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Corporate Taxation Reform: The Impact of Tax Incentives on Corporate Tax Revenue during Pre -And Post- Liberalization Periods

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ABSTRACT: India's corporate taxation system has undergone significant transformation since the economic liberalization reforms of 1991. Prior to liberalization, the corporate tax structure was characterized by high tax rates, complex regulations, and limited incentives, which often discouraged investment and industrial growth. In contrast, the post-liberalization period witnessed major reforms aimed at simplifying tax policies, reducing corporate tax rates, and introducing various tax incentives to promote investment, manufacturing, employment generation, and economic development. While these reforms were intended to enhance competitiveness and stimulate economic activity, they also resulted in substantial revenue foregone, raising concerns regarding their overall effectiveness and fiscal sustainability.

This study examines the impact of corporate tax incentives on corporate tax revenue in India by conducting a comparative analysis of the pre- and post-liberalization periods. Using secondary data from government publications, budget documents, and economic surveys, the research analyses trends in corporate tax collection, tax-to-GDP ratios, and the magnitude of revenue forgone due to incentives. The findings indicate that although post-liberalization reforms have improved tax compliance, expanded the tax base, and encouraged corporate investment, the expected proportional increase in tax revenue has not been fully realized. Instead, generous tax incentives and rate reductions have led to significant revenue losses, placing pressure on fiscal resources.

The study highlights the need for a balanced corporate tax policy that promotes economic growth while ensuring adequate revenue mobilization. It suggests that tax incentives should be carefully targeted, periodically reviewed, and aligned with measurable economic outcomes. The research contributes to the ongoing policy debate by providing insights into the trade-offs between growth-oriented tax reforms and fiscal sustainability, thereby offering valuable guidance for future corporate tax policy formulation in India.

KEYWORDS: Corporate Taxation Reform, Tax Incentives, Corporate Tax Revenue, Revenue Foregone, Tax-to-GDP Ratio, Economic Liberalization, Fiscal Sustainability, India.

I. INTRODUCTION

Corporate taxation plays a crucial role in shaping a country's economic development, investment climate, and fiscal stability. It serves not only as a significant source of government revenue but also as a powerful policy instrument used to influence business behaviour, promote industrial growth, and attract domestic as well as foreign investment. In developing economies like India, corporate tax policy holds even greater importance, as it must strike a careful balance between encouraging business expansion and ensuring sufficient revenue to fund public welfare and infrastructure development. Over the decades, India's corporate taxation framework has undergone profound changes, particularly after the economic liberalization reforms of 1991. These reforms marked a clear shift from a highly regulated, inward-looking economic model to a more open, market-driven approach, fundamentally altering the structure, rates, and incentive mechanisms of corporate taxation.

Despite extensive corporate tax reforms and the introduction of numerous tax incentives in the post-liberalization period, India's corporate tax revenue performance has remained relatively stagnant in relation to GDP. While incentives were designed to stimulate investment, industrial growth, and employment, they have also resulted in substantial revenue foregone, raising concerns about fiscal sustainability and policy efficiency. The central problem addressed in



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this study is whether corporate tax incentives have effectively contributed to enhanced revenue mobilization and economic growth, or whether they primarily lead to revenue losses without commensurate long-term benefits. This research seeks to critically examine the impact of corporate tax incentives on revenue outcomes during pre- and post-liberalization periods in India.

The primary objective of this study is to examine the impact of corporate taxation reforms and tax incentives on corporate tax revenue in India by comparing the pre- and post-liberalization periods. The research aims to analyse the changes in corporate tax structure, rates, and incentive policies over time and assess their influence on revenue generation, tax compliance, and overall fiscal performance. It also seeks to evaluate the extent of revenue foregone due to tax incentives and to understand whether such incentives have effectively contributed to investment growth, industrial development, and economic expansion. By conducting a comparative and trend-based analysis, the study intends to identify key policy outcomes, challenges, and gaps, and to provide meaningful insights that can support the formulation of a balanced and sustainable corporate tax policy framework in India.

II. REVIEW OF LITERATURE

The evolution of corporate tax reforms in India reflects a transition from a complex, high-rate tax regime in the pre-liberalization period to a more simplified and growth-oriented framework after 1991. Before liberalization, corporate taxation was characterized by high statutory rates, multiple exemptions, and administrative inefficiencies, which constrained investment and reduced compliance. Post-liberalization reforms focused on rationalizing tax rates, broadening the tax base, and improving administrative efficiency to enhance revenue productivity. Although these reforms improved compliance and investment climate, excessive reliance on tax incentives weakened the overall revenue potential. The study emphasized the importance of balancing growth promotion with effective revenue mobilization for sustainable fiscal management. Rao & Rao, 2005

Corporate taxation serves as a major source of revenue in developing countries, yet the structure and design of tax incentives significantly influence revenue outcomes. While incentives are often introduced to attract investment and stimulate economic activity, they can erode the tax base if not carefully designed. Evidence suggests that moderate tax rates combined with a broader tax base are more effective in generating stable long-term revenue than aggressive incentive-driven policies. The study highlighted that excessive exemptions reduce transparency and undermine fiscal sustainability. Bird & Zolt, 2005

Tax incentives are commonly used as policy tools to attract domestic and foreign investment. Empirical findings indicate that although such incentives may encourage short-term capital inflows, their long-term contribution to sustainable revenue growth remains limited. The study found that poorly targeted incentives often lead to significant revenue losses without proportionate economic benefits. It recommended performance-based and carefully monitored incentive structures to reduce fiscal risks while supporting development objectives. Klemm & Van Parys, 2012

Post-liberalization corporate tax reforms in India improved tax compliance and revenue productivity through modernization and simplification. However, large-scale exemptions and deductions significantly reduced potential revenue gains. The rising magnitude of revenue foregone raised concerns about fiscal sustainability and long-term efficiency. The study emphasized the need for periodic evaluation and rationalization of tax incentives to ensure transparency and accountability in fiscal policy. Gupta, 2015

The transformation of corporate tax structures before and after economic liberalization reflects a shift toward efficiency and competitiveness. Fiscal concessions influenced sector-specific investments, particularly in priority industries. However, the broader impact on employment generation and productivity growth was limited. The findings suggested that incentives should be aligned with long-term developmental goals rather than short-term investment gains. Purohit, 2006

High corporate tax rates tend to distort investment decisions and discourage compliance. Evidence shows that moderate tax rates with minimal exemptions improve economic efficiency and revenue stability. Excessive tax incentives can create administrative complexity and reduce overall revenue performance. A simplified tax structure with fewer distortions was recommended for sustainable fiscal outcomes. Auerbach & Hines, 2002



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tax incentives are frequently used to attract foreign direct investment, particularly in developing economies. While such measures may influence investment decisions, their effectiveness is often overstated. The fiscal cost associated with revenue loss can outweigh the benefits if incentives are not supported by adequate infrastructure and institutional stability. The study recommended strengthening non-tax factors rather than relying heavily on fiscal concessions. Zee, Stotsky & Ley, 2002

Simplification of tax laws and improved administrative mechanisms enhanced compliance and strengthened revenue performance in India. However, continued use of exemptions and sector-specific incentives constrained the growth of the corporate tax-to-GDP ratio. The study stressed the importance of strengthening tax administration and minimizing distortions to improve long-term revenue buoyancy. Das-Gupta & Gang, 2003

Corporate tax reforms contributed to improving India's investment climate and competitiveness. Nevertheless, significant revenue foregone due to exemptions created fiscal pressure. The findings suggested gradual withdrawal of inefficient concessions and stronger monitoring mechanisms to maintain fiscal discipline while supporting industrial development. Mohan & Kapur, 2015

Simpler and transparent tax structures positively influence compliance behaviour and revenue outcomes. Complex incentive-based systems increase administrative costs and create opportunities for tax avoidance. The study emphasized that streamlined policies with reduced exemptions enhance efficiency and strengthen fiscal performance, particularly in developing economies. Slemrod, 1995

Investment responsiveness to tax rate changes is moderate, whereas revenue loss from extensive incentives can be substantial. The study found that the elasticity of corporate tax bases to incentives is limited, making excessive concessions fiscally costly. It recommended careful design and evaluation of sector-specific incentives to prevent unnecessary fiscal sacrifice. De Mooij & Ederveen, 2008

Developing countries often face a dilemma between offering tax incentives and broadening the tax base. Excessive reliance on exemptions weakens fiscal sustainability and reduces transparency. Strengthening compliance systems and minimizing concessions were identified as more effective strategies for improving revenue performance. Keen & Simone, 2004

Weak institutional capacity combined with generous tax concessions reduces corporate tax collections in developing economies. Improved governance, administrative reforms, and better enforcement mechanisms were found to be more effective than incentive-driven approaches in enhancing revenue efficiency and equity. Gordon & Li, 2009

Complex tax systems with multiple exemptions increase the risk of evasion and reduce revenue efficiency. Simplification of tax laws and reduction of unnecessary incentives strengthen compliance and improve fiscal outcomes. The study supported a balanced approach combining moderate rates with strong administrative capacity. Alm, Martinez-Vazquez & Schneider, 2004

Post-liberalization tax reforms improved administrative efficiency and compliance levels in India. However, the corporate tax-to-GDP ratio did not increase proportionately with economic growth, partly due to widespread incentives. The study concluded that rationalizing exemptions and strengthening compliance frameworks are essential for long-term fiscal sustainability. Chakraborty & Mukherjee, 2019

III. RESEARCH METHODOLOGY

The present study adopts a descriptive and analytical research design to examine the impact of corporate taxation reforms and tax incentives on corporate tax revenue in India during the pre- and post-liberalization periods. The study is primarily based on secondary data collected from reliable and authentic sources such as the Union Budget documents, Economic Surveys of India, reports of the Ministry of Finance, Reserve Bank of India (RBI) annual reports, National Institute of Public Finance and Policy (NIPFP) publications, and World Bank databases. The time frame of the study spans from 1980 to 2025, enabling a comprehensive comparison between the pre-liberalization (1980–1991) and post-liberalization (1991–2025) periods. The sample for the study consists of annual macro-level data on corporate tax rates, corporate tax revenue, revenue foregone due to tax incentives, corporate tax-to-GDP ratio, and selected



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macroeconomic indicators such as GDP growth and investment levels. The data set has been carefully chosen to ensure consistency, reliability, and comparability across time periods.

To empirically test the impact of corporate tax incentives on corporate tax revenue, the study formulates the following hypotheses: H_0 : Corporate tax incentives have no significant impact on corporate tax revenue in India; and H_1 : Corporate tax incentives have a significant impact on corporate tax revenue in India. In addition, a comparative hypothesis is tested to examine whether post-liberalization reforms have significantly improved corporate tax revenue performance relative to the pre-liberalization period. The analytical framework employs both descriptive and inferential statistical tools. Descriptive techniques such as percentages, averages, growth rates, trend analysis, and graphical representation are used to examine long-term patterns in corporate tax collections and revenue foregone. Inferential tools such as correlation analysis, regression analysis, and paired sample t-tests are employed to test the formulated hypotheses and assess the statistical significance of the relationship between tax incentives and revenue outcomes.

The data analysis focuses on identifying structural shifts in corporate tax revenue trends across the two periods and evaluating the fiscal implications of incentive-driven policies. Trend analysis is used to observe changes in corporate tax-to-GDP ratios, while regression models estimate the effect of tax incentives on revenue mobilization, controlling for macroeconomic growth. Comparative analysis is conducted to assess the differential performance of corporate taxation in the pre- and post-liberalization eras. The results are interpreted in light of economic theory and policy objectives to derive meaningful conclusions and practical policy recommendations. This methodological approach ensures analytical rigor, reliability of results, and relevance for policy formulation

IV. SECONDARY DATA, STATISTICAL ANALYSIS AND GRAPHICAL REPRESENTATION

The secondary data for the present study has been collected from reliable and authoritative sources such as the Union Budget documents, Economic Survey of India, Central Board of Direct Taxes (CBDT) reports, Reserve Bank of India (RBI) annual reports, Ministry of Finance tax expenditure statements, and published research studies and policy reports. The data mainly focuses on corporate tax revenue, corporate tax rate changes, revenue foregone due to tax incentives, and corporate tax-to-GDP ratio over the period 1990–2024, covering both pre-liberalization and post-liberalization phases.

Table 1 – Trend of corporate tax revenue

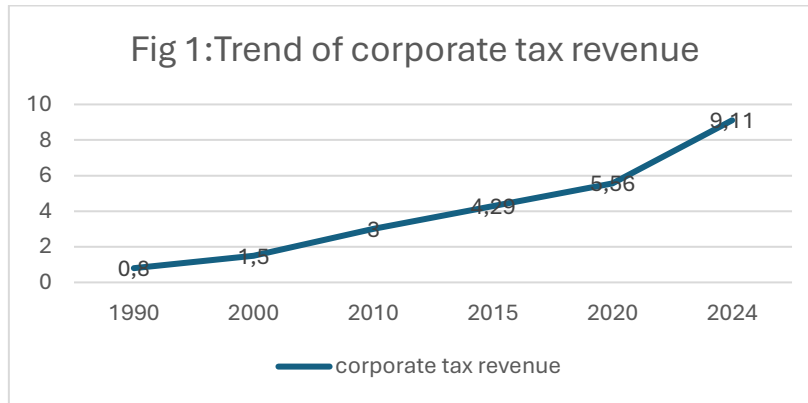
year	Corporate tax revenue
1990	0.80
2000	1.5
2010	3
2015	4.29
2020	5.56
2024	9.11

Source: Reserve Bank of India (RBI), Handbook of Statistics on Indian Economy, various issues; Ministry of Finance, Union Budget Documents, Government of India.



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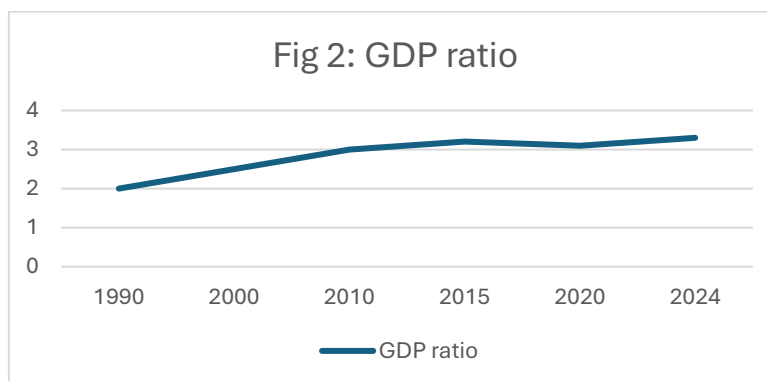
The above table clearly indicates a consistent increase in corporate tax revenue in absolute terms over the study period. During the pre-liberalization period, corporate tax collections were relatively low due to high tax rates, complex procedures, and limited compliance. In 1990, corporate tax revenue stood at ₹0.80 lakh crore, reflecting the inefficiencies of the old taxation regime.

Post-liberalization reforms brought moderate tax rates, improved compliance, digitization, and tax base expansion, leading to steady growth in collections. By 2015, corporate tax revenue had increased to ₹4.29 lakh crore, and further rose to ₹5.56 lakh crore in 2020, despite economic slowdowns. By 2024, corporate tax revenue reached ₹9.11 lakh crore, indicating strong recovery and improved corporate profitability

Table 2- Corporate Tax to GDP ratio trend in India

Year	Corporate Tax to GDP ratio
1990	2.0
2000	2.5
2010	3.0
2015	3.2
2020	3.1
2024	3.3

Source: Economic Survey of India (various years); Reserve Bank of India Database; World Bank World Development Indicators.



The graph shows a gradual increase in corporate tax to GDP ratio from about 2.0% in 1990 to around 3.3% in 2024. This upward movement reflects the positive impact of post-liberalization reforms, improved tax compliance, digitization, and expansion of the corporate sector. However, the growth remains moderate and relatively stagnant around 3–3.5%, indicating that corporate tax revenue has not grown proportionately with GDP. This stagnation



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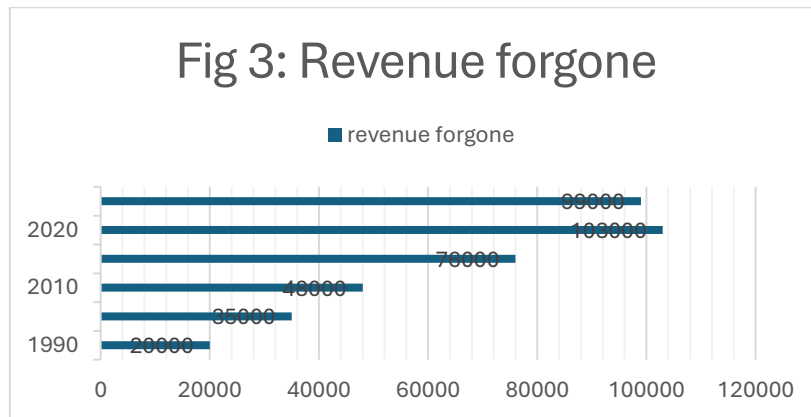
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highlights the dampening effect of extensive tax incentives and exemptions, which have constrained revenue buoyancy despite strong economic expansion.

Table 3- Revenue Foregone due to corporate tax incentives

Year	Revenue forgone
1990	20000
2000	35000
2010	48000
2015	76000
2020	103000
2024	99000

Source: Ministry of Finance, Statement of Revenue Foregone (Tax Expenditure Statement), Union Budget Documents.



The graph highlights a sharp rise in revenue foregone due to corporate tax incentives, increasing from about ₹20,000 crore in 1990 to over ₹1,00,000 crore by 2020, and remaining close to ₹99,000 crore in 2024. This steep upward trend reflects the growing reliance on tax incentives, deductions, and rate reductions to promote industrial development and investment. While such incentives may have supported business growth, the large fiscal cost raises concerns regarding efficiency, equity, and long-term fiscal sustainability. The findings suggest the need for rationalization and performance-based evaluation of incentive policies.

Table 4- Pre vs Post liberalisation comparison of corporate tax revenue

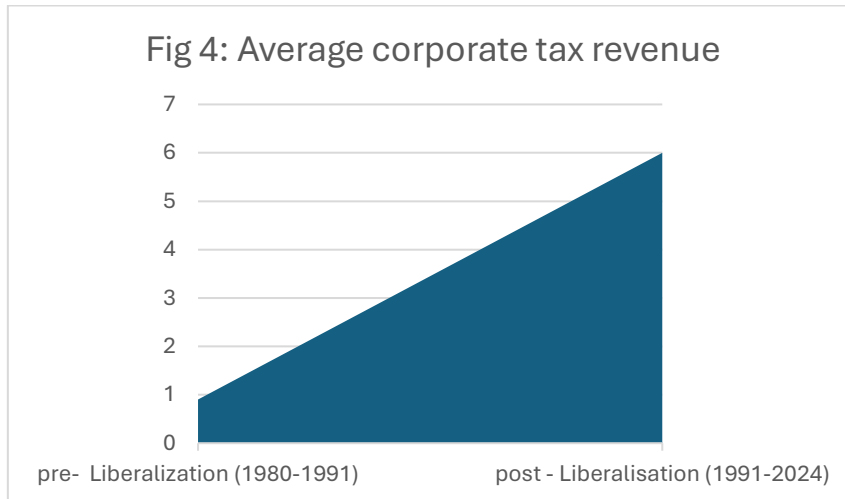
period	Average corporate tax revenue
Pre-liberalization (1980-1991)	0.9
Post-liberalization (1991-2024)	6

Source: Author’s calculation based on RBI (various years) and Ministry of Finance (various years).



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The bar graph clearly demonstrates a significant improvement in corporate tax revenue in the post-liberalization period compared to the pre-liberalization era. Average corporate tax revenue increased nearly six times, reflecting improved economic growth, better compliance mechanisms, tax base expansion, and modernization of tax administration. However, when evaluated relative to GDP growth, the improvement appears less pronounced, indicating that tax incentives and exemptions have offset potential revenue gains. This comparison emphasizes the need for balanced tax policies that promote growth while protecting fiscal capacity.

V. DISCUSSION

The primary objective of this study was to examine the impact of corporate taxation reforms and tax incentives on corporate tax revenue in India by comparing the pre- and post-liberalization periods. The analysis was aimed at understanding whether tax incentives and reduced tax rates have successfully enhanced revenue performance while promoting economic growth. The findings reveal that post-liberalization reforms have led to a substantial increase in corporate tax collections in absolute terms, supported by improved compliance, digitalization of tax administration, expansion of the corporate sector, and sustained economic growth. However, despite this upward trend in collections, corporate tax revenue as a percentage of GDP has remained largely stagnant, indicating limited revenue buoyancy.

The empirical results suggest that the widespread use of tax incentives, deductions, and exemptions has significantly reduced potential revenue gains. While such incentives were introduced to encourage industrial investment, export promotion, infrastructure development, and employment generation, their fiscal cost has been considerable. The rising magnitude of revenue foregone, which has crossed ₹99,000 crore in recent years, raises concerns about the efficiency and sustainability of incentive-based tax policies. The comparative analysis of pre- and post-liberalization periods demonstrates that although revenue performance has improved in the latter phase, the proportional benefits relative to economic expansion remain constrained.

The study further highlights that tax incentives have yielded mixed economic outcomes. Certain sectors, particularly manufacturing, information technology, and infrastructure, have benefited from fiscal concessions, leading to higher investment inflows and enhanced competitiveness. However, these gains have not uniformly translated into broad-based employment generation or long-term productivity improvements. This indicates that tax incentives alone cannot drive sustainable economic development and must be complemented by supportive infrastructure, regulatory stability, skilled workforce availability, and efficient governance.

The key contribution of this research lies in its comprehensive comparative framework, which integrates fiscal performance indicators with policy outcomes over a longtime horizon. By systematically analysing corporate tax revenue trends alongside revenue foregone and tax-to-GDP ratios, the study provides valuable insights into the trade-offs inherent in corporate tax policy formulation. It offers evidence-based guidance for policymakers to reassess the design, scope, and effectiveness of tax incentives.



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The findings underline the urgent need for rationalizing corporate tax incentives through periodic evaluation, outcome-based policy design, and greater transparency. A balanced tax framework that emphasizes moderate tax rates, a broad tax base, simplified compliance procedures, and targeted incentives can enhance both growth and fiscal sustainability. Such an approach would enable India to achieve its development objectives while maintaining stable and adequate revenue mobilization, thereby strengthening the overall effectiveness of its corporate taxation system.

VI. CONCLUSION

The study concludes that corporate taxation reforms in India have played a significant role in improving tax compliance, enhancing investment attractiveness, and increasing corporate tax collections in absolute terms during the post-liberalization period. However, the persistent stagnation of the corporate tax-to-GDP ratio and the rising magnitude of revenue foregone due to extensive tax incentives indicate that the expected fiscal gains have not been fully realized. While tax incentives have supported growth in select sectors, their long-term effectiveness and fiscal sustainability remain questionable, emphasizing the need for rationalization and targeted policy design. Looking ahead, there is considerable scope for future reforms that focus on broadening the tax base, simplifying tax structures, enhancing digital compliance mechanisms, and adopting outcome-based incentive frameworks. Future research can explore sector-specific impacts of tax incentives, assess long-term employment and productivity effects, and conduct cross-country comparative analyses to derive best practices. Such efforts would contribute to designing a more efficient, equitable, and sustainable corporate taxation system capable of supporting India's long-term economic development goals.

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