase in manufacturing sectors, and this increase in profitability will cause an increase in the Gross Domestic Product (GDP) of the country.

One of the crucial fields which has a deep influence on our daily lives is economics. It is used in budgeting, purchasing, employment, investment, globalization, and public policy. With the right understanding of economics, one can make informed decisions about one's budget, such as saving, spending, and investing. Economics also influences the prices of goods and services, affecting the demand and supply, inflation and taxes. Employment opportunities such as job growth, wages and benefits are also impacted through economics. Informed investment decisions, understanding financial markets and associated risks and returns can be analysed. Economics can also help in analysing the impact of globalization, including international trade, migration, and the global economy. Conclusively, it gives shape to public policy decisions, including taxes, government spending, and regulations. Thus, informed decisions can be made and navigating the complex world can be done with the proper understanding of economics.

Therefore, reforming corporate tax can also have a vital effect on GDP and Economic growth in India. There are some positive and negative impacts on economic growth and GDP due to tax reform.[24]

Positive Impacts on GDP: Aiming to boost investments and attract new investments in the manufacturing sector, corporate tax rates are lowered from **30%** to **25 %** for existing businesses. There is an anticipation that this will enhance India's competitiveness in comparison with other Asian economies in terms of corporate tax rates, which would potentially lead to an increase in corporate investments over the medium term. The tax cut is estimated to improve the company's profitability, boost nifty growth, attract global capital and increase profit margins, evidently leading to a rise in profit-making businesses over time. This would, in turn, provide businesses with more funding, further investment or new ventures, stimulating economic growth. Following the tax cuts, there was a considerable rise in corporate profits. According to reports, corporate tax collections increased significantly post-reform, with a 30% rise in collections during the first quarter of FY23 compared to previous periods. A study highlighted that

[24] 'Corporate Tax Rate in India: Impact on the Economy and Businesses' (*Marg*, 17 February 2023) <https://margcompusoft.com/m/corporate-tax-rate-in-india/> accessed 02 December 2024

corporate profits increased by 138% in FY21, although there was a decline in overall GDP growth during that fiscal year.[25] The reduction in corporate tax is expected to boost investments, increase the economy's productive capacity, create more jobs, and improve earnings within 2 to 5 years. These factors would positively contribute to GDP growth.

Negative Impacts on GDP: Due to the tax reforms, the decrease in tax can cause the government to lose a large amount of money, which can affect the fiscal deficit of the country and can also raise the budget from **3.3%** to **4.0%** of the total GDP. This drop in government revenue might have negative short-term implications on GDP growth.

Although economic growth can be stimulated through tax reduction, because government money in the form of tax revenues is reduced, it slows down short-term economic activity. India's corporate tax changes are anticipated to affect GDP in two ways. While reduced tax rates are expected to encourage investments, profitability, and competitiveness, they will also likely have a beneficial medium- to long-term impact on GDP growth. The short-term effects might be detrimental because of the decline in economic activity and government income.[26]

Positive Impacts on Economic Growth: Increased competitiveness in India's corporate tax rates has drawn manufacturing investment. Lower rates encourage businesses to invest more by reducing investment returns. India's youth workforce offers a chance to boost manufacturing's contribution to employment and growth more quickly. Corporate tax cuts have a favourable micro impact on loan availability, fixed asset investment, innovation, and firm profitability. Research indicates that the increase in investments by domestic manufacturing firms was approximately **3.1%** in **2019** and **6.7%** in **2020** following the tax cuts. This means an average increase of **₹85 million (about USD 1 million) to ₹138 million (about USD 1.6 million)** per firm, respectively. [27]Furthermore, from **2017-2021**, the surge in GST income made possible by the corporate tax changes had a notable effect on India's economic development, as demonstrated

[25] Prasanna Mohanty, 'Did corporate tax cut of 2019 lead to tax, GDP boom?' (*Fortune India*, 12 August 2022) <https://www.fortuneindia.com/opinion/did-corporate-tax-cut-of-2019-lead-to-tax-gdp-boom/109294> accessed 02 December 2024

[26] Swathy Krishna and Shacheendran V, 'Impact of Goods and Services Tax on the Economic Growth of India' (2024) 66(1) Artha Vijnana <https://gipe.ac.in/impact-of-goods-and-services-tax-on-the-economic-growth-of-india/> accessed 02 December 2024

[27] Hussain (n 19)

by the application of Ordinary Least Square Regression methods. Accordingly, while there is revenue loss due to corporate tax cuts initially, they can also lead to higher overall tax collections through indirect taxes as consumption increases. This phenomenon is known as the elasticity of tax collections.[28]

Negative Impacts on Economic Growth: Several economists have critiqued that the temporary reduction of corporate tax rates could decrease the government revenue as well, which will impact the funds for public services. However, the government expects positive and sustained growth and higher revenue in the long run. The **1980**s studies have provided limited evidence of the long-term growth benefits of tax cuts, and the outcomes are still uncertain. Research suggests that lower tax rates are not attractive for new companies and make it worse for **SMEs.** Before the reduction, many SMEs were already enjoying the advantages of reduced effective tax rates. For example, in **2018–19,** the corporate tax rate for businesses with annual turnover under **₹250 crore** was **18.2%,** whereas the rates for larger businesses were higher. Larger corporations, which were previously subject to higher tax rates, were thus disproportionately favoured by the recent cuts.[29] For new manufacturing businesses founded after **October 1, 2019,** the tax rate was lowered to **15%** under the new tax regime. For many **SMEs,** who frequently depend on these advantages to efficiently manage their operating costs, the requirement that this benefit be obtained without claiming any exemptions or incentives can be a significant challenge. Enterprises face multiple challenges in terms of compliance, requirements, planning and stakeholder consultation. For a smooth transition, we need to minimize unintended consequences and ensure coherence.[30]

CONCLUSION

The Corporate Tax Reforms in India are a deliberate attempt to improve the global economic participation of the country by decreasing the tax rates. The objectives of these reforms are to

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[28] 'Explaining the Impact of Corporate Tax Cut on the Indian Economy: Bajaj Finance' (*Bajaj Finserv*, 17 October 2024) <https://www.bajajfinserv.in/investments/explained-impact-of-corporate-tax-cut-on-the-economy> accessed 02 December 2024

[29] 'Reduction in Corporate Tax - SMEs to Benefit' (*India Filings*, 25 August 2019) <https://www.indiafilings.com/learn/reduction-in-corporate-tax/> accessed 02 December 2024

[30] R Revathi et al., 'Impact of Implementation of Goods and Service Tax on Indian Banking Sector' (2018) 2(2) International Journal of Case Studies in Business, IT, and Education <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3238751> accessed 02 December 2024

promote foreign and domestic investments, foster the growth of the manufacturing sector, and make the business climate more attractive. However, these reforms can also have detrimental impacts such as short-term revenue loss and even an increase in fiscal deficit in addition to an increase in competitiveness and firm profitability, better tax compliance, and improvement in corporate image. The ultimate goal is to encourage the economy to grow and place India as a desirable location for investors while establishing a dynamic and responsive tax system that promotes growth while protecting national economic goals.