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Corporate Taxation Law in India: Structure, Judicial Trends and the Shift to a New Income-Tax Act

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***Abstract*—Corporate tax sits at the point where a country's need for revenue meets a company's need for certainty. This paper examines how India taxes companies, starting with the basis of charge and the rules on residence, and then moving to the choice between concessional and regular regimes, the anti-avoidance toolkit, and the international pressures created by treaty abuse, base erosion and the global minimum tax. It follows the courts' shifting view of tax planning, from McDowell to Azadi Bachao to the Vodafone controversy and its settlement in 2021. It also looks at the Income-tax Act, 2025, which replaced the 1961 Act from 1 April 2026. The study finds that rates have become simpler and more competitive, but disputes, retrospective-style amendments and compliance burdens still weaken predictability. The paper ends with practical suggestions to improve stability and trust.**

***Index Terms*—Anti-avoidance rules, Base erosion, Corporate taxation, Income-tax Act 2025, Residence, Tax disputes, Transfer pricing.**

I. INTRODUCTION

Few areas of law are read as closely by company boards as corporate tax. A single change in rate, a new anti-avoidance rule or a court ruling on one clause can alter the economics of a deal worth thousands of crores. Governments, for their part, depend on the corporate tax base to fund public spending and are wary of firms that shift profits to places where little tax is paid [11].

India has spent the last decade trying to do two things at once: lower and simplify the headline rate so that the country looks attractive to investors, and tighten the rules against aggressive planning. The two aims do not always sit comfortably together. This paper asks how well the Indian system balances them. It reviews the statutory scheme, the main judicial turning points and the international developments that now shape domestic policy.

The method is doctrinal. The paper relies on the Income-tax Act, 1961 [2], the Income-tax Act, 2025 [1], amending statutes [3], [4], [12], decisions of the Supreme Court [5]–[7], arbitral awards [8], OECD instruments [9], [10] and academic commentary [11].

II. BASIS OF CHARGE

A. Residence and Source

Indian tax follows a familiar pattern. A resident company is taxed on its worldwide income, while a non-resident company is taxed only on income that accrues or arises in India, or is received here. A company counts as resident if it is incorporated in India or, for a foreign company, if its place of effective management is in India [2]. The second test matters because it looks past the registration certificate and asks where the key decisions are really taken.

B. The Income-tax Act, 2025

After more than sixty years and countless amendments, the 1961 Act had become hard to read even for specialists. Parliament therefore passed the Income-tax Act, 2025, which received assent in August 2025 and applies from 1 April 2026 [1]. It reorganises the law into fewer sections and chapters, and it replaces the dual concepts of "previous year" and "assessment year" with a single "tax year". The Government has described the exercise as one of simplification and not of changing rates. For companies, the practical effect is mainly on compliance: new section numbers, forms and reporting references, while proceedings relating to earlier years continue under the old Act.

III. RATES AND REGIMES

The 2019 reform created an option that changed corporate behaviour. Under the Taxation Laws (Amendment) Act, 2019, a domestic company could choose a lower flat rate on condition that it gave up most exemptions and incentives [3]. Many companies, especially those with few deductions left, took the offer. Table I summarises the main categories.

TABLE I
CORPORATE TAX CATEGORIES (BASE RATES)

Category	Base rate and note
Domestic, concessional (s. 115BAA of 1961 Act)	22%; no specified incentives; roughly 25.17% with surcharge and cess
New manufacturing units (s. 115BAB)	15%, for units that met the commencement window
Domestic, regular regime	25% or 30% depending on turnover; incentives allowed
Foreign company	35% (reduced from 40% in 2024) [12]

Companies in the concessional regimes stand outside minimum alternate tax, which was designed to catch profitable companies that paid little because of deductions. The choice, in short, is a trade: a lower rate against the loss of incentives. It rewards businesses with simple structures and penalises those with large carried-forward benefits, so each company must model its own position before opting in. Section references above are those of the 1961 Act; the 2025 Act carries the same rate structure into renumbered provisions [1].

IV. ANTI-AVOIDANCE AND THE COURTS

A. Form Versus Substance

The Supreme Court's thinking on tax planning has swung like a pendulum. In *McDowell & Co. v. CTO*, the Court was openly hostile to colourable devices and spoke of the "morality" of tax payment [7]. A later Bench in *Union of India v. Azadi Bachao Andolan* pulled back, holding that a transaction is not illegitimate merely because it reduces tax, and upheld treaty shopping through Mauritius as a legitimate use of the treaty [6]. The practical lesson was that, absent a statutory rule, courts would respect the form of lawful transactions.

B. The Vodafone Episode

The best-known test of this idea came in *Vodafone International Holdings v. Union of India*, where the Supreme Court held in 2012 that the offshore sale of shares in a foreign holding company was not taxable in India merely because the underlying assets lay here [5]. Parliament answered within months by amending the law with retrospective effect to reach such indirect transfers. The reaction abroad was sharp, and two investment treaty tribunals later ruled against India in the Vodafone and Cairn disputes [8]. In 2021 Parliament withdrew the retrospective demands, subject to conditions, through the Taxation Laws (Amendment) Act, 2021 [4]. The episode remains the standard example of how retrospective legislation can damage a country's reputation for certainty.

C. The General Anti-Avoidance Rule

Since 2017 India has had a statutory General Anti-Avoidance Rule in Chapter X-A of the 1961 Act, allowing the authorities to disregard arrangements whose main purpose is to obtain a tax benefit and which lack commercial substance [2]. It is meant to be a rule of last resort, supported by an approving panel. Its real effect is largely preventive, since companies now document the business reasons for structures more carefully than they once did.

V. THE INTERNATIONAL DIMENSION

India taxes cross-border profits through a web of double tax treaties, which have been updated by the OECD's multilateral instrument against treaty abuse [10]. Transfer pricing rules require related-party transactions to be priced as if the parties were independent, and they generate a large share of tax disputes. A more recent shift is the global agreement on a minimum effective tax of 15 percent for large multinational groups, known as Pillar Two [9]. Unilateral digital measures such as India's equalisation levy on online services were introduced to capture value from the digital economy and have since been withdrawn as part of the wider international settlement. How India will align its domestic law with Pillar Two, and how it will protect its investment incentives in the process, are still being debated.

VI. CONTINUING CHALLENGES

Four problems keep returning.

1) *Litigation volume.* A very large number of appeals sit before the appellate authorities and tribunals. Settlement schemes, including the Vivad se Vishwas scheme of 2024, reduce the pile temporarily but do not remove its causes.
2) *Predictability.* Frequent mid-year changes and the memory of retrospective legislation make long-term investment planning harder [4], [5].
3) *Transfer pricing friction.* Differences over comparables and intra-group charges produce lengthy audits, even where no one alleges abuse.
4) *Transition costs.* The change to a new Act forces companies to rebuild systems, update contracts that cite old sections and train staff, with the risk of errors in the first year.

VII. SUGGESTIONS

A few measures would make the system steadier. First, the Government could commit, by policy statement or statute, not to enact retrospective charging provisions, and confine clarificatory amendments to genuine ambiguities. Second, a stronger advance ruling and pre-filing consultation process would let companies settle doubtful positions before they become disputes. Third, tribunals need more benches and clearer timelines so that appeals do not take a decade. Fourth, the Task Force that reviewed direct tax law in 2019 had urged simpler, more stable legislation [13], and the 2025 Act should be followed by a period of restraint in amendments so that taxpayers can learn it. Finally, India should publish a clear roadmap for implementing the global minimum tax, so that firms can plan investments with confidence.

VIII. CONCLUSION

Corporate tax in India is easier to understand than it was a decade ago. The headline rate is competitive, the option of a concessional regime is clear, and the new Act promises a tidier statute. Yet predictability, the quality that investors prize above almost any other, depends on more than rates. It depends on courts that decide cases quickly, on a legislature that avoids surprises and on administrators who apply rules consistently. If those conditions are met, the reform of 2025 will be remembered as the moment Indian corporate tax became both fair and dependable.

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