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AN ANALYTICAL STUDY ON CHANGES IN CORPORATE TAX RATE IN INDIA AND ITS IMPACT ON REVENUE GENERATION

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Abstract
Taxation plays a vital role in economic development of any nation. 60% of the total revenue generated by Government of India is by means of taxation. But corporate taxation has greater significance and greater impact on revenue generation. A tax which is imposed on the income of corporate is known as corporate tax.. In India it is levied or imposed on domestic as well as foreign company. This tax is one of the forms of income tax which is charged under the head Profit and Gains from Business & Profession. Arguably it is one of the major sources of revenue generation by way of direct taxes. It has been noticed that in case of individual only 3% of the total population are the income tax payers under all the heads of the income tax. This research paper concentrates on how different rates of corporate tax have make an impact on revenue generation. Secondly it has made an attempt to prove that lower rates of taxes generate higher revenue.

Key words: Corporate Tax, Central Excise, Surcharge, revenue, Laffer Curve.

Introduction:

Taxation plays a vital role in economic development of any nation. 60% of the total revenue generated by Government of India is by means of taxation. Both direct & indirect taxes play pivotal role not only in generating the revenue but at the same time it is the best possible measure to keep the fiscal deficit under control.

In India indirect taxes provide greater assistance as compared to direct taxes as far as revenue generation of government is concerned. In fact the highest revenue which is being generated by Union Government comes from Central Excise. But seeking too much assistance from indirect taxes for generating revenue creates inflationary pressure on the economy. Central Government every year in its union budget adopts several measures in the taxation system which determines the impact on the revenue generating capacity, for the economic development of the nation. In this broader tax structure corporate tax plays a vital & significant role in revenue generation. Corporate tax or company tax refers to a tax imposed on entities that are taxed at the entity level in a particular jurisdiction. Such taxes may include income or other taxes. Basically a corporate tax refers to that tax which has to be paid by any corporation or any company based on the amount of profit generated. The amount of tax & its calculation varies depending upon the region where the company is located. This research paper focuses on changes in the corporate tax rate in India and its impact on the revenue generating capacity from financial year 2005-2006 to 2014-2015.

Meaning of Corporate Tax

A tax which is imposed on the income of corporate is known as corporate tax. A corporate tax, also called corporation tax or company tax, is a direct tax imposed by a jurisdiction on the income or capital of corporations or analogous legal entities. Many countries impose such taxes at the national level, and a similar tax may be imposed at state or local levels. The taxes may also be referred to as income tax or capital tax. Partnerships are generally not taxed at the entity level. A country's corporate tax may apply to: corporations incorporated in the country, corporations doing business in the country on income from that country, foreign corporations who have a permanent establishment in the country, or Corporations deemed to be resident for tax purposes in the country. Generally, the tax is imposed on net profits of the company. It comes under the head Income from Business & Profession. Therefore we can realise that the scope of corporate tax is very wide when it comes to generation of revenue from income tax i.e. direct tax.

Scope of Corporate Taxation in India

The scope of corporate tax in India is very wide. At present a flat rate of 25% corporate tax is levied on the income earned by a domestic corporate. A surcharge of 5% is levied in case the turnover of a company is more than Rs.1 Crore for a specific financial year. Corporate tax is also levied on the global earnings of the domestic company. In fact major chunk of the revenue are being collected and also can be collected in the form of corporate tax under the direct taxation system. In India it is levied or imposed on domestic as well as foreign company. This tax is one of the form of income tax which is charged under the head Profit and Gains from Business & Profession. This is charged under the Income Tax Act 1961. It is applicable to whole of India. It includes all States, Union Territories, Territorial Waters and air space above its territory and territorial water. Arguably it is one of the major sources of revenue generation by way of direct taxes. It has been noticed that in case of individual only 3% of the total population are the income tax payers under all the heads of the income tax. Therefore we can realise that the scope of corporate tax is very wide when it comes to generation of revenue from income tax i.e. direct tax.

Present rate of Corporate tax & rates of Corporate Tax from financial year 2005-2006 to 2014-2015:
The rates of corporate taxation vary from time to time or from year to year. At present the rate of corporate tax is 30% for domestic company (in general) & 25% for domestic company whose turnover in previous year 2015-2016 does not exceed Rs. 50 crores. Plus a surcharge will be imposed @ 7% if the income exceeds 1 Crore and @ 12% if the income exceeds 10 crores. There are certain changes in the rates of corporate taxes over the period of years. We have taken the corporate tax rate from 2005-2006 to 2014-2015 and the revenue collected during this period. The following table depicts the rates of Corporate tax and revenue collected during this period from 2005-2006 to 2014-2015.

Table No; 1 Rates of Corporate Tax and revenue generated from 2005 to 2015

Financial Year	Rates of Corporate Tax(in %)	Revenue Collected in (Rs. Crores)
2005-2006	33.66%	101277
2006-2007	33.66%	144318
2007-2008	33.99%	93561
2008-2009	33.99%	213395
2009-2010	33.99%	244725
2010-2011	33.99%	298688
2011-2012	32.44%	322816
2012-2013	32.45%	356326
2013-2014	33.99%	394678
2014-2015	33.99%	428925

(Source: Income Tax Department: Time Series Data & www.indiabudget.nic.in).

Hypothesis
In our hypothesis we have assumed that ,Low rates of income tax increase the tax revenue. This hypothesis has been proved with the help of statistical tool in the form of Regression analysis and annova.

Analysis of Changes in Tax rate and its impact on revenue generation
From the table 1 it can be noticed that , the rates of corporate tax is different in different years, but in it is same in same for some years. Therefore for our analysis purpose we have taken the average revenue collected for those years whose rates are same. For ex: the rates for the six financial year i.e. 2007-2008, 2008-2009, 2009-2010, 2010-2011, 2013-2014, is same i.e. 33.99%; therefore we have taken the average revenue collected from the year and try to prove the hypothesis. In this manner we have made three groups on the basis of classification of rates and tested our hypothesis in table 2 and table 3.

Corporate Tax Collected (Table No: 2)

(Rs. in crores)

Tax Rates	N	Revenue Rs. In Crores Mean	Std. Deviation	Std. Error
33.66%	2	1225979392.50	305326854.79	215898689.50
33.99%	6	2952210268.67	972544312.75	397039553.08
32.44%	2	3391662396.00	236377977.76	167144471.00
Total	**10**	**2694854518.90**	**1083306350.37**	**342571547.09**

The above table shows the mean and standard deviation of tax collected at different rates of corporate taxes, which shows that the mean tax collection is lowest when rates are 33.66% and mean tax collection is highest when rates are 32.44%.

ANOVA					
Corporate Tax Collected (Table No: 3)					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5683662600718227500.00	2	2841831300359113700.00	4.078	.047
Within Groups	4878311237961854000.00	7	696901605423122050.00		
Total	10561973838680080000.00	9			

The above table shows the F value of 4.078 and sig. value (p value) of 0.047 calculated from the difference between the mean values of the debt equity mix of different entities. Since the p value calculated above is less than the alpha value of 0.05, it is concluded that there is significant difference in the tax collected at different rates. Thus it is said that there exists variation between the amount of tax collected at different rates and hence on the basis of means and ANOVA calculated it is concluded that the hypothesis i.e. Low rates of income tax increase the tax revenue is accepted.

Conclusion

On the basis of the analysis it has been found that the changes in the rates of corporate tax have made significant impact on the revenue generation over the period of 10 financial years i.e. from 2005-2006 to 2015-2016. On the basis of the analysis it can be concluded that when that the mean corporate tax collection is lowest when rates are 33.66% and mean corporate tax collection is highest when rates are 32.44%. The collection and generation of revenue in the form of taxes for 6 years(i.e. for period of 2007-2008, 2008-2009, 2009-2010, 2010-2011, 2013-2014) is Rs. 29,52,2,10268.67 crores when the rate of taxes remains constant i.e 33.99%. It can also be concluded that when the amount of surcharge is reduced from 10% % to 7.5 5% in the year 2010-2011 and again from 7.5% to 5% in the year 2011-2012, the revenue generation has gone up. Thus on this basis it can be inferred that lower the rates of taxes, higher can be the revenue generation.

Suggestions & Recommendations

First of all it is very much important to have proper and rationalised rates of taxes, especially in the cases where taxes are being imposed on the income of the corporate. As we have seen that lowering the rates of taxes leads to generation of higher revenue. Therefore the tax rate should be lowered at the optimum level. This encourages the corporate as well as any other assessee to pay the maximum amount of tax honestly. In macro economic theory we know that Laffer Curve illustrate the rates of taxation and revenue generation. The Laffer Curve assumes that no tax revenue can be generated at 0% or 100% rate. Therefore increasing the tax rate beyond a certain point as well as decreasing the rate beyond a certain limit will hamper the revenue generation. Hence, the focus should always be on the optimum rate by considering all the macro economic variables, which can have maximum revenue generation.

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