An Analysis of the Growth of Corporate Tax in India

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ABSTRACT

This paper examines a significant portion of the government's overall tax revenue which comes from the direct tax. The corporate tax makes up the largest portion of both the government's total tax collection and the direct tax, accounting for around 1/3 of both of the government's gross tax revenue. Studying the idea of corporate taxation, the rise in tax revenue, the expansion of the corporate assessment base, and the relationship between corporation tax and GDP are therefore crucial. This report provides insights into the growth prospects of corporate tax income and corporate assesses growth in India. In order to understand how sensitive corporation tax revenue is to the nation's GDP, this paper also discusses corporate tax buoyancy. The study has covered the period of 23 years from 2000-01 to 2022-23. The data has been taken from economic survey reports and the official websites of Income Tax, and Comptroller and Auditor General of India. The analyses of collected data have been carried out by using percentage, simple growth rate and compound annual growth rate.

Keywords: Corporate Taxation, Direct Tax, Gross Tax Revenue, GDP, Buoyancy

INTRODUCTION

Taxes are a significant expense for businesses and are a determining factor in many decisions about corporate finance and investment (e.g., Scholes, Wolfson, Erickson, Hanlon, Maydew, & Shevlin, 2014). Corporate taxes can have a significant impact on overall economic growth since productivity, capital investment, and labour investment are the main drivers of overall economic growth (e.g., Solow, 1957) growth by their possible influence on actual investment decisions made by businesses. Taxes are mandatory payments or charges that the government imposes in order to raise money on the taxpayer's income, goods, or activities. The purpose of these monies is carried out both the conventional and contemporary government functions. Defence and upholding law and order are examples of traditional activities. On the other side, welfare and development functions from the modern age include things like water supply and sanitation schooling, etc. Thus, taxes serve as a tool to accomplish both social and economic goals. As a result, the expansion of any nation's economy is mostly dependent regarding its chosen tax structure (Ghuge & Katdare, 2015). There are two different kinds of taxes: indirect taxes and direct taxes. Any tax imposed on an individual's wealth or income is considered a direct tax, such as income tax. An individual's income is subject to a direct tax known as income tax. Using progressive tax rates is a crucial weapon that the government uses to curb inflation and bridge the wealth and poverty gaps. Two perspectives can be used to study income taxation: Taxes on Personal Income (1) and Corporation Tax (2). Indirect taxes, such as customs duties and goods and services taxes, are imposed on

the cost of goods or services. When indirect taxes are paid, the tax payer transfers the tax burden to a third party.

REVIEW OF LITERATURE

A review of the literature allows the researcher to critically evaluate the research in order to synthesize the findings into a coherent whole and helps them gain a deeper understanding of the topic at hand. The obstacles observed are likely to be lessened by the concepts utilized, models implemented, and proposals outlined in earlier studies.

Using cross-sectional data, Goolsbee (2004) discovered much greater organizational form responses to tax rates. In other words, he discovered that a 10-percentage point rise in the corporate tax rate resulted in a 0.25 decrease in the corporate shares of businesses in a given state. His findings also imply that organizational structure is a more significant adjustment margin than business operations.

Desai et al. (2006) highlighted the connection between a company's governance structure and how it pays taxes. They believed that, given the chances for diversification, corporate tax evasion not only comes with special costs, but that these costs might even surpass the benefits to shareholders.

According to Romer et al. (2007), taxes significantly affect growth. It appears that the reported size of these effects is too great to be accounted for by effects on factor accumulation alone, indicating that taxes may also have an effect on productivity.

Ambirajan (1961), Goyal (1988), Clausing (2014), Gemmell (2009), Lavand (2016), and Singh (2019) provided an analysis of trends in corporation tax revenue in the literature on the increase of corporate tax income.

In the framework of shifting notions and concepts that impacted Indian tax policy, Ambirajan (1961) attempted to examine the development, administration, structure, and prospects of the corporate Income tax in India. The analysis indicated that the corporation tax structure had little effect on the investment structure in the corporate sector and that revolutionary tax reforms were only undertaken in the post-freedom era. According to the report, India's corporate tax rates were extremely high when compared to those of several developing nations. The investigation came to the conclusion that tax revisions were desperately needed.

Goyal (1988) split the Indian corporate sector into two categories: privately held corporations and government-owned companies, in order to study the sector's expansion from 1956–1957 to 1990–1991. The analysis concentrated on the increase in the number of businesses, their paid-up capital, and the top twenty companies' assets.

The size of the ratio between corporate income tax revenue and GDP for the years 1979–2002 was examined by Clausing (2014) in his article, which examined variations throughout OECD nations. A function of the statutory tax rate, the size of the tax base, company profitability, and the share of corporate tax income in GDP, according to the study, explained the variation.

Dyreng, Jacob, Jiang, & Müller (2020) define the after-tax profit function of a representative firm as follows:

II. $(K, L, A) = [1 - (\tau - A)] (\rho F (K, L) - wL - \eta rK) - (1 - \eta) rK - C(A)$

It is assumed that the representative firm strives to maximize after-tax profits Π **(K, L, A).** The representative firm invests in capital **K**, labour **L**, and tax avoidance **A**. All three investments are costly for the firm. The cost of capital investment per unit amounts to **r**. The cost of labour per unit

equals the wage cost w. It is assumed that wages are fully tax deductible,whereas the tax deductibility of capital investment is restricted by the parameter $\eta \in [0, 1]$. The restriction parameter η accounts for the fact that tax deductibility is often lower than the actual cost of capital investment, which comprises the costs of both financing and economic depreciation. Hence, η also captures any tax-induced investment distortions (e.g., limited loss offset rules, limited accounting depreciation, or the non-deductibility of the cost of financing). The statutory corporate tax rate on pre-tax income is captured by the parameter τ. DJJM assume that firms engaging in corporate tax avoidance can reduce the statutory taxrate by A percentage points, leading to an effective tax rate of $\tau - A$. While this decision is not the focus of this paper, it is important to keep in mind that the profit-maximizing level of tax avoidance A^* depends on the cost of tax avoidance, which is described as $C(A)$.

OBJECTIVES
1. To investigate the growth of corporate tax revenue in India.
2. To assess the tax buoyancy of corporates.

METHODOLOGY
Data Collection
Data has been collected from various secondary sources such as the Finance Acts of relevant years, The Central Board of Direct Taxes' circulars and notifications, the Indian Economic Survey, the Income Tax Act of 1961, the Income Tax Rules of 1962, the Budget speeches of the Finance Ministers, the Reports of the Comptroller and Auditor General of India on Direct Taxes, the Economic and Political Weekly, newspapers, and so on are all sources of information about the Central Government's budget/Survey. Additionally, data was gathered via the websites of the Ministry of Finance, the Income Tax Department, the Ministry of Statistics, and the Comptroller and Auditor General of India. The secondary data covers the years 2000–2001 to 2022-23.

Statistical Tool
The data collected has been analyzed using buoyancy coefficient, simple growth rate, compound annual growth rate, and percentage.

Table 1. Growth in Income Tax Revenue

Years	Corporate Tax (in crores)	Growth (Per cent)	Personal Tax (in crores)	Growth (Per cent)	Total Income Tax (in crores)	Growth (Per cent)
2000-01	35,696	-	31,764	-	67,460	-
2001-02	36,609	2.56	32,004	0.76	68,613	1.71
2002-03	46,172	26.12	36,866	15.19	83,038	21.02
2003-04	63,562	37.66	41,386	12.26	1,04,948	26.39

2004-05	82,680	30.08	49,268	19.05	1,31,948	25.73
2005-06	1,01,277	22.49	63,689	29.27	1,64,966	25.02
2006-07	1,44,318	42.50	85,623	34.44	2,29,941	39.39
2007-08	1,93,561	34.12	1,20,429	40.65	3,13,990	36.55
2008-09	2,13,395	10.25	1,20,034	-0.33	3,33,429	6.19
2009-10	2,44,725	14.68	1,32,833	10.66	3,77,558	13.23
2010-11	2,98,688	22.05	1,46,258	10.11	4,44,946	17.85
2011-12	3,22,816	8.08	1,70,181	16.36	4,92,997	10.80
2012-13	3,56,326	10.38	2,01,840	18.60	5,58,166	13.22
2013-14	3,94,678	10.76	2,42,888	20.34	6,37,566	14.23
2014-15	4,28,925	8.68	2,65,772	9.42	6,94,697	8.96
2015-16	4,53,228	5.67	2,87,637	8.23	7,40,865	6.65
2016-17	4,84,924	6.99	3,49,503	21.51	8,34,427	12.63
2017-18	5,71,202	17.79	4,20,084	20.19	9,91,286	18.80
2018-19	6,63,572	16.17	473179	12.64	11,36,751	14.67
2019-20	5,56,876	-16.08	4,92,717	4.13	10,49,593	-7.67
2020-21	4,57,719	-17.81	4,87,560	-1.05	9,45,279	-9.94
2021-22	7,12,037	55.56	6,96,604	42.88	14,08,641	49.02
2022-23	8,25,834	15.98	8,33,307	19.62	16,59,141	17.78
		CAGR=8.68		CAGR=15.95		CAGR=11.23

Source: *Source: Times Series Data, Income Tax Department/Budget/Survey*

Table 1 shows that the corporate tax revenue has increased from Rs 35,696 crore in 2000-01 to Rs 8,25,834 crore in 2022-23 at compound annual growth rate (CAGR) of 8.68. The highest growth rate of corporate

tax revenue was recorded at 55.56% in 2021-22 after 1st phase of covid pandemic and recovery of economic activities and thus functioning of major corporates, whereas lowest growth rate was recorded negative that is -17.81% during covid-19. It was due to lock down and during this period larger number of corporates weren't functioning. On the other hand, personal income tax revenue Rs 3,1764 crore in 2000-01 to Rs 8,33,307 crore in 2022-23 at CAGR of 15.95%. Highest growth rate of personal income tax was 42.88% in 2021-22 it was due to change in tax slabs and base of Income tax slabs, whereas lowest growth rate was -1.05% in 2020-21 during pandemic. The total income tax revenue has increased at CAGR of 11.23%. The highest growth rate was 49.02% during period of 2021-22 after 1st phase of covid-19 pandemic and it was due to increased share of corporate tax in total income tax revenue and lowest growth percentage was -9.94% during 1st phase of pandemic and it is due to most of the corporates weren't functioning at that time and thus, revenue from corporates. And at the same time negative growth of personal income tax revenue also. It is clear from the table that the share of corporate tax revenue in total income tax revenue has been increasing continuously it is due increase in number of corporates(start-ups) and consequently their shares to total Income tax revenue. During the study time period but CAGR of personal income tax compare to corporate tax is greater whereas, decline in growth of corporate tax in total income tax revenue is greater than growth of personal income tax as it is clear from trendline.
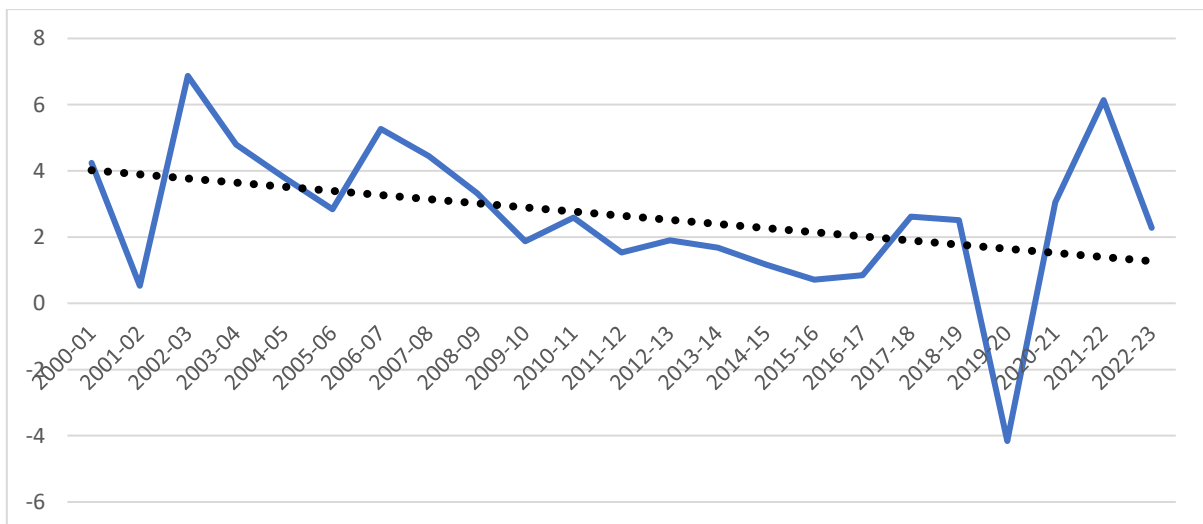

Fig.1 Growth in Income Tax Revenue

Table 2 Corporate Tax Buoyancy

Years	Percentage Change in Corporate Tax	Percentage Change In GDP	Buoyancy Coefficient
2000-01	16	3.84	4.24
2001-02	2.56	4.82	0.53
2002-03	26.12	3.8	6.87
2003-04	37.66	7.86	4.79
2004-05	30.08	7.92	3.80
2005-06	22.49	7.92	2.84
2006-07	42.5	8.06	5.27
2007-08	34.12	7.66	4.45
2008-09	10.25	3.09	3.32
2009-10	14.68	7.86	1.87
2010-11	22.05	8.5	2.59
2011-12	8.08	5.24	1.54
2012-13	10.38	5.46	1.90
2013-14	10.76	6.39	1.68
2014-15	8.68	7.41	1.17
2015-16	5.67	8	0.71
2016-17	6.99	8.26	0.85
2017-18	17.79	6.8	2.62
2018-19	16.17	6.45	2.51
2019-20	-16.08	3.87	-4.16
2020-21	-17.81	-5.83	3.05
2021-22	55.56	9.05	6.14
2022-23	15.98	7	2.28

Source: Compiled from reports of the Comptroller and Auditor General of India of relevant years and time series data of Income Tax Department/World Bank/Author's Calculation

Fig.2 Buoyancy Coefficient

Table 2 shows corporate tax buoyancy. Government tax income and the nation's economic expansion are linked. There is an increase in tax revenue when the nation's economy begins to grow. The correlation between the change in GDP percentage and the change in tax revenue % is known as tax buoyancy. It is a method for assessing how responsive and effective tax revenue is to the nation's GDP or national income. When tax revenue rises without corresponding changes to tax rates, the tax is said to be buoyant. Should the value exceed 1, it signifies a more than proportionate reaction of tax revenue to the GDP growth. If buoyancy is high, borrowing won't be necessary for the government to obtain funding. More funding allows for the implementation of new plans and programs. All that is needed to understand the buoyancy of business tax is the correlation between the GDP and the percentage change in corporate tax revenue. Buoyancy coefficients of corporate tax from 2000-01 to 2022-23 have been given in Table 2. Buoyancy coefficient has highest value 6.87 during 2002-03 it is due to enormous percentage change in corporate tax revenue while lowest during 2019-20 initial phase of covid pandemic or lock down period where more of the economic activities weren't functioning.

CONCLUSION

As per analysis of data since 2000-01 to 2022-23 that is of 23 years and it can be concluded that although tax revenue has increased either for corporate tax or personal income tax during these years but at fluctuating rates. Corporate tax revenue has been increased at CAGR of 8.68 whereas for personal income tax revenue CAGR is 15.95. CAGR for personal income tax comparatively higher than corporate tax it is due to continuously more changes in tax slabs/base compare to corporate tax slabs. The study also finds that the corporate tax revenue has shown a moderate degree of responsiveness in comparison to the GDP. It can be noted that the buoyancy coefficient is 6.87 in year 2002-03 which is highest in study period indicating that percentage increase in corporate tax revenue is near about 7 times more than percentage increase in GDP. If we look at current scenario, we would get that share of corporate tax revenue from 1 Rs is at fourth position. If government collects revenue of 1 Rs then borrowing and other liabilities stands at first position followed by income tax, GST and corporate tax respectively.

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