

Indian Government Taxation Model and Foreign Investment Opportunities

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ABSTRACT

The research paper is an effort to understand the current scenario of foreign investment in India along with various tax incentives available and its bearing on the investment decisions. In this paper we have tried to evaluate the foreign investment trend in India through understanding the relationship between the independent and dependent variables of foreign direct investment using regression. For the purpose of our study we have considered the tax rates and proportionate investments made in various sectors during the past three years. The variables considered include tax policy, infrastructure, and size of the market, population and foreign direct investment inflow. The results of the research predicts that India is one of the most successful place in terms of foreign investments being made and would soon emerge to a global leader in terms of favorable investment decision.

1. Introduction

Foreign investments in a country not only act as a catalyst to the process of development but also are a major source of non-debt source of finance. For a country where foreign investments are made, it contributes to the employment generation and also, achieving technical know-how. Countries having abundance of resources, less compliance process tempt to allure the MNCs (Multi-national companies) in investing their capital into the economy. In recent times, India has emerged to be one of the favorable destinations which lure the foreign companies to invest their capital in the Indian economy because of abundance of cheap labour available and relaxation in the legal compliance process. Major sectors are such as automobile, textile, real estate; insurance, etc. are being introduced to the periphery of foreign investments in order to enable job creation and overall economic development.

2. Review of Literature

- (Germany Japan Mauritius, 2018) in this research paper the researchers have determined the ease of doing business in India as compared to the global scenario, the arrangements between the Indian government and the foreign government and its implication on the foreign investments in India.
- (shah, 2018) in this research paper the researcher has analysed the potential consequences of the recently introduced e-commerce policy on the Indian retail sector and the future investments prospects associated with it.
- (Indexed, Lavanya, & Time, 2018) the study determines the effect of foreign investment on the automobile sector and also analyses the need of foreign direct investment in automobile sector by analysing the foreign investment inflows from 2000 to 2016.
- (Azhar & Marimuthu, 2012) in this research paper the researcher attempts to make an analysis of FDI in India and its impact on growth. It also focuses on the

determinants and needs of FDI, year-wise analysis, sectoral analysis and sources of FDI and reasons.

- (K.Rajalakshmi & Ramachandran, 2011) in this journal article the benefits of inflow of foreign capital in the automobile sector such as advanced technology, cost-effectiveness, and efficient manpower has been vividly indicated.
- (Mohammad Tariq Zafar, Ashfaq Ahmed, & Zafar, 2017) in this research paper the researchers have shown foreign investment's bearing on the Indian economy and the government's role in enticing the foreign investors through relaxations in the compliance process and tax exemptions.

3. Research Design

Scope of study

In the current dynamic market, Investor are on a voyage to explore new market arena's and markets which provide the most monetary and non- monetary benefits. But as a nation, how shall we determine that our policies our investment centric and what is the actual outcome from our Taxation policy for the same. In this research paper the current prospects of the government with regard to foreign investment will be studied and the relation between the government's taxation model and the foreign investments made in India with regard to different sectors such as automobile, textile, real estate, etc.

Statement of Problem:

- Foreign investment in India significantly affects the GDP and it is upon the government to make sure that the regulations in force does not hinder investor's interests; however the laws in force does not solve the purpose.
- The 1991 liberalisation policy set out the license to foreign investment, however even after more than two decades India seems to be in its cocoon and that the government policies effect to a great extent the decisions of the foreign investors.
- Investing their capital in a country seems beneficial only when the investors get cheap resources in

abundance and legal tax benefit; which is not witnessed in a resource rich economy like India. Investors are enticed when they are provided with less regulations and greater savings at their disposal; which seems to be a nightmare considering the current economic scenario.

Objective of study:

- To establish a direct relationship between both the two variable component.
- to understand the current revenue structure of the government and its consequential effect on the investment opportunities
- to evaluate the various tax incentives and reforms brought up for the betterment of the investors
- the effect of change in reforms and the amendments brought up by the government each year

Sources of data:

Secondary data has been used for this paper. The frequently used mode of collecting the secondary data is researchgate.net and some other legal and financial websites from where the appropriate data has been collected from.

Hypothesis:

- H(0): There exists no such relationship between Indian Government Taxation policy and the Foreign Direct Investment made in the economy.
- H(1): There exists is a relationship between Indian Government Taxation policy and the Foreign Direct Investment made in the economy, such that such policies have bearing over the decisions made by the foreign investors.

Expected outcome

- Investment decisions of the investors are effected by various other factors apart from their return on the investment.

- The tax incentive schemes introduced by the government have a profound impact on a rational investor's decisions.
- The various amendments in the foreign direct investment rates and rules are favourable in nature and have led to the creation of various opportunities for the investors to invest in the economy.
- Tax rates are higher in India in comparison to the global scenario especially in sectors such as automobiles, real estate, etc.
- Foreign direct investment inflow into India has made it one of the attractive places to invest, with investors confident about their investments made.

Limitations of the study

- The tax regime may not be steady because of change in government in power within the period of our study.
- Various manufacturers under the name of 'Made in India' actually assembling the products instead of manufacturing the parts locally and availing the tax incentive benefit.
- Some investors tend to have an edge over others in getting projects from the government because of the weakened political scenario in the country.
- Red tape in the country often obstructs the economic growth, as it becomes problematic for the investors to park their funds in the economy.

4. Method of Analysis

In this research, the data analysis is done through liner regression method and the significance of the ANNOVA is monitored throughout the outcomes. The alternate hypothesis is accepted only if the significance value is greater than 0.05.

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
Independent variable	39.4000	9.87269	3
Dependent variable	1.9600	.49790	3

Correlations

		Independent variable	Dependent variable
Pearson Correlation	Independent variable	1.000	.383
	Dependent variable	.383	1.000
Sig. (1-tailed)	Independent variable	.	.375
	Dependent variable	.375	.
N	Independent variable	3	3
	Dependent variable	3	3

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	Dependent_variable ^b	.	Enter

a. Dependent Variable: Independent_variable

b. All requested variables entered.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.383 ^a	.146	-.707	12.89942	.146	.172	1	1	.750

a. Predictors: (Constant), Dependent_variable

b. Dependent Variable: Independent_variable

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.545	1	28.545	.172	.750 ^b
	Residual	166.395	1	166.395		
	Total	194.940	2			

a. Dependent Variable: Independent_variable

b. Predictors: (Constant), Dependent_variable

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	24.528	36.671		.669	.625					
	Dependent_variable	7.588	18.320	.383	.414	.750	.383	.383	.383	1.000	1.000

a. Dependent Variable: Independent_variable

Collinearity Diagnostics^a

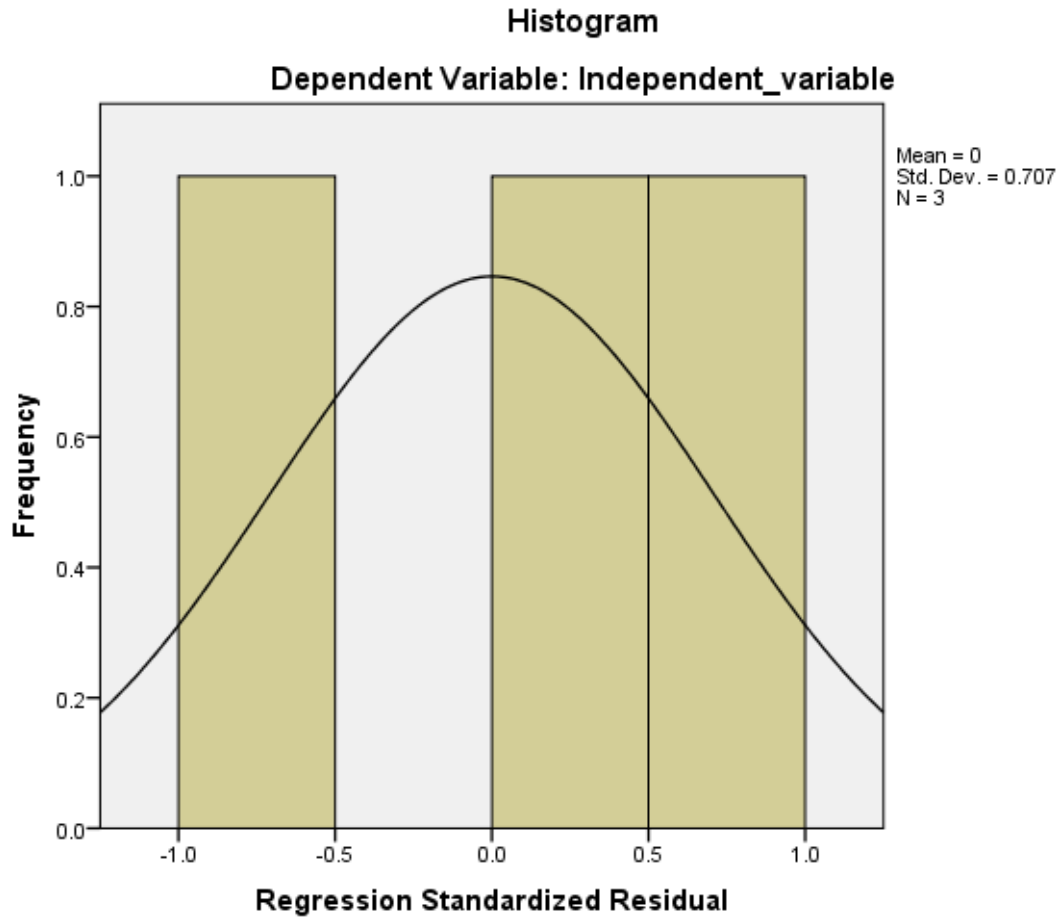
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	Dependent_variable
1	1	1.979	1.000	.01	.01
	2	.021	9.745	.99	.99

a. Dependent Variable: Independent_variable

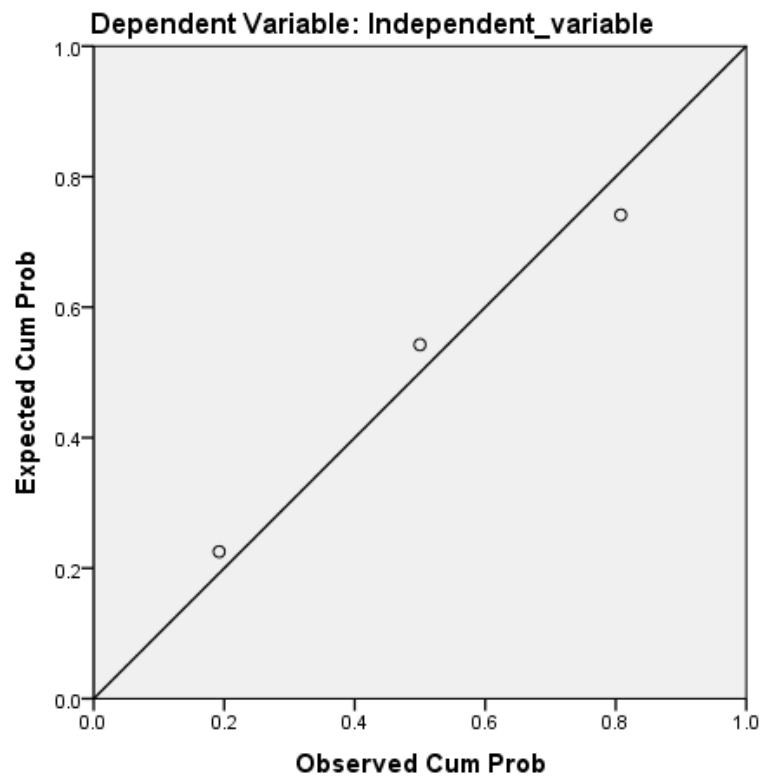
Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	36.7443	43.7250	39.4000	3.77790	3
Residual	-9.73070	8.35571	.00000	9.12126	3
Std. Predicted Value	-.703	1.145	.000	1.000	3
Std. Residual	-.754	.648	.000	.707	3

a. Dependent Variable: Independent_variable



Normal P-P Plot of Regression Standardized Residual



The significance of 0.750 in ANOVA shows that alternate hypothesis is accepted which means that the Indian government taxation model has significant impact on the foreign investment opportunities.

5. Conclusion

Foreign investments in India have been prominent since ages, when the East India Company started doing business in India. India being a resource rich country in terms of land, labour, material, etc., lures investors from all over the world and with the recent 'Make in India' initiative, loads of investments have been pumped into the economy; securing a favourable place for India in the global competitive scenario.

With more and more suppliers coming into the arena, quality products emerge as a result of stiff competition and have led to the development of domestic suppliers, as they become part of the larger quest to be the market leader and have competitive edge.

Based on the research and findings of the study Foreign investments are a blessing for India and have led it to become one of the most successful and top destinations, attracting foreign investments.

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