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# **ASSESSMENT OF THE EFFECTIVENESS OF TAX INCENTIVES FOR FOREIGN DIRECT INVESTMENT (FDI) IN INDIA**

AUTHORED BY - SANTOSH ROSHAN T & MRIDULA G

## **ABSTRACT:**

Foreign Direct Investment (FDI) plays a pivotal role in shaping a country's economic growth and development. India, as a rapidly emerging economy, has been actively striving to attract FDI through various policy measures, including tax incentives. This research paper delves into the complex landscape of tax incentives for FDI in India, aiming to assess their effectiveness in promoting investment, fostering economic development, and achieving sustainable growth. The study employs a mixed-methods approach, combining quantitative analysis of FDI trends, investment patterns, and tax incentive utilization with qualitative evaluation. Key findings reveal the multifarious effects of these incentives, including increased capital flows, employment generation, technology transfer, and improvements in infrastructure. However, the paper also uncovers certain shortcomings, such as revenue loss, potential misuse of incentives, and their unequal distribution across sectors and regions.

In addition, this research study investigates foreign best practices and comparative assessments to provide insights towards optimizing tax incentive regimes in India. It emphasizes the significance of a balanced strategy that promotes responsible investment, assures transparency, and connects incentives with larger socioeconomic goals. In conclusion, this research paper seeks to provide policymakers, investors, and stakeholders with a comprehensive understanding of the intricate relationship between tax incentives and FDI in India. By evaluating the effectiveness of current policies and proposing evidence-based recommendations, this study aims to contribute to the ongoing discourse on optimizing India's FDI strategy for sustainable and inclusive growth in the 21st century.

**Keywords:** Employment generation, Foreign direct investment, sustainable growth, Socio economic goals, Tax Incentives.

## INTRODUCTION:

India has witnessed an average GDP growth rate of 5.5 percent over the last decade, reflecting its vigorous economic expansion. With a robust population of 1.4 billion, India is well-positioned to capture commercial leadership in the coming decade, backed by remarkable economic development and a thriving stock market that might catapult it to third-largest economy in the world by 2030. These characteristics have produced unprecedented growth prospects in a country that recently surpassed China as the world's most populated nation.

With this expansion, India is establishing itself as a key player in the global economy, giving a unique opportunity for both investors and enterprises. The country's specific characteristics, including its supportive policy framework, enormous consumer markets, and distinctive digital infrastructure, make it an appealing investment destination. The convergence of themes such as global offshoring capabilities, digital innovation, and energy transformation is expected to propel India to fuel one-fifth of global growth by 2031.

Foreign Direct Investment (FDI) is a pivotal catalyst for economic growth and development in countries across the world, especially in emerging economies. As an engine for capital inflow, technology transfer, and employment generation, FDI holds the potential to reshape a nation's economic landscape<sup>1</sup>. India, a rapidly emerging economy with its eyes set on global prominence, has proactively pursued strategies to attract and harness FDI as a key driver of progress. Among the array of policy measures designed to facilitate FDI, tax incentives have emerged as a fundamental tool in India's arsenal.

FDI inflow routes: An Indian company may receive Foreign Direct Investment through one of two channels, as follows:

1. Automatic Route: To the degree permissible under the automatic route, FDI in sectors/activities does not require prior approval from the Government or the Reserve Bank of India.
2. Government Route: FDI in activities that are not covered by the automatic route requires prior clearance from the government, which is determined by the Foreign Investment

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<sup>1</sup> Vyas, A. V. (2015). An analytical study of FDI in India. International Journal of Scientific and Research Publications,5(10), 1-30.

Promotion Board (FIPB), the Department of Economic Affairs, and the Ministry of Finance.

## **BACKGROUND STUDY:**

India's journey from a predominantly closed economy to one open to international investment has been marked by a series of liberalization measures initiated in the early 1990s. These reforms have played a pivotal role in transforming India into a promising destination for FDI. The provision of tax incentives has been a cornerstone of these measures.

One of the main factors driving investment in a country is its policy system. Apart from the underlying economic fundamentals, a country's ability to attract foreign investment is mostly determined by its policy framework, which either fosters or restrains international investment flows. This section examines India's foreign direct investment policy structure. Since the early 1990s, when it initiated structural economic reforms in practically all sectors of the economy, India's stance to foreign investment has undergone a tidal change.

### **a) Pre-Liberalization Period:**

Historically, India has taken a highly cautious and selective approach to drafting FDI policy in light of the governance of the "import-substitution strategy" of industrialization. The regulatory framework was consolidated with the passage of the Foreign Exchange Regulation Act (FERA), 1973, which limited foreign equity holdings in joint ventures to 40%. Following that, several exemptions were granted to foreign corporations involved in export-oriented businesses, high technology, and high priority areas, including allowing ownership stakes of more than 40%. Furthermore, building on the successes of other Asian countries, the government not only established special economic zones (SEZs), but also designed liberal policies and gave incentives to encourage FDI in these zones in order to boost exports. In terms of policy reforms, the announcements of Industrial Policy (1980 and 1982) and Technology Policy (1983) provided for a liberal approach towards foreign investments. The programme was distinguished by the de-licensing of various industrial rules, the promotion of Indian manufacturing exports, and the emphasis on industrial modernization through liberalized imports of capital goods and technology. Trade liberalization initiatives such as tariff reductions and the transition of a large number of commodities from import licensing to Open General Licensing (OGL) aided this.

**b) Post-Liberalization Period:**

In 1991, India started on an economic liberalization and reforms programme with the goal of increasing its growth potential and integrating with the global economy. Industrial policy reforms gradually but steadily lowered barriers to investment projects and corporate expansion on the one hand, while increasing access to foreign technology and money on the other. A number of policies aimed at liberalizing foreign investment were implemented, including:

- 1) Implementation of a dual path of approval for FDI-RBI automatic route and government approval (SIA/FIPB).
- 2) Automatic approval for technology agreements in high-priority industries, abolition of FDI restrictions in low-technology regions, and liberalization of technology imports.
- 3) Allowing Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100% in high-priority sectors.
- 4) Increased foreign equity involvement limitations for existing enterprises to 51% and deregulation of the use of foreign "brand names."
- 5) Signing the Multilateral Investment Guarantee Agency (MIGA) Convention to protect foreign investments.

**RESEARCH OBJECTIVES:**

This research paper is an endeavor to assess the effectiveness of tax incentives as a strategy to attract and promote FDI in India. The primary research objectives are as follows:

- **To analyze FDI trends:** This research will undertake an in-depth examination of FDI trends in India over the past decade, looking at the quantum of investments, sectors attracting the most FDI, and the geographical distribution of these investments.
- **To evaluate tax incentives:** It will assess the extent to which tax incentives have been utilized by foreign investors operating in India. This evaluation will involve scrutinizing the tax structures, incentives, and exemptions available to them.
- **To assess the positive effects of these incentives:** The research will delve into the impact of these incentives on India's economy, including their role in increasing capital inflow, generating employment, facilitating technology transfer, and improving infrastructure.
- **To identify challenges and shortcomings:** The paper will highlight the challenges and shortcomings of tax incentive policies, including concerns about revenue loss, the potential misuse of incentives, and the unequal distribution of benefits across sectors and regions.

- **To provide policy recommendations:** Finally, this research study aims to offer evidence-based policy recommendations that can assist in optimizing India's FDI strategy. These recommendations will emphasize the importance of maintaining a balance between promoting responsible investment, ensuring transparency, and aligning incentives with larger socioeconomic goals.

## **TAX INCENTIVES: ISSUES AND TRENDS:**

Over the past two decades, governments have been promoting their countries as investment locations to attract private capital and technology and managerial skills for development goals. They have adopted measures to facilitate the entry of foreign direct investment (FDI), such as liberalizing laws and regulations for foreign investment projects, providing guarantees for repatriation of investment and profits, and establishing mechanisms for settling investment disputes.<sup>2</sup> Tax benefits are frequently included in these promotional initiatives. However, their relative advantages and disadvantages have not been clearly established. Investment incentives have only moderate importance in attracting FDI, but their impact may be more pronounced for certain types of investment.

Developed countries often employ financial incentives such as grants, subsidized loans, or loan guarantees, while developing countries use fiscal incentives that do not require upfront use of government funds. Tax incentives, on the other hand, reduce the tax burden of enterprises to induce them to invest in specific projects or sectors. They are rarely provided without conditions attached, and often countries design special incentive regimes that detail the tax benefits and key restrictions.

The most popular tax incentives are cuts to the standard rates of corporate income tax and tax holidays. These are followed by exemptions from import duties on capital equipment, supplies, semi-finished components, duty drawbacks, accelerated depreciation, certain deductions from gross earnings for income-tax purposes, allowances for investments and reinvestment, and deductions from social security contributions.

Reductions in the standard rates of corporate income tax and tax holidays are the most widely used fiscal incentives, followed by exemptions from import duties on capital equipment, raw materials,

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<sup>2</sup> Kandpal, V., & Kavidayal, P. C. A review of Tax Incentives and its impact on Foreign Direct Investment in India.

semi-finished components, duty drawbacks, accelerated depreciation, specific deductions from gross earnings for income-tax purposes, investment and reinvestment allowances, and deductions from social security contributions.

## **FDI TRENDS IN INDIA OVER THE PAST DECADE:**

### ➤ **Increasing FDI Inflows**

Over the past decade, India has experienced a significant increase in FDI inflows. This growth can be attributed to several factors:

- **Growing Economy:** India's robust economic growth and large consumer market have made it an attractive destination for foreign investors.
- **Market Size:** With a population of over 1.3 billion, India offers a vast consumer base for businesses, which is an enticing prospect for foreign companies.
- **Policy Reforms:** The Indian government has implemented a series of policy reforms to liberalize and simplify FDI regulations. Initiatives such as "Make in India" and "Ease of Doing Business" have been instrumental in attracting FDI.

### ➤ **Sectoral Distribution**

The distribution of FDI across sectors has evolved over the past decade:

- **Traditional Sectors:** Historically, sectors like services, computer software and hardware, telecommunications, and automobiles have attracted significant FDI. These sectors continue to be popular among foreign investors.
- **Emerging Sectors:** In recent years, emerging sectors like e-commerce, renewable energy, pharmaceuticals, and healthcare have garnered substantial FDI. These sectors reflect the changing investment landscape in India.

### ➤ **Source Countries**

India's FDI has traditionally come from countries like the United States, the United Kingdom, Singapore, and Mauritius. However, India has been diversifying its sources of FDI:

- **Diversification:** India has actively engaged with countries in Southeast Asia and the Middle East to diversify its sources of FDI. Countries like Japan, the United Arab Emirates, and Singapore have become significant investors in India.

## **COVID-19 Impact**

The COVID-19 pandemic caused a temporary disruption in global FDI trends, and India was not immune to its effects. However, the Indian government has been proactive in mitigating the impact and ensuring a swift recovery of FDI inflows. It should be highlighted that FDI inflows into India have increased by 23% post-Covid (March 2020 to March 2022: USD 171.84 billion) compared to pre-Covid (February 2018 to February 2020: USD 141.10 billion).

## **Greenfield vs. M&A**

India has attracted both greenfield investments (new projects) and mergers and acquisitions (M&A) deals. M&A deals have gained prominence in sectors like technology and e-commerce, reflecting a dynamic investment landscape.

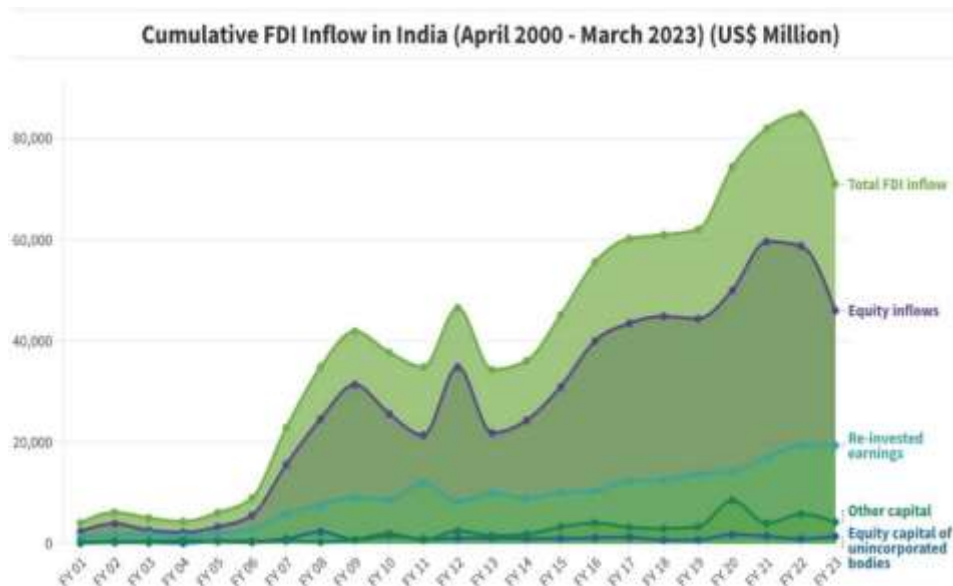
## **WHAT ATTRACTS FDI IN INDIA?**

India's favorable demographics and consistent growth trajectory make it a desirable destination for global investment. India has received around US\$919.63 billion in total FDI during the last two decades (April 2000 - March 2023).

Despite the Indian government's limits on FDI from countries with which India shares land borders, such as China, India received a record FDI influx of around US\$84.8 billion in fiscal year (FY) 2022, including US\$7.1 billion in FDI equity inflows in the services sector.

However, FDI inflows into India fell in FY 2023 because of a variety of issues, including the continued conflict between Russia and Ukraine, changes in US monetary policy, and other global concerns.

However, the 2023 Economic Survey predicts a resurgence in inbound FDI. The sectoral production-linked incentive (PLI) schemes, growth prospects in tier-2 and tier-3 cities, and new investment facilitation measures such as the National Single-Window System (NSWS), which streamlines the approval and clearance process for investors, entrepreneurs, and businesses, can all be attributed to this. High-tech industry development, market scale, and improvements in the digital and technology environment are also driving India's growth trajectory forward.



## KEY FACTORS ATTRACTING INVESTOR INTEREST IN INDIA:

### 1) Make in India

The government has launched Make in India program to drive self-reliance and aid manufacturing in India and strengthen the logistics supply chain.

### 2) PM GatiShakti

With an INR 200 billion outlay, the initiative is driven by the seven engines - Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.

### 3) PLI Scheme

- Incentives of INR 1.97 trillion have been announced for 14 sectors.
- Heavy incentives for foreign companies manufacturing in India.

### 4) Export promotion

- Special Economic Zones Act to be replaced with a new legislation to facilitate states to become partners in 'Development of Enterprise and Service Hubs'.
- New Foreign Trade Policy to be announced in FY 2023.

### 5) Liberal FDI Norms

- Several sectors open to 100% FDI under automatic route. And 13 FTAs and six preferential trade agreements have been signed with several countries.

## HOW MUCH FDI DID INDIA RECEIVE IN FY 2023?

According to government data, India received US\$52.34 billion in foreign stock inflows in 2022, up from US\$51.34 billion in 2021 but falling short of the US\$64.68 billion recorded in 2020. In the fiscal year 2023, India received stock inflows of US\$46.03 billion. Total FDI inflows received in FY 2023 was US\$70.97 billion, including stock inflows, reinvested earnings, and other capital sources, a reduction from US\$84.83 billion in FY 2022.

## TOP INVESTOR NATIONS IN INDIA IN FISCAL YEAR 2023

Singapore received the most inward FDI into India in FY 2023, totaling US\$17.20 billion, followed by Mauritius (US\$6.13 billion), the US (US\$6.04 billion), the UAE (US\$3.35 billion), and the Netherlands (US\$2.49 billion).

Other major FDI equity inflow nations in India during the first three quarters of FY 2023 include the United Kingdom, Japan, Cyprus, the Cayman Islands, and Germany.

Mauritius was the leading source of FDI equity inflows into India from April 2000 to March 2023, accounting for 26% of investments totaling US\$163.87 billion. Singapore emerged as the second largest investor, accounting for 23% of all investments in India over this time period, totaling US\$148.16 billion.

The United States accounted for 9% of FDI equity inflows, followed by the Netherlands (7%), Japan (6%), and the United Kingdom (5%). The remaining 2% was split between the UAE, Germany, Cyprus, and the Cayman Islands.

## TAX INCENTIVES FOR BUSINESSES IN INDIA:

To attract foreign investment, India provides a variety of tax benefits. These incentives are intended to stimulate economic growth, increase FDI, and create a favorable investment climate. Here are some of the most important tax breaks offered by India to international investors:

### **1. Tax Holidays:**

Export-Oriented Units (EOUs) and Special Economic Zones (SEZs): EOUs and enterprises operating in SEZs are eligible for income tax holidays, in which they pay no tax for a period and then pay a lower rate.

Startups: Startups recognized by the Department for Promotion of Industry and Internal Trade (DPIIT) are eligible for a three-year tax holiday out of the first 10 years.

### **2. Reduced Tax Rates:**

Manufacturing companies: If certain conditions are met, newly founded manufacturing companies can choose a 15% corporate tax rate (excluding surcharge and cess). This benefit is intended to support the 'Make in India' initiative.

Infrastructure and Power Sector: Investment in specific infrastructure and power projects may result in a lower tax rate for a set period of time.

### **3. Double Taxation Avoidance Agreements (DTAA):**

To avoid double taxation, India has signed DTAA agreements with a number of countries. These agreements lay out the standards for income taxation in both India and the investor's home country.

### **4. Advance Pricing Agreements (APAs):**

Foreign investors might use APAs to ensure the certainty of their transfer pricing arrangements in India. This helps to avoid disputes and ensures tax stability.

### **5. Customs and Import Duties Relief:**

Customs and import tariffs are reduced or eliminated to promote foreign investment in specific areas or projects.

### **6. Tax deductions and Credits:**

Certain assets and expenses may be eligible for tax breaks, allowing investors to lower their taxable income. Investments in research and development (R&D), for example, may be eligible for tax breaks.

### **7. Tax Benefits for Venture Capital Investors:**

Tax benefits are available to venture capital firms in order to stimulate investments in startups and small businesses.

### **8. Regulations on Transfer Pricing:**

Transfer pricing restrictions have been developed in India to ensure that transactions between connected organizations are handled at arm's length rates. This reduces profit shifting and base erosion.

### **9. Rates of Concessional Withholding:**

Certain types of payments made to foreign entities may be subject to reduced withholding tax rates. Under certain conditions, the withholding tax rate on royalties, interest, and fees for technical services, for example, may be reduced.

### **10. Tax Benefits for Charitable Donations:**

Contributions made by foreign investors to charitable and social projects in India are tax deductible.

## **INCENTIVES FOR SPECIAL ECONOMIC ZONES (SEZs)**

- Incentives for SEZs to enhance exports from and promote FDI in India, include:
- Relaxation of customs and excise payments on domestic imports;
- Tax holiday for SEZ developers;
- Tax exemption for SEZ offshore banking units;
- Exemption from the alternative minimum tax;
- Exemption from capital gains tax is granted if the following events occur within one year before or three years after the transfer:
- The assessee purchases machinery or plant for the purposes of conducting business or operating an industrial venture in a SEZ.
- The assessee has purchased land or built a building for the purpose of conducting business in a SEZ.
- The original assets have been transferred, the industrial undertaking's establishment has been transferred to the SEZ, and other stipulated expenses have been incurred; and

- The amount of exemption for capital gains is restricted to the costs and expenses incurred in relation to all or any of the purposes mentioned above.

## **PROBLEMS WITH INDIA'S LOW FDI FLOW:**

India, the world's largest democratic country, with the world's largest population, rule of law, and a highly educated English-speaking workforce, is seen as a safe haven for foreign investors. Nonetheless, India appears to be suffering from a slew of self-imposed constraints and issues in terms of entirely opening its markets to foreign investors through full-scale economic reforms. Political instability, insufficient infrastructure, complex tax and tariff policies, draconian labour laws, well-entrenched corruption, and governmental regulations are some of the primary hurdles to India's poor performance in the area of FDI.

### **1. Lack of adequate infrastructure:**

Inadequate infrastructure is recognized as a major barrier to FDI inflows into India. This bottleneck in the form of inadequate infrastructure deters international investors from investing in India. The supply of electricity is India's oldest and most serious infrastructural issue. Power outages are a normal occurrence, and many enterprises are compelled to close their doors.

### **2. Stringent labor laws:**

In India, large corporations are not permitted to retrench, lay off, or close a unit without the authorization of the state government. These regulations safeguard workers and impede genuine business restructuring plans. Firms must obtain clearance from both employees and state governments to retrench superfluous staff, which is rarely granted. Furthermore, Trade Unions steal large sums from businesses through overly generous voluntary retirement plans.

### **3. Corruption:**

Corruption may be found in almost any governmental sector, from defence to the distribution of subsidized food to the needy, to the generation and transmission of electricity. Legal blocking barriers, a lack of institutional changes, bureaucratic decision-making, and suspicions of top-level corruption have all turned international investors away from India.

#### **4. Lack of decision-making authority with state governments:**

The reform process of liberalizing the economy is mostly centered in the Centre, and state governments are granted little influence. The central government retains responsibility over most critical infrastructure regions. Brazil, China, and Russia are examples of regional governments taking the lead in pressing changes and prompting the federal government to take further action.

#### **5. Limited scale of export processing zones:**

India's export processing zones have lacked dynamism for a variety of reasons, including their relatively small scale; the government's general ambivalence about attracting FDI; the unclear and changing incentive packages attached to the zones; and the central government's power over the zones' regulation. India, which established its first Export Processing Zone (EPZ) in 1965, has failed to grow the zones in comparison to China, which took the initiative in 1980.

#### **6. High corporate tax rates:**

East Asian corporation tax rates range from 15 to 30 percent, compared to a rate of 48 percent for international companies in India. The high corporation tax rate is unquestionably a key deterrent to foreign company investment in India.

#### **7. Indecisive government and political instability:**

There have been too many anomalies on the government side over the last two decades, and they are still affecting the direct inflow of FDI in India, such as mismanagement and oppression by various companies, which affect the image of the country and also deject prospective investors, who are very concerned about safety and consistent return on investment.

### **DETERMINANTS OF FDI: -**

The determinants vary from one country to another based on their unique characteristics and opportunities available. In this section, determinants with respect to India are listed,

1. **Stable policies:** India's stable economic and social policies have attracted cross-border investors. Investors Favour countries with consistent economic policies. If the government changes its policies, it will have an impact on business. The firm necessitates a large investment, and any change in policy against the investor will have a detrimental impact.
2. **Economic factors:** Various economic aspects promote inward FDI. Interest loans, tax

benefits, grants, subsidies, and the removal of limits and limitations are examples of these.

The Indian government has provided numerous tax breaks and incentives to foreign investors who will aid in the development of the economy.

3. **Low cost and labour:** India has an abundance of skilled and untrained labour resources. Foreign investors will take advantage of the gap in labour costs because we have both cheap and skilled labour. For example, foreign corporations have invested in BPOs in India that require skilled manpower, which we have been delivering.
4. **Basic infrastructure:** Despite being a developing country, India has developed a special economic zone in which they have focused on building required infrastructure such as roads, effective transportation and registered carrier departure worldwide, information and communication network/technology, powers, financial institutions, and legal system, as well as other basic amenities that are required for the success of the business.
5. **Unexplored markets:** There is a lot of opportunity for investors in India because a lot of markets are unexplored or underutilized. There is a huge potential customer market in India, with a large middle-class income group that would be the target demographic for new markets. For example, BPO was one industry where investors had a wide range of options for investigating markets where services were supplied with just a phone call and practically complete customer satisfaction.
6. **Natural resource availability:** As we know, India has a big amount of natural resources such as coal, iron ore, natural gas, and so on. If natural resources are available, foreign investors can exploit them in the manufacturing process or to extract mining.

## **SUGGESTIONS FOR INCREASED FLOW OF FDI INTO THE COUNTRY: -**

### **1. Flexible labour regulations are required:**

China receives the most FDI in the manufacturing sector, which has helped the country become the world's manufacturing hub. The industrial industry in India can expand if infrastructure facilities are improved and labour reforms are implemented. The country should take steps to make work regulations more flexible.

### **2. Reconsider sectoral caps:**

While the government has increased the sectoral FDI quota throughout the years, it is time to

revisit concerns concerning limits in areas such as coal mining, insurance, real estate, and retail trade, aside from the small-scale sector. The government should encourage greater investment into the country through the automated method. Reforms such as adding more industries to the automated route, raising the FDI cap, and simplifying administrative delays must be implemented. SEZs must be improved in terms of scale, road and port access, reliable power supply, and decentralized decision-making.

### **3. Geographical inequalities in FDI should be eliminated:**

Geographical disparities in FDI in India must be addressed as a priority. Many states are working hard to simplify laws for establishing and operating industrial units. However, many state governments' efforts are still unsatisfactory. Even West Bengal, historically known as the "Manchester of India," draws only 1% of the country's FDI influx. West Bengal, Bihar, Jharkhand, and Chhattisgarh are endowed with rich minerals, however due to a lack of adequate initiatives by these states' administrations, they are unable to attract FDI.

### **4. Encourage greenfield projects:**

Mergers and acquisitions (M&As) have expanded India's FDI volume more than huge greenfield projects. M&As do not always mean the entry of fresh capital into a country, especially if it is done through reinvested earnings and intra-company loans. To attract significant Greenfields projects, a business-friendly environment must be prioritised. Regulations should be streamlined to increase the realisation ratio (the proportion of FDI approvals to actual flows). To continue reaping the benefits of FDI, India should invest in human capital and technology development.

### **5. Expand the debt market:**

India has a well-developed equities market but not a well-developed loan market. As many corporations may prefer leveraged investment over investing their own funds, steps should be taken to strengthen the depth and liquidity of the debt market. As a result, countries with well-developed financial markets are believed to benefit greatly from FDI inflows.

### **6. The education sector should be opened to FDI:**

India has a large working population. However, due to poor quality basic and secondary education, there is still a severe shortage of ability. FDI in the education sector is less than 1%. FDI in this area must be promoted by elevating primary and secondary education in the country.

To achieve quality education, however, suitable measures must be adopted. Priority must be given to the concerns of commercialization of education, regional disparities, and structural disparities.

#### **7. Improve research and development in the country:**

India should strive consciously to attract more FDI into R&D in order to boost the country's technological capability and competitiveness.

## **CONCLUSION**

Foreign Direct Investment (FDI) is a critical driver of economic growth and development in India. This research paper has delved into the complex landscape of tax incentives for FDI in India, with the aim of assessing their effectiveness in promoting investment, fostering economic development, and achieving sustainable growth. Through a mixed-methods approach, we have analyzed FDI trends, tax incentives, and their utilization, identifying both positive effects and challenges in the process.

India's journey from a predominantly closed economy to an open, FDI-friendly destination has been marked by significant policy reforms. Tax incentives have played a pivotal role in attracting foreign investors. However, this research has highlighted several challenges, including inadequate infrastructure, rigid labor laws, corruption, high corporate tax rates, and political instability that hinder the flow of FDI.

To address these issues and increase FDI inflow into the country, several suggestions have been put forward. These include implementing labor reforms, reconsidering sectoral caps, addressing geographical inequalities in FDI distribution, encouraging greenfield projects, expanding the debt market, opening the education sector to FDI, and investing in research and development.

In conclusion, India's potential as an FDI destination is immense, with a vast consumer market, a skilled workforce, and stable policies. By addressing the challenges and implementing the suggested measures, India can further optimize its FDI strategy, foster economic growth, and contribute to sustainable and inclusive development in the 21st century. It is essential for India to create a welcoming environment for foreign investors while focusing on its domestic policies, infrastructure, and regulatory frameworks to harness the full potential of FDI for the nation's progress.