Indian Economy · GS - III

Corporate tax concessions are often justified as instruments of investment promotion. However, their contribution to employment generation and wage growth depends on several intervening factors. Examine.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 22/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Corporate taxation, post-tax profitability, private investment, employment elasticity, capital-intensive production, wage growth, fiscal opportunity cost, performance-linked incentives.

Model Answer

Introduction

Corporate tax concessions are fiscal instruments intended to encourage investment, improve business competitiveness and stimulate economic activity. However, their benefits do not automatically translate into higher employment or wages.

Factors Determining Employment and Wage Outcomes

1. **Investment response:** Lower tax rates can increase retained earnings and encourage expansion, but outcomes depend on business confidence and demand.
2. **Nature of production:** Capital-intensive sectors may increase output without proportionate employment generation.

3. **Employment elasticity:** Labour-intensive industries generally offer greater potential for job creation per unit of investment.
4. **Wage distribution:** Higher corporate profitability does not necessarily translate into higher wages unless labour demand and bargaining conditions support wage growth.
5. **Fiscal opportunity cost:** Tax concessions reduce potential government revenue, affecting resources available for public investment and welfare.

Policy Measures

- Link selected incentives with measurable investment and employment outcomes.
- Strengthen labour-intensive manufacturing and MSME development.
- Improve skill development and labour productivity.
- Evaluate tax concessions through transparent cost-benefit assessments.
- Encourage formal employment and social security coverage.

Conclusion

Corporate tax incentives can support economic growth, but their effectiveness must be assessed through investment quality, employment creation and wage outcomes rather than profitability alone. A balanced fiscal strategy should align private-sector incentives with broader developmental objectives.

BECOME IAS
AI POWERED UPSC PREP