ECONOMIC NOTES

Corporate Tax Reductions - Weak Analytical Foundation

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The claim of sharp reduction in effective corporate tax rate to 25.11% does not, in fact, represent any significant reduction in the tax burden that the companies bear at present, and hence, the fiscal instrument available for improvement in corporate investment gets blunted. Apart from frittering away the tax potential, this measure will shift the tax burden to individuals. Also, several non-manufacturing companies and a handful of large companies are likely to benefit from the measure.

Amongst the various measures initiated by the government since the middle of 2019 in response to the persistent depression in the domestic economy, the one that stands out as a radical reform measure is the reduction in the corporate tax rate. This drastic reduction in the tax rate falls into the structural adjustment policy framework which has propagated, inter alia, low tax rates with the elimination of tax incentives. Such a policy framework had its logic, if at all, for a period when the prevailing tax rates were usurious in character. Analytically, it is necessary to recognise that the present situation of tax incidences is radically different from the situation prevailing in the 1980s and 1990s when such reforms were propagated. For instance, earlier in the 1990s, the average statutory tax rates (STR) for the domestic companies was over 48% which was reduced to about 35% in the first decade of the new century (2003–04 to 2011–12; see Rajakumar 2014) and further to around 25% now. Such levels of moderate tax revenue mobilisation are obviously unavoidable for a developing economy like India's which is in great need of higher levels of domestic saving and investment and concomitant public development programmes.

Against this background, one is not sure if the government has thought through the broader implications of the "loss of substantial revenue due to these measures," as conceded by the union finance minister in her latest budget speech, or whether it was a knee-jerk reaction to a helpless economic situation. The budget's inability to provide for a decisive upward thrust in development programmes under rural development or social expenditures, particularly for health, or its failure to provide for a push to overall public sector investment,

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reveal the adverse consequences of such heroic tax reform measures. With this broader macroeconomic perspective, this note confines itself to examining whether the nature of corporate tax reform has the potential to achieve its objectives of promoting growth and investment even in the medium term. After concluding that the scope for the measure to impart any such sizeable push to corporate investment and growth is limited, the note further explores the implications of the measure on government finances and also examines as to which of the corporate segments would benefit from such tax policies.

Implications of Tax Reform

The September 2019 reform measure inserted a new provision in the Income Tax Act with effect from the financial year 2019–20 which provided any domestic company the option of paying income tax at the rate of 22% as against the prevailing 30%, subject to the condition that the company will not avail of any exemption or tax incentive. The government notification states that “the effective tax rate for these companies shall be 25.17% inclusive of surcharge and less.” This is as against the existing STR of 34.32%. The notification further states that any “company which does not opt for the concessional tax regime and avails of the tax exemption/incentive shall continue to pay tax at the pre-amended rate.”

The implication of this measure is that it cuts at the very root of the broader economic objective of using available instruments to promote investment and growth. In this case, it is to deploy fiscal instruments to promote corporate investment and growth. The objective of all tax incentives, exemptions and concessions provided through the government budget from time to time is to bolster corporate investment activities. It follows a powerful economic logic which is that those companies which do not deploy their pre-tax profits for expansion of business activities, have to part with a part of their profits for the exchequer. This, so that in the immediate period, the autonomous development programmes of the government get augmented, which may impart multiplier benefits for the economy and crowd-in private investment activities.

Effective Corporate Tax Rates

As averred at the outset, the days of usurious corporate tax rates are over. When the system is operating at moderate tax levels, the fiscal incentive structure to modulate the expansion of business activities deserves to be deployed. Also, the new tax measure places the effective corporate tax for companies at 25.17%. And our analysis provides an interesting revelation, which is that during the period of high growth and impliedly high corporate sector activities

(2007–08 to 2011–12), the average STR[1] remained within a narrow range of 32.45% to 33.99%, but the effective tax rate (ETR, that is, tax payable as percentage of profit before tax) had never gone beyond 24.10% (Table 1). The difference between the STR and ETR generally measures the efforts made by the companies to take advantage of the tax incentives for undertaking investment activities. Such a difference never fell below 10 percentage points during the high growth period. Understandably, the companies took advantage of the tax incentives for investment purposes. By the same logic, when the average ETR has moved higher up to a range of 26.89% to 29.49% during the period 2015–16 to 2018–19 (based on available data), it would be essentially attributable to poor corporate investment and inabilities of the corporate sector to make use of the available incentives for investment.

Table 1: Trends in Tax Incidence of Companies

	Average Statutory Tax Rate	Effective Tax Rate
2006-07	33.66	20.60
2007-08	33.99	22.44
2008-09	33.99	22.78
2009-10	33.99	23.53
2010-11	33.21	24.10
2011-12	32.45	22.85
2012-13	32.45	22.44
2013-14	33.22	23.22
2014-15	33.84	24.67
2015-16	34.47	28.24
2016-17	34.38	26.89
2017-18	34.40	29.49
2018-19	34.60	27.84

Source: Ministry of Finance, *Union Budget*, Various Years

If the above assessment is accepted, the effective corporate tax rate of 25.17% provided in the reform measure does not represent any significant reduction in the tax burden that the companies bear at present. While the companies enjoy such attractive ETRs currently supported by their investment activities, the new tax regime will facilitate the companies to enjoy such tax rates without being conditional upon any extra effort at higher investment and growth activities. In the circumstances, it is not necessary that reduced tax rates will necessarily bring about any larger investment. At present, the effective tax rate being the same as about 25%, there is no incentive derived from lower statutory taxes by companies to expand their investment activities. The fiscal instrument available for achieving improved corporate investment activities thus remains blunted.

Sizeable Revenue Loss

Just in the immediate period when the economy needs the fiscal push, the expected tax revenue forgone is estimated at ₹1.45 lakh crore. There has occurred a sharper fall of ₹1.555 lakh crore in the revised estimates (RE) of corporation tax to ₹6,10,500 crore from the budget estimates (BE) of ₹7,66,000 crore for the same year 2019–20. The loss in revenue would be further extended to the budget year 2020–21 too; the budget estimates for the year in respect of corporation tax placed at ₹6,81,000 crore give an increase of only 11.5% when the actuals of 2017–18 (a comparable year) had shown a rise of 17.8%, a suggestive measure of tax potential.

Thus, in terms of the tax potential for the economy, the corporate sector has always held a dominating place (Table 2). Fiscal literature has provided universal support for direct taxes as a measure of an egalitarian tax system as compared with indirect taxes. As Table 2 posits, corporate taxes had contributed over two-thirds of the direct taxes, particularly during the high growth phases of the economy (2007–08 to 2011–12). And now the corporate tax reform would bring down the corporate sector share in direct taxes to as low as 51.6% during 2020–21 (BE), suggesting that the fiscal policy would allow the frittering away of a huge

Table 2: Trends in Gross Tax Revenue of the Centre
(as % of GDP at Market and Current Prices)

Year	Direct Taxes			Indirect Taxes	Gross Tax Revenue (GTR)	Corporation Tax as % of Direct Taxes
	Corporation Tax	Taxes on Income	Total			
2006-07	3.4	1.8	5.2	6.0	11.1	65.8
2007-08	3.9	2.1	6.0	6.1	12.1	65.3
2008-09	3.9	1.9	5.8	5.2	11.0	66.8
2009-10	3.8	1.9	5.8	4.0	9.8	66.7
2010-11	3.9	1.8	5.7	4.7	10.4	68.2
2011-12	3.7	1.9	5.6	4.6	10.2	66.2
2012-13	3.6	2.0	5.6	4.9	10.4	64.5
2013-14	3.5	2.1	5.6	4.5	10.1	62.4
2014-15	3.4	2.1	5.5	4.5	10.0	62.4
2015-16	3.3	2.1	5.4	5.2	10.6	61.2
2016-17	3.2	2.4	5.5	5.6	11.2	57.1
2017-18	3.3	2.5	5.9	5.4	11.2	57.0
2018-19	3.5	2.5	6.0	4.9	10.9	58.4
2019-20BE	3.6	2.7	6.3	5.3	11.7	57.4
2019-20RE	3.0	2.7	5.7	4.8	10.6	52.2
2020-21BE	3.0	2.8	5.9	4.9	10.8	51.6

BE is budget estimates; RE is revised estimates

Source: Author's calculation based on data extracted from EPWRF India Time Series (www.epwrfits.in)

potential tax base just at the time, when tax resources are badly needed for expanding the investment as well as consumption base of the economy.

That in direct taxes the tax potential is generally higher amongst corporates as compared with that of individuals, is brought out to an extent in the data on tax buoyancy ratios (Table 3). This evidence is sharply exhibited in the relative ratios of the high growth period. Interestingly, after the high growth period (that is, for six years from 2012–13 to 2016–17), the corporate sector tax buoyancy has suffered a setback in contrast to the tax buoyancy of individual taxpayers. But, subsequent to 2016–17, there has occurred a reversal with corporate tax buoyancy overtaking the tax buoyancy of individuals. But, in the year of corporate tax reform 2019–20 (RE), the sector's tax buoyancy fell to a historically negative number at (-)1.1, whereas due to the introduction of some progressivity in individual tax rates with the increased rate of cess, the tax buoyancy ratio of individuals has shot up from 0.9 in 2018–19 to 2.4 in 2019–20 (RE) and 1.4 in 2020–21 (BE). Thus, the financial burden asso ciated with corporate tax rate reduction is falling on the contraction in government tax revenue, and simultaneously, the relative burden of direct taxes is falling on individuals.

Table 3: Trends in Tax Buoyancies Coefficient

Year	Corporation Tax	Taxes on Income	Direct Taxes	Indirect Taxes	Gross Tax Revenue
2006-07	2.5	1.8	2.2	1.3	1.7
2007-08	2.2	2.4	2.3	1.1	1.7
2008-09	0.8	0.3	0.6	-0.3	0.2
2009-10	0.9	1.0	1.0	-0.6	0.2
2010-11	1.1	0.7	1.0	1.9	1.4
2011-12	0.6	1.3	0.8	0.9	0.8
2012-13	0.8	1.4	1.0	1.5	1.2
2013-14	0.8	1.6	1.1	0.4	0.8
2014-15	0.8	0.8	0.8	0.9	0.8
2015-16	0.5	1.1	0.7	2.7	1.6
2016-17	0.6	2.3	1.3	1.8	1.5
2017-18	1.6	1.6	1.6	0.5	1.0
2018-19	1.4	0.9	1.2	0.2	0.8
2019-20BE	1.2	0.6	0.9	0.6	0.8
2019-20RE	-1.1	2.4	0.4	0.7	0.5
2020-21BE	1.2	1.4	1.3	1.1	1.2

BE is budget estimates; RE is revised estimates
Tax buoyancies coefficient is the ratio of rate of change in tax revenue to GDP growth rate
Source: Author's calculation based on data extracted from EPWRF India Time Series (www.epwrfits.in)

Non-manufacturing Sector

Within the "Statement of Revenue Impact of Tax Incentives under the Central Tax System,"[2] detailed information is provided regarding the collection of corporate tax, which helps to examine the incidence of corporate tax. This is based on the income tax (IT) filing by companies as on 30 September of each assessment year (AY). For instance, the Receipts Budget 2020–21 provides certain aggregate details of companies which completed IT filings during the AY 2019–20, that is, by 30 September 2019, for the financial year 2018–19. There may be several companies which may not have completed the IT filings by then and so the number of companies for which tax liability details are given can be considered as a sample set of companies. Notwithstanding this, it is seen that about 8.4 lakh companies filed IT returns for the year 2017–18 by 30 September 2018 and this dropped to 7.9 lakh companies a year later. These sets of sample companies constituted a substantial chunk of the population of companies (Table 4). As a percentage of the total number of the active companies at work in 2006–07, those companies having completed IT filings on time stood at 44.1% and this went up to 70.0% in 2012–13. Though this has dipped to 52.4% in 2016–17, it zoomed to 72.6% in 2017–18 to drop to 68.8% in 2018–19. This mirrors increased tax compliance following demonetisation only to taper off soon. However, only a half of these sample companies reported profit before tax (PBT), and the remaining either reported a loss or nil profit in 2018–19. These companies also accounted for the bulk of the corporation tax collection. The tax liability of these companies as a percentage of the total corporation tax showed an appreciable rise since 2014–15. However, the sharp increase in the percentage share of the number of sample companies did not result in a commensurate rise in their share in corporation tax in 2017–18. Still they account for a major share, that is, 74.6% of the corporation tax in 2018–19.

Interestingly, non-manufacturing companies have dominated the sample. They constituted 84.5% of the total sample in 2018–19 (Table 5). Indeed, the notable rise in the number of sample companies completing IT filings on time has been largely on account of those companies engaged in non-manufacturing activities. The number of non-manufacturing companies who have filed IT returns showed a steep rise from 4.85 lakh in 2016–17 to 7.11 lakh in 2017–18, only to decline marginally to 6.68 lakh in 2018–19.

Table 4: Number of Companies Filing Income Tax Returns by 30 September of the Assessment Year

For Financial Year	Number of Sample Companies	As % of Active Companies#				Tax Payable of Sample Companies as % of Corporation Tax
		Sample Companies	Profit Making Companies	Loss Making Companies	Companies Reporting Nil Profit	
2006-07	3,28,061	44.1	26.0	13.9	4.1	79.2
2007-08	4,10,451	53.4	30.5	18.7	4.1	82.0
2008-09	3,66233	46.5	26.6	16.8	3.1	71.4
2009-10	4,27,811	51.2	29.9	17.9	3.4	79.2
2010-11	4,59,270	64.3	37.3	22.6	4.4	76.4
2011-12	4,94,545	61.8	34.8	23.1	3.9	70.0
2012-13	6,18,806	70.0	37.8	28.4	3.8	68.5
2013-14	5,64,787	59.7	32.8	24.1	2.7	65.3
2014-15	5,82,889	57.4	30.6	25.0	1.8	69.5
2015-16	5,97,884	55.3	29.7	23.9	1.7	79.0
2016-17	6,08,836	52.4	28.5	22.4	1.5	81.9
2017-18	8,41,687	72.6	33.7	31.3	7.6	78.4
2018-19	7,90,537	68.8	34.0	31.9	2.9	74.6

Limited by shares and as on 31st March of every year; includes government and non- government companies

Source: Ministry of Finance, *Union Budget*, various years. For active companies: Ministry of Corporate Affairs (2019, p. 100)

Table 5: Share of Manufacturing and Non-Manufacturing Companies in Corporate Income and Tax (in %)

Year	Manufacturing Companies				Non-Manufacturing Companies			
	Sample Companies	Profits Before Taxes	Total Tax Payable	Effective Tax Rate	Sample Companies	Profits Before Taxes	Total Tax Payable	Effective Tax Rate
2006-07	30.3	53.3	56.8	21.9	69.7	46.7	43.2	19.0
2007-08	27.9	51.0	51.5	22.5	71.9	49.0	48.5	22.0
2008-09	27.7	48.5	46.7	22.0	72.1	51.5	53.3	23.5
2009-10	27.0	51.7	51.3	23.4	72.9	48.3	48.7	23.8
2010-11	26.4	48.4	49.9	24.8	73.5	51.6	50.1	23.4
2011-12	25.9	50.1	48.2	22.0	74.0	49.9	51.8	23.7
2012-13	24.5	48.8	45.9	21.1	75.5	51.2	54.1	23.7
2013-14	23.0	47.7	45.1	22.0	77.0	52.3	54.9	24.4
2014-15	22.0	44.1	39.4	22.1	78.0	56.0	60.6	26.7
2015-16	20.8	46.7	42.8	25.9	79.2	53.3	57.2	30.3
2016-17	20.4	46.3	42.6	24.8	79.6	53.7	57.4	28.7
2017-18	15.5	38.9	36.7	27.8	84.5	61.1	63.3	30.6
2018-19	15.5	37.9	37.3	27.4	84.5	62.1	62.8	28.1

Source: Ministry of Finance, *Union Budget*, various years

Manufacturing companies account for 20.4% of the total sample in 2016–17 and this fell to 15.5% by 2018–19. Their share in the total profit of sample companies showed a fall from about 50% in the mid-2000s to 37.9% in 2018–19. Their share in total tax payable also

showed a steady decline over the years. Since 2011–12, the relative share of manufacturing companies in total tax payable has remained persistently lower compared to their share in the PBT of sample companies. In other words, the incidence of corporate tax is largely on non-manufacturing companies. A significant aspect revealed by these evidences is that the non-manufacturing sector is fast replacing manufacturing within the corporate sector. The thrust on manufacturing with the slogan of "Make in India" appears to have made very little impact on the corporate sector. Furthermore, the ETR of the non-manufacturing segment of Indian companies had remained higher than their manufacturing counterparts, though both segments have shown an appreciable increase in the ETR over the years.

Since the non-manufacturing segment occupies a broad canvas, we have worked out the distribution of sample companies across major activities based on the information available for 2018–19 (Table 6). It is seen that companies engaged in construction, real estate and rental services and wholesale and retail trade activities, together have constituted one-third of the total sample. However, they have accounted for less than 10% of the PBT and also of total tax payable. In sharp contrast, less than 1% of total sample are mining and quarrying companies and they have a disproportionately large share in the PBT (at 7% of the sample companies) and tax payable (6% of the sample). Likewise, the companies in financial intermediation and computer and related services are about 12.4% of the sample, but they have disproportionately accounted for 30.9% of the PBT and 32.8% of total taxes payable in 2018–19. Interestingly, nearly one half of the sample comprise those in culture and sport, and their relative share in PBT and tax was only 6.1% and 6.7%, respectively. Similarly, those companies in professions are 3.7% of the total sample accounting for less than 1% of the PBT and taxes.

This shows that the reduction in corporate tax rate, though intended to kick off corporate investment activities arguably in manufacturing, is likely to benefit several non-manufacturing segments of the corporate sector essentially tilted in favour of financial intermediation and computer and related services. The design of the tax incentives appears to have benefited manufacturing, given the nature of such tax exemptions and concessions (Table 7). The revenue impact of the corporate sector itself has nearly halved from about 1.27% of gross domestic product in 2007–08 to 0.63% in 2018–19. Most of the items of tax

Table 6: Percentage Distribution of Sample Companies by Activities (%)

Industry/Activity	Number of Companies	Profits before Taxes	Total Tax Payable	Effective Tax rate
Agriculture, animal husbandry and forestry	1.6	0.4	0.3	20.0
Mining and quarrying	0.4	7.0	6.0	24.0
Manufacturing	15.6	37.9	37.3	27.4
Electricity, gas and water	0.9	3.7	2.7	20.5
Construction	7.8	3.4	3.4	28.0
Real estate and rental services	7.1	1.7	1.4	22.1
Renting of machinery	0.2	0.1	0.1	28.8
Wholesale and retail trade	18.7	4.8	5.1	29.5
Hotels, restaurants and hospitality services	2.1	0.4	0.4	26.5
Transport and logistics services	2.3	1.1	1.1	28.5
Post and telecommunication services	0.3	1.3	1.3	26.2
Financial intermediation services	5.7	19.6	21.4	30.3
Computer and related services	6.7	11.3	11.4	28.1
Research and development	0.2	0.1	0.1	31.5
Professions	3.7	0.6	0.8	33.2
Education services	1.1	0.1	0.2	31.5
Healthcare services	1.7	0.4	0.5	30.1
Social and community work	0.2	0.0	0.0	31.3
Culture and sport	23.7	6.1	6.7	31.0
Extraterritorial organisations and bodies	0.0	0.0	0.0	27.9
All Sample	100.0	100.0	100.0	27.8

Source: Ministry of Finance, *Union Budget*, various years

Table 7: Trends in Major Tax Expenditure on Corporate Taxpayers

(as % of GDP)

Year	Revenue Impact (Total)	Accelerated Depreciation	Export Profit$	Expenditure on Scientific Research*	Profits of Power Sector Undertakings#	Profits from Production of Mineral Oil and Natural Gas+
2006-07	1.06	0.17	0.30	0.04	0.11	0.12
2007-08	1.27	0.26	0.37	0.04	0.12	0.06
2008-09	1.21	0.38	0.40	0.05	0.12	0.02
2009-10	1.14	0.46	0.27	0.04	0.11	0.02
2010-11	1.09	0.44	0.24	0.06	0.10	0.05
2011-12	0.93	0.39	0.13	0.07	0.10	0.09
2012-13	0.93	0.38	0.14	0.06	0.09	0.08
2013-14	0.81	0.31	0.15	0.07	0.09	0.06
2014-15	0.81	0.33	0.13	0.07	0.08	0.03
2015-16	0.84	0.36	0.14	0.07	0.08	0.04
2016-17	0.85	0.43	0.13	0.07	0.08	0.01
2017-18	0.70	0.34	0.12	0.04	0.08	0.01
2018-19	0.63	0.29	0.12	0.04	0.07	0.01

$ Deduction of export profits of STPI units and units located in SEZs, EPZs, EOUs and FTZs (under Sections 10A and 10AA)

Deduction of profits of undertakings engaged in generation, transmission and distribution of power (Section 80-IA)

* Deduction/weighted deduction for expenditure on scientific research (Section 35 [1], [2AA] and [2AB])

+ Profits of undertakings derived from production of mineral oil and natural gas (under Section 80-IB)

Source: Ministry of Finance, *Union Budget*, various years

benefits have shown a gradual decline correspondingly. It is the accelerated depreciation which remains more or less at the same level accounting for nearly 45% of total revenue

impact in 2018–19. Accelerated depreciation is a tax incentive aimed at boosting fixed capital formation, particularly in plant and machinery, which is likely to be undertaken by the manufacturing sector. This explains why the ETR of manufacturing companies has remained relatively lower than that of non-manufacturing companies. And, therefore, the reduction in corporate tax rate to 25.17% without tax benefits is likely to accrue to non-manufacturing companies rather than manufacturing companies. Against this background, such vast reduction in corporate taxes does not possess the potential to produce the desired outcome insofar as reviving corporate investment is concerned.

Big Companies Gain More

Furthermore, sample companies and their income-related indicators are distributed by the size of their PBT and this helps to discern the size class of companies which face a higher incidence of corporate tax. Though sales or assets can be considered as good indicators to measure the size of firms, the PBT can still represent an acceptable measure of size for certain purposes. As seen in Table 8, only a handful of companies have PBT more than ₹100 crore. There were 475 companies in the range of ₹100 crore to ₹500 crore, and 150 companies with PBT greater than ₹500 crore in 2006–07. They have steadily increased to 1,404 and 424, respectively in 2018–19, that is, only 1,824 companies out of the 7.9 lakh sample companies had PBT more than ₹100 crore. Due to inflation, more number of companies should have thus graduated to these higher slots. Also, compared to the rate of increase in the number of companies filing IT returns on a timely basis, there is not much increase in the proportion of companies migrating to the slot of PBT greater than ₹100 crore. These evidences reveal less of competition in the system.

At the same time, these big-size companies together have accounted for 71.9% of PBT in 2006–07 and 76.3% in 2018–19 (Table 9). A similar trend is noticed in their share in total income—these large companies account for nearly two-thirds in 2018–19. Those companies with a PBT of ₹100 crore to ₹500 crore had shared corporate income tax payable more or less in the proportion of their share in PBT; at the same time, those handful of companies with a PBT greater than ₹500 crore had a disproportionately higher share in PBT compared to their share in the corporate tax payable. This set of companies has the ETR less than the average STR. These few large companies are sure to profit from the new corporate tax rate in a big way.

Table 8: Distribution of Companies Across Range of Profits Before Taxes

Year	₹ 0-₹1 Crore	₹ 1 Crore-₹10 Crore	₹ 10 Crore-₹100 Crore	₹ 100 Crore - ₹500 Crore	Greater than ₹ 500 Crore
2006-07	1,74,827	14,900	3,313	475	150
2007-08	2,11,723	18,117	4,044	616	190
2008-09	1,88,584	16,596	3,438	551	179
2009-10	2,23,888	20,621	4,560	692	216
2010-11	2,37,580	22,627	5,138	763	239
2011-12	2,49,567	23,339	5,085	739	252
2012-13	3,02,637	25,029	5,399	772	272
2013-14	2,78,515	25,613	5,517	808	263
2014-15	2,76,531	26,983	6,024	895	297
2015-16	2,85,322	28,667	6,499	984	298
2016-17	2,90,250	31,941	7,107	1097	335
2017-18	3,45,458	35,745	7,832	1236	373
2018-19	3,40,503	39,772	8,923	1404	424

Source: Ministry of Finance, *Union Budget*, various years

Table 9: Share of Large Companies in Corporate Income and Tax Payable (%)

Year	Companies with PBT: ₹100 Crore-₹500 Crore				Companies with PBT: Greater than ₹500 Crore			
	PBT	Total Income	Total Tax Payable	Effective Tax Rate	PBT	Total Income	Total Tax Payable	Effective Tax Rate
2006-07	17.1	14.8	15.9	19.2	54.8	53.7	54.2	20.3
2007-08	17.9	15.9	17.4	21.59	55.0	52.9	54.0	21.85
2008-09	17.0	15.5	16.6	22.26	57.5	55.8	55.7	22.05
2009-10	17.8	16.3	17.5	23.09	55.8	54.0	53.4	22.55
2010-11	16.6	15.7	16.9	24.55	57.9	54.4	54.3	22.59
2011-12	15.9	14.6	15.0	21.63	59.5	55.2	56.4	21.67
2012-13	14.8	14.0	14.4	21.86	61.3	56.8	57.3	20.97
2013-14	15.5	15.6	15.4	23.11	60.3	54.2	53.7	20.68
2014-15	15.6	14.6	15.1	23.97	60.6	53.3	56.2	22.88
2015-16	16.6	15.9	16.8	28.57	59.0	50.1	54.1	25.9
2016-17	15.6	15.3	16.8	28.98	61.2	50.3	54.5	23.94
2017-18	16.9	14.5	16.4	28.62	58.4	46.4	52.1	26.3
2018-19	16.2	14.7	16.6	28.44	60.1	51.4	56.1	26.01

Note: PBT means Profits Before Taxes; Total income represents taxable income as per income-tax returns
Source: Ministry of Finance, *Union Budget*, various years

Summing Up

The structural adjustment policy framework embedded in the corporate tax reforms had its rationale for a period until the 1980s when the prevailing tax rates were usurious in character. The situation has changed rather radically since then. The current moderate tax rates accompanied by tax incentives, concessions and exemptions, are a surer way of deploying the fiscal instruments for promoting investment and growth.

Considering the fact that the Indian corporate sector has enjoyed ETR of about 25% or less for long along with incentive-based investment activities, the new tax regime will provide the same level of moderate ETR with no inducement to expand investment activities. The widely recognised fiscal instrument for promoting corporate investment thus gets blunted.

In terms of the tax potential for the economy, the new tax reform fritters away the largest component of such potential in the immediate period when the economy is badly in need of higher public investment and expansion of consumption activities. No doubt, the vast reduction in the corporate tax rate is likely to create a dent in government finances in the foreseeable future and the burden of government revenue may shift to individual income taxpayers and indirect taxes like goods and services taxes (GST).

Besides, the reduction in corporate tax rate is likely to benefit non-manufacturing companies, whose investment activities are comparatively lower than those of manufacturing companies. As manufacturing companies lead the corporate investment, the expectation that the reduction in the corporate tax rate would result in substantial corporate investment is misplaced. Moreover, evidences clearly indicate that large corporations are likely to profit from this government tax policy.

The revenue forgone due to the corporate tax rate reduction has adversely impacted the government tax efforts, as reflected in the reduction in GTR as per the RE for 2019–20. Consequently, social sector spending is likely to be compromised. The best course to trigger investment activities could have been to address the demand side options by providing better income in the hands of consuming classes or by expanding public programmes which generate employment opportunities, which the Union Budget 2020–21 appears to have dodged. The reduction in the budgetary provisions for rural employment activities is a case in point. Furthermore, whether these companies that stand to gain from the reduced corporate tax rate would transfer the benefits to customers is a moot question. Most of the large companies' ownership is skewed in favour of a handful of promoters, whose marginal propensity to consume mass goods is recognisably very low. Thus, the latest corporate taxation policy of the government is not only based on misplaced priorities but also unduly regressive and designed to benefit a handful of companies. This needs to be corrected so that the already rising inequality in the system can be contained.

Notes

[1] The average STR is the weighted average of the tax rate of companies in different taxable income classes. See *Receipts Budget 2020–21*, p 28.

[2] Also known as Statement of Revenue Foregone until the Budget 2014–15. Though this statement was an annexure to the Receipts Budget in 2006–07 and 2007–08, it became a separate document of Union Budget from 2008–09 to 2015–16. Thereafter, this was made an annexure to the *Receipts Budget*.

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Published in EPW Issue No. 10, Vol. 55, March 7, 2020