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THE IMPACT OF CORPORATE TAXATION ON BUSINESS INVESTMENT DECISIONS: A COMPARATIVE STUDY OF DEVELOPING AND DEVELOPED ECONOMIES

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Abstract

Corporate taxation plays a pivotal role in shaping business strategies, especially in the area of investment decisions. This paper investigates the relationship between corporate tax rates and investment behavior in both developing and developed economies. Drawing on data from OECD and BRICS nations over the past two decades, the study analyzes how tax structures influence capital allocation, foreign direct investment (FDI), and innovation expenditure. The findings indicate that while lower corporate tax rates generally stimulate investment, the impact is significantly mediated by the legal infrastructure, political stability, and enforcement mechanisms in place. In developing countries, inconsistencies in tax enforcement and policy volatility tend to dampen the positive effects of lower rates. Conversely, developed countries exhibit a more predictable response pattern, with firms increasing reinvestment and R&D in response to tax incentives. The paper concludes by recommending tailored tax reforms that consider institutional capacities and economic maturity to enhance investment outcomes across different economies.

I. INTRODUCTION

“To collect Corporate Taxes from citizens the way a Bee collects Honey from the flowers quietly without inflicting pain”. (Chanakya)

Corporate Taxation in India is rooted in the period of **Manu Smriti and Arthasastra**. The present Indian Corporate Tax system is based on this ancient Corporate Tax system which was based on the theory of maximum social welfare. In India, the system of direct Corporate Taxation as it is known today has been in force in one form or another even from ancient times. A variety of Corporate Tax measures are referred to in both Manu Smriti and Arthasastra. The wise sage advised that Corporate Taxes should be related to the income and expenditure of the subject. He, however, cautioned the king against excessive Corporate Taxation; a king should neither impose a high rate of Corporate Tax nor

exempt all from Corporate Tax.

According to Manu Smriti, the king should arrange the collection of Corporate Taxes in such a manner that the Corporate Taxpayer did not feel the pinch of paying Corporate Taxes. He laid down that traders and artisans should pay 1/5th of their profits in silver and gold, while the agriculturists were to pay 1/6th, 1/8th and 1/10th of their produce depending upon their circumstances.

Kautilya has also described in great detail the system of Corporate Tax administration in the **Mauryan Empire**. Remarkably, the present-day Corporate Tax system is in many ways similar to the **system of Corporate Taxation in vogue about 2300 years ago**.

Arthasastra mentioned that each Corporate Tax was specific and there was no scope for

arbitrariness. Corporate Tax collectors determined the schedule of each payment, and it's time, manner and quantity being all pre-determined. The land revenue was fixed at 1/6 share of the production and import and export duties were determined on an ad-valorem basis. The import duties on foreign goods were roughly 20% of their value. Similarly, tolls, road ferry charges and Other levies were all fixed. Kautilya also laid down that during war or emergencies like famine or floods, etc. the Corporate Taxation system should be made more stringent and the king could also raise war loans. The land revenue could be raised from 1/6th to 1/4th during emergencies. The people engaged in commerce were to pay big donations to war efforts. **Kautilya's concept of Corporate Taxation emphasized equity and justice in Corporate Taxation.** The affluent had to pay higher Corporate Taxes as compared to the poor.

II. BRIEF HISTORY OF INCOME CORPORATE TAX IN INDIA

In India, this Corporate Tax was introduced in 1860, by Sir James Wilson to meet the losses sustained by the Government On account of the Military Mutiny of 1857. In 1918, a new income Corporate Tax was passed and again it was replaced by another new act which was passed in 1922. This Act remained in force up to the assessment year 1961-62 with numerous amendments. In consultation with the Ministry of Law finally the Income Corporate Tax Act, 1961 was passed. The Income Corporate Tax Act 1961 has been brought into force on 1 April 1962. It applies to the whole of India and Sikkim (including Jammu and Kashmir). Since 1962 several amendments of far-reaching nature have been made to the Income Corporate Tax Act by the Union Budget every year.

Corporate Tax is a compulsory contribution to state revenue, levied by the government on various types of a person's income and business profits, or added to the cost of some goods, services and transactions. . Failure in payment of Corporate Taxes Or resisting to contribute

towards it invites punishment under the pre-defined law. Corporate Taxes are generally enforced by a government entity, whether local, regional or national to finance government activities. Corporate Tax aid helps in building the economic growth & development of a country. Corporate Taxation policy is a core of economic policies, ensuring that countries can maintain and improve their global competitiveness and expand Corporate Tax Revenue forms part of the Receipt Budget, which in turn is a part of the Annual Financial Statement of the Union Budget.

The Indian Corporate Taxation system has undergone tremendous reforms during the last decade. The Corporate Tax rates have been rationalized and Corporate Tax laws have been simplified resulting in better compliance, ease of Corporate Tax payment, and better enforcement. The process of rationalization of Corporate Tax administration is ongoing in India. Government in such a way that they are within one's sphere, co-ordinate, and independent. The Corporate Taxation power between Union and State is assigned according to the provisions of the Constitution while the Corporate Taxation powers of Local Bodies are assigned to them by the State. In the case of Union Territories, it is assigned by the Central Government. At the Central level, the Central Board of Direct Corporate Taxes (CBDT) has been assigned the responsibility for all matters relating to direct Corporate Taxes in India. The CBDT gets the authority from the Central Board of Revenue Act, 1963.

Article 246 of the Indian Constitution, distributes legislative powers between the Central (Parliament of India) and State Government (State Legislature). Schedule VII of the Constitution describes the detailed division of function and resources with the use of three lists. List -I deals with the areas in which only the Central Government is competent to make laws, List -II deals with the areas on which only the State Government can make laws and List -III deals with the areas on which both the Central and State governments can make laws concurrently.

III. DOCTRINE OF CORPORATE TAXATION

Equity: Equity entails that Corporate Taxes should be levied in such a way that they promote fairness. The concept of each according to his ability to pay or benefits received is really what the principle of equity is all about. A Corporate Tax system that takes away proportionately more income from higher income earners than from lower-income earners is termed as a progressive Corporate Tax system. Inequity, a progressive rate structure, and the minimum exemption policy should characterize the Corporate Tax system. Thus, equals should be treated equally and unequal to be treated unequally.

Simplicity: A Corporate Tax system ought to be simple. The simplicity of the Corporate Tax system means the Corporate Taxpayer should be able to understand the system and the Corporate Tax base should be known clearly. The Corporate Taxpayer should be able to compute his/her liability and the penalties involved for any neglect or failure to comply with Corporate Tax law. The amount should not be the prerogative of the Corporate Tax collector, as this will put the Corporate Taxpayer at a disadvantage and the mercy of the collector and may make the Corporate Tax system arbitrary.

Economy: The administration of the Corporate Tax system should be the least expensive in terms of both manpower and material. The cost-benefit analysis is emphasized, as it does not make sense to spend more than the revenue collected. Optimization of collection costs is called for to judge whether a Corporate Tax system is uneconomic or not, both pecuniary and non-pecuniary costs should be taken into account. **Certain:** The imposition of Corporate Tax should yield the expected revenues to assist government planning. Corporate Taxes on some commodities are certain while others are fairly uncertain. On the other hand, this criterion advocates that the Corporate Taxpayer ought to know precisely and exactly as regards the time of payment, the manner of payment and

the amount to be paid.

Convenience: This calls for the Corporate Tax to be levied at the time and how it is most likely to be convenient to the Corporate Taxpayer. The system that allows the payment of Corporate Tax at month-end, immediately after crop harvest seasons, or provides for the payment of Corporate Tax through such devices as PAYE or another withholding arrangement can be regarded as convenient to the Corporate Taxpayers; while a Corporate Tax system that places the heavy Corporate Tax burden on Corporate Tax-payers long after the income is exhausted is an inconvenient one.

The elasticity of Corporate Tax to changes in the Corporate Tax base: A good Corporate Tax system should be elastic to changes in the Corporate Tax base; the Corporate Tax is elastic when the amount of revenue it yields increases as fast as or faster than the growth of income or the economic or the economic activities. The elastic Corporate Tax system yields adequate revenue for planned projects.

IV. TYPES OF CORPORATE TAXES IN INDIA:

Direct Corporate Tax: A Direct Corporate Tax is a kind of charge, which is imposed directly on the Corporate Taxpayer and paid directly to the government by the persons (juristic or natural) on whom it is imposed. A direct Corporate Tax cannot be shifted by the Corporate Taxpayer to someone else.

- The Corporate Tax that is to be paid by the companies on their income is called corporate Corporate Tax, and for payment of same in the challan, it is mentioned as Income-Corporate Tax on Companies (Corporation Corporate Tax).
- Corporate Tax paid by non-corporate assessee is called as Income-Corporate Tax, and for payment of the same in the challan is to be mentioned as Income-Corporate Tax (other than Companies)

Indirect Corporate Tax: An indirect Corporate Tax is a Corporate Tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden

of the Corporate Tax (such as the customer). An indirect Corporate Tax can be shifted by the Corporate Taxpayer to someone else. An indirect Corporate Tax may increase the price of a good so that consumers are paying the Corporate Tax by paying more for the products.

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