

Ending the race to the bottom on corporate tax rate is a matter of urgency. Discuss

Direct taxes such as Corporate tax are progressive in nature as it lessens income inequality and also forms a major share to fund several social schemes run by the government.

Developing countries like India are caught up in the race to the bottom on Corporate taxes in favour of boosting investments & increasing economic activities. Developed countries like USA are decreasing corporate tax rates due to protectionism. However, such a race serves no substantial purpose as —

⇒ Income inequality is worsening and taxes reduced are fueling pay hikes only to senior management.

⇒ For governments to continue social schemes, the pressure of funding may be shifted on indirect taxes that are regressive in nature.

⇒ It may create a space for the rise of autocratic corporate houses, leaving the spirit of democracy in danger.

• On the contrary, World Inequality Report 2023 suggests that taxing the riches ~~at~~ high will not be wise as —

It will create lesser incentive to produce as before. Also, investors will look to pull out for lack of desirable returns.

In case of higher corporate taxes, the companies scout for tax avoidance through tax havens, which amounts to loss to government's treasury.

Supporting the race to bottom on corporate tax is socially, politically bad for the government whereas keeping the corporate tax high ~~is~~ will hurt the state economically. Therefore, the government must look beyond taxes and provide education, healthcare for all to level the playing field.