
ANALYSING THE IMPACT OF CORPORATE INCOME TAX ON INVESTMENT, ECONOMIC GROWTH, AND INTERNATIONAL TAX AVOIDANCE

Snigdha Parvathy, BBA LLB (Hons), Alliance School of Law, Alliance University,
Bangalore

A. Shree Nidhi, BBA LLB (Hons), Alliance School of Law, Alliance University,
Bangalore

ABSTRACT

This study researches the several impacts of CIT on investment, economic growth and international tax evasion. Corporate income taxes play a core role in developing the economic system since they tend to influence both the cost of capital, and incentives to investments, and ultimately business competitiveness, though the overall effects are indeed complex and multilateral with extreme implications on not only domestic economy but also globally.

The analysis starts by analysing how different rates of corporate taxes impact the levels of private investment, concentrating on capital formation, innovation, and entrepreneurship. It argues that higher tax rates can discourage investment as after-tax returns decline, and lower rates boost economic activity at the cost of eroding public revenue. Next, the research discusses the corporate income tax policies and economic growth, focusing on how tax structures interact with labour productivity, market dynamics, and fiscal sustainability. The evidence indicates that a poorly designed tax system can impede economic growth, while balanced reforms can enhance prospects for growth.

Finally, the study explores international tax avoidance strategies, including profit shifting, transfer pricing manipulation, and the use of tax havens. It identifies how differences in tax rates across jurisdictions incentivize multinational corporations to engage in aggressive tax planning, often undermining national tax bases. Policymakers face the dual challenge of maintaining competitive tax regimes while minimizing harmful tax practices and fostering international cooperation.

The findings underscore the need for harmonized and transparent tax policies that align with global economic realities. Addressing these issues requires a delicate balance between fostering investment, ensuring equitable economic growth, and curbing international tax avoidance. This research provides

actionable insights for policymakers, scholars, and stakeholders, offering a framework for tax reforms that support sustainable economic development and fair taxation practices.

Keywords: Corporate Income Tax, Investment, Economic Growth, International Tax Avoidance, Tax Policy

Chapter 1- INTRODUCTION

1.1. Introduction

Corporate Income Tax (CIT) is a major source of government revenue across the globe, a fundamental fiscal tool for financing public services, infrastructure, and social welfare programmes. CIT is imposed on corporations' net income, an indicator of their capacity to contribute to the economic system they belong to. The design and application of CIT policies, though, go way beyond generating revenues—they determine corporate behaviour, investment choice, economic development, and global tax conditions.

Investment is most responsive to corporate taxation and tax structures. Increased taxation may lower the return on investment after taxes, and hence discourage capital formation and innovation, while properly designed tax incentives can encourage business growth and technological progress. Corporate taxation also stands in direct and indirect association with economic growth. Although sufficient tax revenue is necessary in funding development, over-taxation can inhibit competitiveness, lower productivity levels, and discourage the movement of domestic and foreign direct investment (FDI).

During the process of globalisation, CIT is also instrumental in the trend of international tax avoidance. It is largely utilised by multinational enterprises to perpetuate discrepancies in national tax regimes through the schemes of profit shifting, base erosion, and manipulation of transfer pricing, thus lowering their collective tax burden. These tactics not only decay the tax base of taxing jurisdictions but also establish disparities between multinational and local companies.

Assessing corporate income tax therefore necessitates a multi-faceted approach covering its economic, fiscal, and international aspects. This research attempts to review the ways in which CIT policies drive investment trends, impact long-term economic growth, and interact with global tax evasion challenges. In the process, it hopes to enrich policy debate on the formulation

of equitable corporate tax systems that ensure sustainable economic growth while defending revenue integrity in a globalized world.

1.2. LITERATURE REVIEW

The Impact of Taxation System on Economic Growth in India - Monika Ghotia and Devender Kumar¹:

The article discusses the impact of India's taxation system on its economic growth, considering it source of revenue for the government and an important element in economic development. The system has evolved with globalization, with the government liberalizing it and filling loopholes in tax evasion. The system is divided into progressive, regressive, and proportional taxation, which are divided into direct taxes and indirect taxes. The Goods and Services Tax (GST) has really revolutionized India's indirect taxation system. Thus, the significance of a tax system well-designed to balance both revenue generation and support economic growth is underlined in the paper.

Impact of international trade on economic growth of India - Attahir Babaji Abubakar²:

The study uses empirical analysis and statistical techniques to explore the impact of international trade on India's economic growth. Results show a positive long-run relationship between exports, domestic investment, and GDP, while imports, exchange rates, and GDP are negative and insignificant. The study concludes with policy recommendations emphasizing export enhancement as a key driver for India's economic growth, while managing imports and exchange rate volatility.

Impact of corporate tax reduction decision on Indian Economy - Anima and Shurveer S. Bhanawat³:

The Indian government has reduced corporate tax rates for domestic and new manufacturing

¹ Monika Ghotia & Devender Kumar, The Impact of Taxation System on Economic Growth in India, IJSRD - Int'l J. for Scientific Research & Dev., Vol. 7, Issue 02, 2019, at [Page Number], ISSN 2321-0613.

² Attahir Babaji Abubakar, Impact of International Trade on Economic Growth of India, ResearchGate (Apr. 2015), https://www.researchgate.net/publication/332720298_Impact_of_international_trade_on_economic_growth_of_India.

³ Anima & Shurveer S. Bhanawat, Impact of Corporate Tax Reduction Decision on Indian Economy, ResearchGate(2023), https://www.researchgate.net/publication/364254622_Impact_of_corporate_tax_reduction_decision_on_Indian_Economy.

companies, allowing them to pay 22% and 15% respectively. This is expected to boost economic growth as more capital will be available for businesses to reinvest. However, the government will lose revenue, which may increase the fiscal deficit from 3.3% to 4% of GDP.

**AN ANALYSIS ON TOPICAL IMPACT OF CORPORATE TAX RATE IN INDIA:
Vethirajan .C and D. Murugan⁴:**

The article analyses the impact of corporate tax rates in India, showing the role these rates play in government revenue and the possible implications of higher tax burdens. The study reveals that the corporate tax rate in India was 33.99%, which has been fluctuating from 2006 to 2013. The article underscores the significance of corporate tax revenue in sustaining government finances and the general economic implications of tax policies.

**UNVEILING THE CONSEQUENCES: EXPLORING THE EFFECT OF TAX
EVASION AND TAX AVOIDANCE ON INDIA'S ECONOMIC PROGRESS - Sahi and
Khushi Sharma⁵:**

It elaborates on the various negative impacts that tax evasion and tax avoidance would have on economic growth in India. Tax evasion reduces government revenues, which deters public investments in education, health and infrastructure. Resource allocation is skewed due to tax avoidance, discouraging foreign direct investment and thereby having lower growth in the economy. Thus, report places importance on effective sustainability development.

**CORPORATE TAX REFORMS IN INDIA: IMPACT ON BUSINESS ENVIRONMENT
AND ECONOMIC GROWTH - Neelakantaswamy G.C⁶:**

This paper studies the effect of recent corporate tax reforms in India on the business environment and growth in the economy. Tax cuts for domestic companies and new manufacturing firms by reducing their tax rates in 2016 aimed at increasing investment,

⁴ Vethirajan .C & D. Murugan, An Analysis on Topical Impact of Corporate Tax Rate in India, ResearchGate (Nov.2014),https://www.researchgate.net/publication/338547384_AN_ANALYSIS_ON_TOPICAL_IMPACT_OF_CORPORATE_TAX_RATE_IN_INDIA.

⁵ Sahi & Khushi Sharma, Unveiling the Consequences: Exploring the Effect of Tax Evasion and Tax Avoidance on India's Economic Progress, J. Legal Research & Juridical Sci., Vol. 2, Issue 3, 2131, ISSN (O): 2583-0066, <https://www.jlrjs.com>.

⁶ Neelakantaswamy G.C., Corporate Tax Reforms in India: Impact on Business Environment and Economic Growth, JETIR, Vol. 4, Issue 1, Jan. 2017, ISSN 2349-5162, <https://www.jetir.org>.

attracting FDI, and boosting competitiveness. These benefits will last only if stability in policies is achieved along with regional development and sustainability alignment.

Tax avoidance, investor protection, and investment inefficiency: An International evidence - BENKRAIEM, GAAYA and LAKHAL F⁷:

The study explores the link between corporate tax avoidance and investment inefficiency, revealing a positive correlation due to underinvestment and increased information asymmetry. This effect is more pronounced during crisis periods due to high external financing costs. However, robust investor protection mitigates this relationship.

Effect of corporate income tax on investment decisions of Indian manufacturing firms - tab Sankarganesh K and Shanmugam K.R⁸:

The study examines the impact of corporate income tax on investment decisions among Indian manufacturing firms from 2005-2019. Results show a significant negative effect of effective tax rates on corporate investment, with lower tax elasticity compared to other countries. Private firms and the pre-economic crisis period have higher adverse impacts. The findings offer valuable insights for policymakers.

1.3.RESEARCH PROBLEM

What are the mechanisms through which corporate income tax influences investment decisions, economic growth, and international tax avoidance, and how can tax policies be optimized to balance revenue generation, promote sustainable economic development, and mitigate cross-border tax avoidance practices?

Statement of Problem

Corporate income tax is a critical fiscal tool that influences economic dynamics at both domestic and international levels. While it serves as a primary revenue source for governments, its design and implementation significantly impact investment decisions, economic growth

⁷ R. Benkraiem, S. Gaaya & F. Lakhal, Tax Avoidance, Investor Protection, and Investment Inefficiency: An International Evidence, Res. Int'l Bus. & Fin., 2024.

⁸ Sankarganesh Karuppiah & R. Shanmugam, Effect of Corporate Income Tax on Investment Decisions of Indian Manufacturing Firms, J. Asia Pac. Econ., 28(2):1-20 (2021), https://www.researchgate.net/publication/348747742_Effect_of_corporate_income_tax_on_investment_decisions_of_Indian_manufacturing_firms.

trajectories, and the prevalence of international tax avoidance strategies. Higher corporate tax rates may deter private sector investments and limit innovation, while lower rates risk diminishing public revenue and exacerbating inequality. These tax systems, being different in various jurisdictions, make multinational corporations exploit the tax loopholes and engage in profit-shifting while causing erosion in the national tax base. Despite such widespread issues, comprehensive understanding is still found to be limited about how corporate income tax affects these interconnected domains. This gap calls for a more holistic analysis of what connects corporate tax to investment, growth, and worldwide tax avoidance; it should support evidence-based reform of policies in this area.

1.4.RESEARCH OBJECTIVE

- Investigate the effect of corporate income tax rate on investment choice and economic activity in sectors.
- Analyse corporate income tax policies and economic behaviour of firms in terms of capital formation and business expansion.
- To explore the mechanism of multinational corporations in the transfer of advantage, exploiting differences in corporate tax regimes to minimize tax liabilities.
- To measure the influence of international tax avoidance on national tax bases and worldwide coordination in taxation policies.

1.5.RESEARCH QUESTION

- 1) How does corporate income tax influence investment decisions and economic activity in different sectors?
- 2) How do multinational corporations exploit disparities in corporate tax regimes to engage in international tax avoidance?

1.6.HYPOTHESIS

The research hypothesizes that corporate income tax rates significantly influence investment

decisions, economic growth, and international tax avoidance practices. High corporate tax rates may discourage domestic and foreign investment by reducing after-tax returns, thereby stifling economic growth. Conversely, lower corporate tax rates may incentivize investment and foster economic expansion by enhancing capital accumulation and entrepreneurial activities. While highly low tax rates would substantially reduce the government's receipts, lower public investments in such necessities of sustainable development as infrastructure and social services would be inevitable. Furthermore, international tax avoidance is hypothesized to significantly arise from disparities in corporate tax rates among countries, as their policies to minimize corporate tax liabilities globally include strategic shifting of their profits to low-tax jurisdictions. This behavior undermines the tax bases of high-tax countries and creates distortions in global economic competition. The research further suggests that effective tax policies, such as anti-avoidance measures and international tax cooperation, can mitigate the adverse effects of tax avoidance while promoting a balance between attracting investments and maintaining fiscal sustainability. These dynamics are critical in understanding the optimum tax system which policymakers can deploy to support economic growth while being equitable and efficient in tax collection.

1.7.SCOPE AND LIMITATION

Scope

1) Focus Areas:

- It considers the impact of corporate income tax rates on investment choices, economic growth, and international tax evasion.
- Analyses the effects of tax policies on capital and entrepreneurship.
- Examines how multinational corporations take advantage of cross-country tax disparities to formulate their tax avoidance strategies.
- Discusses the policy implications and ways to maintain a balance between tax competitiveness and fiscal sustainability.

2) Geographical Coverage

- It will undertake a global study, with the focus being placed both on the developed

and developing economies.

3) Time Frame

- Covers historical trends and recent data to understand long-term impacts.

4) Data Sources:

- Uses tax rate statistics, economic performance indicators, and case studies of multinational corporations.

Limitations

1) Data Constraints:

- Availability and reliability of corporate tax data across countries may limit the analysis.
- Difficulty in accurately measuring international tax avoidance due to its covert nature.

2) Generalizability:

- Findings may not be fully applicable to economies with unique fiscal policies or economic structures.

3) Dynamic Factors:

- The study might not fully reflect the impact of rapidly changing global tax regulations and economic conditions.

4) Causal Relationships:

- It becomes challenging to identify the direct influence of corporate tax rates on other factors that may affect investment and economic growth.

5) Policy Recommendations:

- Policy recommendations could be subject to further adjustments according to context for practical implementation.

1.8.METHODOLOGY

The research design applied in this research is doctrinal research design that focuses on analysing the impact of corporate income tax on investment, economic growth, and international tax avoidance. It is a very suitable design to explore the legal and policy framework that underlies corporate taxation and its broader economic implications. It systematically explores both primary and secondary sources of data in order to draw insights on how corporate tax policies interact with economic outcomes.

Primary data collection focuses on the legal framework governing corporate income tax in India. This includes a detailed examination of tax legislation, rules, and regulations that outline the structure and implications of corporate taxation. Additionally, judicial decisions and case law are analysed to understand how courts interpret and enforce tax laws, particularly in cases involving disputes over investment incentives, tax planning strategies, and international tax avoidance. These cases present significant insights into the practice and effectiveness of tax policies in fulfilling their assigned economic objectives. Secondary data comprises various sources such as government reports, economic surveys, and publications by regulatory bodies. Such sources give statistical data and policy analyses of corporate taxation and its impact on economic growth and investment trends. In addition, peer-reviewed journal articles and research papers are consulted to understand the theoretical perspectives, comparative studies, and empirical findings about corporate taxation and international tax practices.

The study employs a mix of qualitative and quantitative analytical techniques.

Case analysis is an integral part of the methodology, which focuses on landmark judicial decisions and policy developments to identify trends and patterns in the application and impact of corporate tax laws. This approach allows for a nuanced understanding of the role of tax policies in shaping economic and legal outcomes. Statistical tools are used in the analysis of secondary data that include economic growth indicators, investment flows, and tax revenue trends to establish a correlation and a causal relationship between corporate tax rates and economic performance. This also includes a comparative analysis of tax regimes in other jurisdictions in order to place the findings within a global context. The study therefore

compares the corporate tax policies of India with other countries and sheds light on the competitive advantages and challenges faced by Indian businesses in the international arena. This approach ensures a multidimensional analysis of the research topic. It combines doctrinal research with empirical analysis to give a holistic understanding of how corporate income tax influences investment decisions, economic growth, and international tax avoidance. The legal and economic analysis of the study allow it to come up with actionable recommendations for policymakers to optimize corporate tax systems while addressing issues such as revenue loss and tax base erosion.

Chapter 2- Influence of Corporate Income Tax in Investment Decisions and Economic Activity in different sectors

2.1. Corporate Tax

Corporate tax is a *direct tax* on the profits or income of corporations by the government, directed to both multinational and local companies. It is a major source of government revenue that finances public services, infrastructure, and other governmental activities, in contrast to individual income tax, which is applied to individual earnings⁹. A corporate is an entity separate from shareholders in law, and both local and foreign companies are subject to corporate tax in terms of the Income-tax Act. Local companies are taxed on their worldwide income, whereas foreign companies are subject to taxation on income generated within India only. Companies may be domestic or foreign companies. Indian companies are registered under the Companies Act of India and have **control and management** in India, whereas foreign companies are not registered under the Companies Act but have control and management outside India¹⁰.

The tax rates for **FY 2024-25 (AY 2025-26)** for corporate taxes in India are determined based on the domestic company's total turnover up to 400 crore rupees, which attracts a tax of 25%. For any company over 400 crore rupees, the tax is 30%. Foreign companies, however, that are registered outside India but have a business setup in India are normally charged 40%. Firms incorporated on or after October 1, 2019, can choose a lower tax rate of 15%. There is a surcharge imposed based on income as follows: 7% for income between 1 crore to 10 crore rupees and 12% for income over 10 crore rupees. A further 4% is charged towards Health and

⁹ Corporate Tax Overview - Meaning and Tax rates, GROWW (Mar. 16, 2025), <https://groww.in/p/tax/corporate-tax>.

¹⁰ Corporate Tax in India: Meaning & Tax Rate, CLEAR TAX (Aug. 5, 2024), <https://cleartax.in/s/corporate-tax>.

Education Cess on income tax and surcharge. A 15% margin of tax (MAT) is charged on book profits by companies that are exempt from, or receive lower taxation due to, incentives or exemptions¹¹.

It affects business decision-making by changing the cost of capital, investment return, and business development strategy. Although decreasing tax rates tends to increase investment and economic growth, increased taxation can deter the accumulation of capital and promote tax evasion practices. Tax policy by the government is an important contribution to the decision-making process of investment by firms, as it affects public spending as well as the prevailing judicial environment.

Tax incentives are key to successful domestic investments and Foreign Direct Investment (FDI) but need to be well-planned so that they do not have distortionary effects. Firms can exploit tax avoidance and tax evasion, resulting in an "equity and fairness" war in the investment incentive paradox. Capital assets have come under different types of taxation methods, with a more focused effort in some sectors than others. The statutory corporation rate can decrease uniformly for all types of investment, but priority industries are entitled to tax holidays. The combined impact of tax incentives is asset-based, reliant on the type of physical asset and the industry into which the asset is introduced¹².

The investment decision-making process is complex and determined by a variety of factors, including taxation legislation. Corporate taxes are one of the most significant determinants of investment decisions since they directly affect the after-tax profitability of a firm. A good tax climate can make all the difference when a company is deciding to invest in new ventures, expand its business, or initiate research and development (R&D) activities, all of which lead to economic growth.

2.2. Corporate Tax Role in Investment Decision-Making:

Corporate taxes or company taxes are levied on company income and affect the bottom line of a company by reducing the funds available to be reinvested in new ventures, technologies, or expansion efforts. Depending on the net benefits that a firm earns after taxation, the structure

¹¹ Corporate Tax Rates in India for FY 2024-25 (AY 2025-26), FIGYAN (Oct. 24, 2024), <https://figyan.com/income-tax-rates-company/>.

¹² Ololdi, G. A., Company Income Tax and Investment Decisions: A Behavioural Approach, 16 IOSR J. BUS. & MGMT. 11, 11-19 (2014), <https://www.iosrjournals.org>.

and rate of tax progressive or flat can either incentivize or disincentivize investments. Corporate taxes play a role in a variety of vital areas of investment choice, including:

- Buying New Equipment and Machinery
- Expansion of Business Activities
- Expenditure on research and development (R&D)
- Investment in Innovation and Technology
- Building and Developing Infrastructure

The Effect of Corporate Tax on Capital and Profitability:

One of the direct expenses that reduces a company's net profit and cash flow is corporate tax. The higher the corporation tax rate, the fewer retained earnings there are, which lowers the funds available for expansion, R&D, and reinvestment in new projects. Lower tax rates increase post-tax earnings, which allows companies to expand, develop, and create jobs.

Influence on Reinvestment Decisions

- Firms reinvest their revenues into technology, capital assets, infrastructure, and skilled manpower.
- Higher retained earnings due to lower corporation taxation reduce dependence on external financing (e.g., loans or issuance of stock that dilutes shareholders' ownership stakes).

Effect of Reducing Tax Rates:

- The company will save ₹8 crore in tax if the corporate tax rate is reduced from 30% to 22%.
- R&D expenditure, employee hiring, or infrastructure expansion are some of the potential applications of this additional ₹8 crore.
- The company retains ₹85 crore if taxed at 15% (under ***Section 115BAB***¹³ for new

¹³ Income Tax Act, 1961, § 115BAB, No. 43, Acts of Parliament, 1961 (India).

producers), which allows even further investments.

The Indian corporate tax reduction in 2019 (from 30% to 22% for existing companies and 15% for new manufacturers) drew additional investment in industries such as IT, consumer goods, and automobile manufacturing.

Case Study: Automobile Industry Response to Tax Cuts

After the corporate tax reduction to 15% for new manufacturing units, firms such as Maruti Suzuki, Hyundai, and Tata Motors made significant investments in the manufacture of electric vehicles (EVs). Higher revenues after taxes enabled the financing of building new industrial plants, technological innovations, and employment.

Capital Expenditure (CapEx) Incentives:

Capital expenditure (CapEx) involves investment in new technology, infrastructure, and machinery. The Indian Income Tax Act, 1961, provides tax relief for capital investment, which makes expansion cheaper.

Major Tax Benefits for CapEx

Provision for Tax Incentives in Applicable Industries

- a. **Section 32¹⁴:** Depreciation Relief reduces tax liabilities by allowing depreciation of assets in all industries.
- b. **Section 32AC¹⁵:** Investment Allowance as 5% special deduction for acquisition of new machinery, manufacturing, and infrastructure with a cost of over ₹25 crore
- c. **Section 32AD¹⁶:** Investment in Backward Areas In a few states, e.g., North-Eastern, Bihar, Andhra Pradesh, etc., there is a special deduction of 35% for new plant and machinery. Accelerated depreciation (40%) stimulates investment in renewable energy, energy-efficient equipment, and manufacturing

¹⁴ Income Tax Act, 1961, § 32, No. 43, Acts of Parliament, 1961 (India).

¹⁵ Income Tax Act, 1961, § 32AC, No. 43, Acts of Parliament, 1961 (India).

¹⁶ Income Tax Act, 1961, § 32AD, No. 43, Acts of Parliament, 1961 (India).

Effect on Investment Decisions

- Depreciation allowances lower taxable income, thus making investment in assets cheaper.
- Investment allowances (***Section 32AC¹⁷, 32AD¹⁸***) induce companies to upgrade their production units and increase in backward areas.
- Accelerated depreciation (40%) encourages companies to use energy-efficient technology, saving costs in the long run.

Case Study: Tata Steel's Utilization of Investment Allowances: Tata Steel made significant investment in upgrading its Jamshedpur plant and invoked investment allowances under ***Section 32AC¹⁹***. Decreased tax outgo enabled R&D reinvestment for high-strength steel making.

Corporate Tax Influences FDI:

Low and constant corporation tax rates are favoured by foreign investors, and stable tax policies ensure long-term investments. The ***Section 115BAB²⁰*** tax rate of 15% for new manufacturing companies encourages multinational companies to set up shop in India. The *Special Economic Zone (SEZ)* allows five years' exemption from paying tax at 100%, providing an incentive to IT and export-oriented firms. GST reforms facilitate compliance with taxation by multinational players making investments in India. Expansion by Apple (2020-2023) in India has been spurred on by the 15% new manufacturer corporate tax rate. In ***Vodafone International Holdings BV v. Union of India (2012)²¹***, retrospective taxation was judged by the Supreme Court, helping improve investor optimism.

2.3. Influence of Corporate Tax in Economic activities

Corporate income tax (CIT) plays a significant role in structuring India's economic scenario, impacting corporate profitability, investment opportunities, and business growth. The law governing corporate taxation is the Income Tax Act, 1961, and it contains provisions aimed at

¹⁷ Income Tax Act, 1961, § 32AC, No. 43, Acts of Parliament, 1961 (India).

¹⁸ Income Tax Act, 1961, § 32AD, No. 43, Acts of Parliament, 1961 (India).

¹⁹ Income Tax Act, 1961, § 32AC, No. 43, Acts of Parliament, 1961 (India).

²⁰ Income Tax Act, 1961, § 115BAB, No. 43, Acts of Parliament, 1961 (India).

²¹ Vodafone Int'l Holdings B.V. v. Union of India, (2012) 6 SCC 613 (India).

stimulating investment in various sectors of the economy. A properly devised corporate tax policy not only raises revenue for the government but also serves as an investment stimulus for core sectors like manufacturing, infrastructure, information technology, pharmaceuticals, renewable energy, and banking.

The present taxation rate in India is as below:

- a. **Domestic Companies:** 22% if companies avail concessional rate of **section 115BAA**²² without opting for the benefit of any exemptions or incentive, 30% if the companies take exemption and deduction through any of the provisions of Income Tax Act. New Domestic Manufacturing Firms (15% tax rate) under **Section 115BAB**²³ for manufacturing companies incorporated on or after October 1, 2019, if they start operations on or before March 31, 2024. This lower rate is to encourage investment in India's manufacturing sector in line with the Make in India policy.
- b. **Foreign Firms:** 40% tax rate on profits earned in India, to ensure that foreign companies operating in India pay into the Indian economy.

Minimum Alternate Tax (MAT)²⁴: 15% MAT helps ensure that businesses with high book profits but little taxable income (because of exemptions) do pay a minimum tax. This curbs tax-avoidance plans commonly employed by big business.

2.4. Tax Incentives and Deductions

Various tax deductions and incentives are granted under the Income Tax Act to support business growth and investment in specific industries. All such incentives result in a lowering of aggregate tax burden and promote investment across strategic industries, contributing to economic growth and generating jobs. The manufacturing industry contributes significantly to India's GDP, and corporate taxation heavily influences investment trends. Lower rates of corporate taxes and investment allowances stimulate corporations to increase the size of their manufacturing units, adopt new technology, and create jobs. Depreciation Benefits enable corporations to claim asset expenses against taxable profits, promoting investment in advanced plant and machinery as well as manufacturing facilities. Investment Allowance offers

²² Income Tax Act, 1961, § 115BAA, No. 43, Acts of Parliament, 1961 (India).

²³ Income Tax Act, 1961, § 115BAB, No. 43, Acts of Parliament, 1961 (India).

²⁴ Income Tax Act, 1961, § 115JB, No. 43, Acts of Parliament, 1961 (India).

additional tax credits to corporations that purchase new factories and equipment to ensure fast industrial growth.

1. Infrastructure and Real Estate:

India's infrastructure sector requires long-term investments, and corporate tax incentives play a vital role in attracting both domestic and foreign capital. **Section 80-IA**²⁵ offers 100% tax exemption for 10 years to companies developing infrastructure projects like roads, power plants, and telecommunications. **Section 35AD**²⁶ provides capital expenditure deductions for infrastructure projects, reducing taxable income and promoting large-scale development.

2. IT & Startups:

India's startup and IT ecosystem has flourished because of beneficial tax regimes. **Section 80**²⁷-IAC grants a 3-year tax holiday to eligible startups, promoting entrepreneurship. **Section 115BAA**²⁸ provides lower tax rates for IT companies, making India a preferred destination for international tech companies. **Flipkart India Pvt. Ltd. v. DCIT (2022)**²⁹ ruled that deep discounting in e-commerce is a genuine business expense, affecting taxation of digital businesses.

3. Banking & Financial Services:

Section 36(1)(viii)³⁰ enables banks to make deductions for bad debts, enabling better control over non-performing assets (NPAs). **Section 43D**³¹ enables banks and NBFCs to deduct tax on interest income only when received, providing improved liquidity. **CIT v. Bank of India (2005)**³² made taxation norms clearer for bad loan interest, enabling equitable financial reporting.

²⁵ Income Tax Act, 1961, § 80-IA, No. 43, Acts of Parliament, 1961 (India).

²⁶ Income Tax Act, 1961, § 35AD, No. 43, Acts of Parliament, 1961 (India).

²⁷ Income Tax Act, 1961, § 80, No. 43, Acts of Parliament, 1961 (India).

²⁸ Income Tax Act, 1961, § 115BAA, No. 43, Acts of Parliament, 1961 (India).

²⁹ Flipkart Internet Pvt. Ltd. v. Deputy Commissioner of Income Tax, (2022) 448 ITR 268 (Karn. HC).

³⁰ Income Tax Act, 1961, § 36(1)(viii), No. 43, Acts of Parliament, 1961 (India).

³¹ Income Tax Act, 1961, § 43D, No. 43, Acts of Parliament, 1961 (India).

³² CIT v. Bank of India, (2005) 280 ITR 343 (SC).

Chapter 3- Exploitation of Corporate Tax Disparities by Multinational Corporations for International Tax Avoidance

Multinational enterprises (MNCs) have operations in more than one jurisdiction, and this makes it possible for them to leverage cross-jurisdiction differences in tax regimes for corporate taxation to avoid paying high taxes. This chapter discusses how MNCs approach international tax avoidance, the economic implications of tax avoidance, and the policy approaches to counteracting tax base erosion. The chapter considers the contribution of tax havens, profit shifting, and loopholes in regulation to tax avoidance.

3.1. Corporate Tax Disparities and Their Role in Tax Avoidance

Corporate tax differences occur because tax rates, laws, and enforcement policies differ across countries. Such differences provide scope for multinational enterprises (MNCs) to strategically distribute their profits in a manner that minimizes tax payment.³³ By taking advantage of such differences, MNCs are able to minimize their overall tax outgo, usually at the cost of national tax revenues. A number of important factors drive corporate tax differences and enable international tax evasion:

- **Divergent Tax Rates**

One of the major drivers of tax avoidance is differential corporate income tax rates between nations. Governments tend to reduce the corporate tax rate in order to lure foreign direct investment (FDI) and multinational business operations, resulting in so-called "race to the bottom." With such competition, countries keep decreasing their tax rate in order to remain competitive, which inadvertently facilitates profit shifting by MNCs.³⁴ Firms shift profits to countries with the lowest tax rates, denying high-tax nations substantial revenue and causing worldwide tax base erosion.

A seminal case that emphasizes the effect of tax rate differences is *Commission v. Ireland (Apple Case)* (2020)³⁵. The European Commission held that Ireland provided Apple with illegal state aid by permitting the company to pay an effective rate of corporate tax of only 0.005% in

³³ <https://knowlaw.in/2024/10/04/comprehending-corporate-tax-disparities-in-india/>

³⁴ Sahi & Khushi Sharma, Unveiling the Consequences: Exploring the Effect of Tax Evasion and Tax Avoidance on India's Economic Progress, J. Legal Research & Juridical Sci., Vol. 2, Issue 3, 2131, ISSN (O): 2583-0066, <https://www.jlrjs.com>.

³⁵ *Commission v. Ireland (Apple Case)*, Case T-778/16, ECLI:EU:T:2020:338 (Gen. Ct. 2020).

2014. Apple had routed its profits to Ireland, whose corporate tax rates were much lower than those in other EU countries, causing a artificial decrease in its tax bills. The case highlighted how low-tax countries can encourage profit shifting, sparking controversy over equitable taxation.

- **Inconsistent Tax Regulations and Loopholes**

Variations in tax laws, exemptions, and enforcement policies between nations create loopholes that MNCs can take advantage of. Tax incentives in the form of preferential rates for certain industries, tax holidays, or deductions that enable corporations to reduce their taxable income artificially are provided by some countries. Moreover, uneven enforcement mechanisms result in some nations strictly auditing and regulating corporate tax policies, while others lack stringent controls, and businesses can manipulate their financial structures with little oversight.³⁶ This inconsistency allows corporations to legally structure transactions in a manner that allocates profits without incurring significant tax burdens.

One of the most common examples is *Google UK Ltd. v. HMRC (2016)*³⁷, where Google was accused of routing profits made in the UK to Ireland to benefit from more lenient tax treatment. The firm had organized its business to minimize its UK tax liabilities, which brought it under criticism from the public and the government. Although in compliance with the law, the practice raised questions about the problems of uneven tax legislation across different jurisdictions and the necessity for stronger regulatory regimes.

- **Tax Treaties and Double Taxation Agreements (DTAs)**

Double taxation treaties and tax treaties are aimed at avoiding double taxation of companies on the same income in two jurisdictions. Although double taxation agreements and tax treaties aim to encourage cross-border investment and trade, MNCs usually use them to evade taxation entirely. By channelling income through nations that have beneficial networks of treaties, corporations can reap the benefits of lower withholding taxes, exemptions, and deductions. This technique, referred to as "treaty shopping," enables companies to divert profits to countries

³⁶ R. Benkraiem, S. Gaaya & F. Lakhal, Tax Avoidance, Investor Protection, and Investment Inefficiency: An International Evidence, Res. Int'l Bus. & Fin., 2024.

³⁷ Google UK Ltd. v. HMRC, [2016] UKFTT 192 (TC) (U.K.)

with favorable tax treaties, essentially reducing or even dodging their tax liabilities.³⁸

These cross-country tax differences give MNCs significant incentives to shift profits, manipulate transfer prices, and practice aggressive tax planning. Consequently, tax avoidance schemes undermine national tax bases, constrain government revenues, and confer unjust competitive benefits on multinational companies at the expense of domestic companies that cannot afford to do so. Redressing these imbalances calls for concerted global action to align tax policies, plug loopholes, and introduce measures like the OECD's Base Erosion and Profit Shifting (BEPS) framework and the global minimum corporate tax proposal.

The case of *Vodafone International Holdings B.V. v. Union of India (2012)*³⁹ illustrated the application of tax treaties to evade capital gains tax. Vodafone arranged its acquisition of Hutchison Essar in India via a Cayman Islands holding company, invoking tax treaty protection in order to prevent paying capital gains tax in India. The Indian Supreme Court held in favor of Vodafone, highlighting the role of explicit anti-avoidance provisions in tax treaties to stop abuse.

3.2.Major Tax Avoidance Techniques Employed by Multinational Corporations

Multinational corporations employ a number of sophisticated techniques to reduce their tax burden, taking advantage of tax rate and regulatory disparities between jurisdictions. These techniques enable businesses to legally or by means of aggressive tax planning lower their tax burdens, in many cases leading to considerable losses of revenue for high-tax jurisdictions. Some of the most frequently employed tax avoidance methods are as follows:

- **Profit Shifting**

Profit shifting, or the moving of taxable profit from high-tax to low-tax or no-tax countries, is a mechanism whereby the tax bill for the firm is decreased overall. Profit shifting is accomplished using a variety of mechanisms, including royalty payments, service fees, and intragroup transactions. By shifting the profits to units in tax-favored locations, MNCs essentially decrease the firm's average global tax rates, even where the economic activities that

³⁸ Sahi & Khushi Sharma, Unveiling the Consequences: Exploring the Effect of Tax Evasion and Tax Avoidance on India's Economic Progress, J. Legal Research & Juridical Sci., Vol. 2, Issue 3, 2131, ISSN (O): 2583-0066, <https://www.jlrjs.com>.

³⁹ Vodafone Int'l Holdings B.V. v. Union of India, (2012) 6 SCC 613 (India).

generate these profits take place elsewhere.⁴⁰ This tactic is most frequently employed in sectors that are dependent on intangible assets, e.g., technology and pharmaceuticals, where profit can be readily transferred without having to move physical operations.

- **Transfer Pricing Manipulation**

Transfer pricing is the price of goods, services, or intellectual property traded between subsidiaries of the same multinational group. Although transfer pricing is a valid business practice, MNCs will frequently manipulate the prices to move taxable income into lower-tax countries.⁴¹ For instance, a low-tax country subsidiary may overprice goods or services sold to a high-tax country subsidiary, faking the reduction of taxable income in the higher-tax country. This practice allows MNCs to reduce their tax burden while increasing profits in benevolent tax environments.

- **Tax Havens**

Tax havens are locations that provide very low or zero corporate tax rates, combined with secrecy legislation and little regulatory intervention. MNCs create subsidiaries or shell firms in these places to shelter profits and escape taxes in their major operating bases.⁴² Nations like the Cayman Islands, Bermuda, and Luxembourg are famous tax havens that receive corporations wanting to hide their profits. By channelling funds through these low-tax nations, firms can substantially lower their tax burden while still having business in high-tax nations.

- **Debt Shifting and Thin Capitalization**

Debt shifting or thin capitalization is financing high-tax country subsidiaries with undue intra-group debt. This enables MNCs to offset huge interest payments against taxable income, essentially transferring profits to low-tax countries where interest revenues are liable for very little tax. One of the standard tactics is for a low-tax country subsidiary to lend money to a high-tax country subsidiary so that the latter can make interest payments that substantially

⁴⁰ <https://www.nber.org/reporter/2022number3/international-tax-avoidance-multinational-firms>

⁴¹ https://r.search.yahoo.com/_ylt=AwrKB4eKjNdnZMkPH6S7HAX.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMec2VjA3Ny/RV=2/RE=1743389066/RO=10/RU=https%3a%2f%2fwww.imf.org%2f~%2fmedia%2fFiles%2fPublications%2fWP%2f2018%2fwp18168.ashx/RK=2/RS=ErIytPjIXysCKjeqnWTnsvKLHpI-

⁴² <https://www.congress.gov/crs-product/R40623>

lower its taxable income.⁴³ By leveraging debt strategically, corporations can reduce their overall tax burden while maintaining control over their financial flows.

These tax evasion measures, although frequently legal, cause significant government revenue losses and skew fair market competition. Solutions to these actions involve greater global tax cooperation, improved transparency standards, and policy initiatives like the OECD's Base Erosion and Profit Shifting (BEPS) strategy and the global minimum corporate tax proposal.⁴⁴ In the absence of global cooperation, MNCs will continue to take advantage of tax differences, eroding country tax bases and economic equity.

3.3.Economic and Fiscal Implications of International Tax Avoidance

Multinational corporations' (MNCs) use of corporation tax differentials has severe economic and budgetary implications for taxpayers, governments, and businesses. Through tax base erosion and low-tax profit shifting to countries with low corporation taxes and aggressive tax planning, MNCs lower their net tax burden, which generates diverse adverse consequences.⁴⁵ The most important implications are the loss of government revenue, market competition distortion, and higher tax burdens for domestic individuals and small enterprises.

- **Loss of Tax Revenue**

Probably the most pressing and harshest effect of cross-border tax avoidance is the widespread loss of government tax revenue. Through profit-switching to tax havens, MNCs deny high-tax nations billions of dollars of company tax revenues each year. Governments' capacity for financing public programs like healthcare, education, and infrastructure is stifled by such a revenue shortfall. Developing countries, specifically, are disproportionately affected, as they depend significantly on corporate tax receipts to cover public spending, while the erosion of the tax base through profit shifting and tax avoidance undermines fiscal stability and enhances budget deficits, resulting in governments having to look for new sources of finance.⁴⁶

⁴³ <https://www.econstor.eu/bitstream/10419/167185/1/ifo-dice-report-v12-y2014-i4-p27-31.pdf>

⁴⁴ https://www.cesifo.org/DocDL/cesifo1_wp4381.pdf

⁴⁵ https://www.taxobservatory.eu/www-site/uploads/2023/06/EUTO_WP18_Fiscal-Consequences-of-Corporate-Tax-Avoidance_June2023.pdf

⁴⁶ <https://www.nber.org/reporter/2022number3/international-tax-avoidance-multinational-firms>

- **Distorted Competition**

Tax avoidance strategies create a skewed level of competition between multinational companies and small domestic firms. Though greater MNCs are able to utilize international tax planning mechanisms for reducing their taxes, smaller enterprises working within the same country's jurisdiction are unable to do the same. The difference creates tax competition distortions since MNCs are capable of lowering costs, re-investing proceeds, or scaling up business based on tax evaded amounts.⁴⁷ Domestic businesses pay higher effective taxes, hence curtailing their competitive and growth powers. With time, this imbalance can result in market concentration, in which large firms with deep tax planning capabilities in industries are the only ones that remain, further eroding fair competition.

- **Higher Tax on Other Taxpayers**

As governments lose corporate tax revenue as a result of international tax avoidance, they tend to make up for the loss by raising taxes on individuals and small enterprises. Increased income taxes, consumption taxes (e.g., VAT), and property taxes are typically employed to make up for the revenue deficit. The change in the tax burden falls mostly on middle- and low-income people, increasing economic inequality and lowering disposable incomes.⁴⁸ Moreover, SMEs have a greater relative burden of taxes, constraining their ability to invest, innovate, and provide employment. The net effect is a reverse tax system in which average citizens and small firms pay more but big business dodges paying their share.

International tax evasion has economic and fiscal consequences far in excess of mere lost revenue. It subverts equitable competition, widens disparities, and adds to the burden on governments to seek other revenue sources. Combating these issues necessitates concerted international action, including the OECD's Base Erosion and Profit Shifting (BEPS) system, the global minimum corporate tax proposal, and more rigorous enforcement of tax laws.⁴⁹ By closing loopholes and promoting tax transparency, policymakers can strive toward a more equitable and sustainable global tax system.

⁴⁷ <https://www.imf.org/~media/Files/Publications/WP/2018/wp18168.ashx?utm>

⁴⁸ <https://www.imf.org/~media/Files/Publications/WP/2018/wp18168.ashx?utm>

⁴⁹ <https://www.oecd.org/en/topics/base-erosion-and-profit-shifting-beps.html?utm>

3.4. Policy Responses to Counter International Tax Evasion

Governments and global corporations have acknowledged the harmful impact of tax avoidance and implemented measures to offset such activity. These initiatives seek to plug loopholes, increase transparency, and make sure that multinational enterprises (MNEs) give their share to national economies. The major drives are the OECD's Base Erosion and Profit Shifting (BEPS) model, the global minimum corporate tax, more robust transfer pricing rules, and greater requirements for tax transparency.

- **Base Erosion and Profit Shifting (BEPS) Initiatives⁵⁰**

The OECD-led BEPS initiative is a worldwide effort to prevent tax avoidance through measures that address the techniques MNCs employ to shift profits to low-tax countries. BEPS comprises a number of important action points aimed at:

- Preventing artificial profit shifting via tax havens.
- Ensuring taxation where economic activity and value creation occur.
- Enhancing international tax cooperation by encouraging automatic exchange of tax information between countries.
- Close loopholes on hybrid mismatches, interest deductions, and harmful tax practices.

Numerous countries have had BEPS implemented, which resulted in more strict corporate tax regimes and greater cross-border cooperation.

- **Global Minimum Tax⁵¹**

One of the most powerful global tax reforms in years is the global minimum corporate tax rate, led by the OECD and G20 countries. This proposal would impose a minimum 15% tax on big multinational companies, wherever they are based. It aims to:

- Eliminate tax competition between countries by deterring them from offering ultra-low

⁵⁰ <https://www.oecd.org/en/topics/base-erosion-and-profit-shifting-beps.html?utm>

⁵¹ <https://www.oecd.org/en/topics/global-minimum-tax.html?utm>

corporate tax rates.

- Stop MNCs from transferring profits to low-tax countries with little economic activity.
- Make sure firms pay a reasonable amount of tax everywhere they earn revenue.

This will raise billions in extra tax income and create a fairer world tax system.

- **Tightened Transfer Pricing Rules**

Governments have imposed tighter transfer pricing rules to stop artificial income diversion between related parties in MNCs. The rules are intended to:

- Ensure that transactions between subsidiaries are conducted in accordance with the "arm's length principle", i.e., they should be based on fair market value.
- Decrease transfer pricing manipulation, where firms artificially inflate or deflate intra-group transaction prices to reallocate profits.
- Enhance compliance obligations and sanctions for abusive transfer pricing schemes.

By imposing stricter transfer pricing rules, tax administrations can reduce the scope for MNCs to manipulate their taxable income.

- **Increased Tax Transparency and Reporting Requirements**

To bring aggressive tax planning to light, governments have imposed heightened reporting requirements on multinational corporations. These are:

- Country-by-country reporting (CbCR): Compels large companies to provide financial and tax information for each country in which they have operations, allowing tax authorities to more easily identify inconsistencies.⁵²
- Public beneficial ownership registries: Discloses the beneficial owners of corporate entities so that anonymous shell companies cannot be used to evade taxes.

⁵² https://www.oecd.org/en/publications/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-2022_0e655865-en.html?utm

- Automatic tax information exchange: Taxation-related data are exchanged automatically by nations in an effort to enhance compliance and limit cross-border tax evasion.

Transparency mechanisms serve the purposes of heightening corporate accountability as well as availing the taxation authority with necessary instruments for effecting fair taxation.

Though global tax avoidance continues to pose a challenge, these policy reforms are major advances toward building an increasingly transparent, equitable, and sustainable international tax system.⁵³ Much more is still needed, though, in order for nations to cooperate effectively in preventing multinational enterprises from evading taxes and making their proper contribution to economic progress and social welfare.

3.5.Enhancing Global Partnership to Tackle Corporate Tax Avoidance

Disparities in corporation taxation provide windows of opportunity for MNCs to take advantage of variations in tax rates and regulatory environments and use international tax avoidance. International tax avoidance compromises national tax bases, denying the state much-needed revenue for its public services and infrastructure. Furthermore, tax avoidance distorts fair market competition as MNCs are given preferential treatment in contrast to the inability of domestic smaller firms to exploit profit-switching across international boundaries.⁵⁴

Many tax avoidance measures have been implemented across the years to counter tax evasion, such as the OECD Base Erosion and Profit Shifting (BEPS) initiative, global minimum corporate tax initiatives, and tight transfer pricing laws. Yet all these notwithstanding, loopholes and inconsistencies in cross-jurisdictional tax policy still enable MNCs to keep their taxes low.

To create a fairer and more transparent international tax system, greater international cooperation is needed. Governments need to collaborate to:

- Harmonize business tax policies to minimize incentives for profit shifting.

⁵³ <https://www.gtlaw.com/en/insights/2025/1/oecd-s-amount-b-simplified-transfer-pricing-for-routine-marketing-and-distribution-activities?utm>

⁵⁴ <https://worldjurisprudence.com/tax-administration-and-enforcement/?utm>

- Strengthen enforcement mechanisms to promote compliance with tax laws.
- Increase data sharing and transparency to identify and prevent aggressive tax planning.
- Assist developing countries in putting in place strong tax governance systems to avoid exploitation by MNCs.⁵⁵

Without firm and concerted international action, corporate tax differentials will continue to erode economic equity, putting an unfair burden on small businesses and personal taxpayers. Tax reform must be approached uniformly in order to ensure all corporations give their proportionate share to the world economy.

CONCLUSION

In conclusion, the research has highlighted the complex and multifaceted relationship between corporate income tax, investment decisions, economic growth, and international tax avoidance. Corporate income tax rates are an important factor in determining the investment climate of a country and have an influence on both domestic and foreign investors. The findings suggest that although lower corporate tax rates can stimulate investment by improving the after-tax return on capital, they also pose challenges related to tax revenue generation for governments. On the other hand, higher corporate tax rates, while contributing to state revenue, may discourage investment and hinder economic growth by reducing the incentives for business expansion and innovation.

The study also highlights the need to balance tax competitiveness with fiscal sustainability. Excessively high tax rates may prompt capital flight, while excessively low rates can lead to an erosion of the tax base. Policymakers must carefully consider the optimal tax rate that encourages investment while ensuring adequate revenue for public goods and services. Tax incentives, which include exemptions or deductions, are effective tools in attracting investments, but they should be carefully designed to avoid abuse or overuse, which can lead to fiscal imbalances.

International tax avoidance, especially among MNCs, is one of the significant challenges facing governments around the world. MNCs exploit the differences in corporate tax regimes

⁵⁵ <https://responsibletax.kpmg.com/article/effective-global-governance-what-can-different-sectors-learn-from-each-other?utm>

between jurisdictions by shifting profits and employing other tax avoidance strategies. MNCs actually reduce their tax burden overall through manipulation of transfer pricing, using tax havens, and structuring transactions that minimize taxable income in high-tax countries. It is therefore destructive to the tax base of those countries that charge high corporate taxes, with revenues lost and inequality in economic benefits worsened. In addition, it leads to an unfair competition advantage as it leaves the small businesses and local firms with less capability for tax planning disadvantaged in competition.

International tax cooperation and anti-avoidance measures are also highlighted in the research. Global efforts, such as the OECD's Base Erosion and Profit Shifting (BEPS) framework, have made strides in addressing international tax avoidance by introducing policies aimed at limiting the ability of MNCs to exploit tax disparities. However, implementation of these measures is still challenging, especially due to the intricacies of international tax laws and the unwillingness of some countries to adapt their tax policies according to international norms.

The findings call for more coordinated efforts at a national and international level regarding tax policies. Countries should consider dovetailing corporate tax rates and closing loopholes that allow aggressive tax planning. Hence, national tax systems must complement anti-avoidance measures in the form of tightening up transfer pricing rules, increasing transparency and information exchange among the tax authorities to mitigate tax evasion and avoidance.

Thus, ultimately, this study concludes that, in addition to promoting investment and economic growth, a fair corporate tax system has the possibility to minimize negative implications of tax avoidance. Balancing between luring global capital to the domestic shores and demanding more taxes from these corporations as the share to generate public service delivery and infrastructures is needed on the side of policymakers. Adoption of wide-scale tax reforms along with promotion of international cooperation is possible, so the adverse impacts of tax avoidance could be checked, while encouraging sustainable economic growth.