Indian Economy · GS - III

Tax incentives can encourage private investment, but their effectiveness ultimately depends on whether they translate into productive capacity, employment and technological advancement. Critically examine this statement in the context of India's corporate tax policy.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 20/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Corporate tax rationalisation, Section 115BAA, investment climate, capital formation, employment generation, tax expenditure, fiscal resources, manufacturing competitiveness, technological modernisation, ease of doing business, outcome-based incentives.

Model Answer

Introduction

Corporate tax rationalisation is an important instrument of fiscal policy aimed at improving the investment climate, encouraging capital formation and enhancing industrial competitiveness. However, tax concessions alone cannot guarantee higher employment or productivity.

Potential Benefits of Corporate Tax Incentives

1. **Investment promotion:** Lower tax rates can increase post-tax returns and encourage private investment.
2. **Manufacturing competitiveness:** A predictable tax regime can attract domestic and foreign investment.
3. **Capital formation:** Retained earnings can support capacity expansion, modernisation and research.

4. **Formalisation:** A competitive tax structure can encourage businesses to operate within the formal economy.

Limitations and Concerns

- **Employment uncertainty:** Firms may use additional profits for automation, debt repayment or shareholder returns rather than hiring.
- **Fiscal implications:** Tax concessions reduce potential government revenue available for public infrastructure and social expenditure.
- **Unequal benefits:** Large and profitable companies may benefit more than smaller enterprises with limited taxable income.
- **Investment bottlenecks:** Land, logistics, skilled labour and regulatory uncertainty can constrain investment despite lower taxes.

Way Forward

- Link production incentives with measurable outcomes such as employment, exports and domestic value addition.
- Strengthen MSMEs through credit access, technology adoption and market integration.
- Increase public investment in infrastructure, education and skill development.
- Encourage corporate spending on research, innovation and workforce development.
- Periodically evaluate tax incentives through transparent cost-benefit assessments.

Conclusion

Corporate tax policy should move beyond revenue concessions towards productive investment and inclusive growth. The ultimate measure of its success should be stronger industrial capacity, quality employment and improved global competitiveness.

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