



Corporate Tax

For Prelims: Corporate Tax, Gross Domestic Product (GDP), Minimum Alternate Tax (MAT)

For Mains: Significance of Corporate tax, Minimum Alternate Tax (MAT) and its impact on the Indian economy.

Why In News?

Recently, [corporate tax collections](#) exceeded **3% of the GDP** after a gap of two years in **2021-22**.

- It is reflecting overall improvement in profitability of India Inc propelled by an **increase in demand for goods and services**.
- However, the **corporate tax collection** is yet to surpass its five-year high of 3.51% of GDP recorded in 2018-19.

What are the Key Highlights?

- In actual terms, the **net corporate tax collection** in **2021-22** stood at **Rs 7.12 lakh crore**.
- The [Gross Domestic Product \(GDP\)](#) at the current market price was **Rs 236.64 lakh crore**.
- The **percentage of net corporate tax to GDP** worked out to be **3.01%**.
- In 2019-20, government cut corporate tax rates for new manufacturing units by almost **10% points** as it looked to pep up investments.
- The rate of [Minimum Alternate Tax \(MAT\)](#) too had been reduced to **15 %** from **18.5 %** in 2019.
 - The **Minimum Alternate Tax** is a strategy designed to close the **income tax loophole** for all businesses. The **MAT** makes sure that no business, even one with **strong financial standing** and **significant revenue**, may escape paying income tax, even after claiming exemptions.
- The **tax cut** was reflected in the realization of **corporate taxes** in **2019-20**, when collections fell to over **Rs 5.56 lakh crore (2.77% of GDP)**.

What is the Corporate Tax?

- **Corporation tax** is payable by both **public and private companies** registered in India under the [Companies Act 1956](#).
- **Corporation tax** is a **direct tax** placed on a company's net income or profit from its operations.
 - The tax is imposed on the **net profits of the corporation**, which is calculated by subtracting allowable expenses such as the cost of goods sold, operating expenses, and depreciation from the corporation's total revenue.

What is the Significance of Corporate Tax?

- **Corporate tax** is an **important source of revenue** for governments, as it helps to fund **public goods and services** such as **schools, hospitals, roads, and defense**.
- **Corporate tax** also plays a role in **redistributing wealth** and **addressing income inequality**,

as it imposes a **higher tax burden** on corporations that are more profitable.

- In addition, **corporate tax** can also have other **economic and social impacts**.
 - **For example, corporate tax** can affect the **competitiveness of businesses**, as a **higher corporate tax rate** may make a country or region less attractive for investment compared to other jurisdictions with **lower tax rates**.
- **Corporate tax** can also influence the **location** and **type of businesses** that operate in a jurisdiction, as businesses may be more or less likely to invest in a particular area depending on the **tax environment**.

Conclusion

Overall, the importance of corporate tax depends on the specific context and goals of the government and the society. Some may view corporate tax as a necessary tool for financing public goods and promoting social justice, while others may view it as a burden on businesses and a deterrent to economic growth.

[Source: IE](#)

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