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Impact of Recent Tax Reforms on Corporate Governance

VIDUSHI VATS[1]

ABSTRACT

This paper delves into how recent tax reforms impact corporate governance. It explores changes in governance structures, policies, and decision-making within organizations. Through case studies and empirical evidence, it highlights the evolving dynamics of governance in response to tax regulations. The study emphasizes the crucial relationship between tax policy changes and corporate governance practices, offering insights into effective governance strategies amidst evolving tax landscapes.

Keywords: *Tax reforms, Corporate governance, Regulatory compliance, Case Studies.*

I. INTRODUCTION

In today's dynamic business environment, corporate governance plays a pivotal role in shaping organizational behavior and decision-making processes. Recent tax reforms have introduced significant changes that impact corporate governance practices across industries. This paper aims to examine the intersection of tax reforms and corporate governance, exploring how these changes influence governance structures, policies, and strategies within organizations. By analyzing the implications of tax reforms on transparency, accountability, risk management, and stakeholder relations, this study seeks to provide valuable insights into the evolving landscape of corporate governance in the context of changing tax regulations. Through empirical research and case studies, we aim to identify the challenges and opportunities presented by these reforms and propose strategies for effectively managing governance dynamics in the face of evolving tax policies.

II. OVERVIEW OF RECENT TAX REFORMS IN INDIA

(A) Summary of Key Changes

a. INTERIM BUDGET 2024: Finance Minister Nirmala Sitharaman's interim budget for 2024 kept direct and indirect tax rates unchanged. The key highlights of the Interim Budget 2024 include:

- Infrastructure Development: Significant allocation of funds for the construction of

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highways, railways, airports, and other critical infrastructure projects to boost economic growth and create new business opportunities.[2]

i. Focus on enhancing connectivity, stimulating economic growth, and fostering innovation and technology through research and development initiatives.[3]

- Tax Proposals: No changes in tax rates for direct taxes in FY 202425, with specific exemptions for individuals with income up to Rs. 7 lakh and reduced corporate tax rates for certain manufacturing companies.

ii. Extension of sunset dates for tax benefits related to startups, investments, and certain tax exemptions until March 31, 2025.[4]

- Green Initiatives: Commitment to sustainable development and green initiatives, including measures to achieve 'net zero' by 2070 through funding for renewable energy projects and coal gasification capacity expansion.

iii. Introduction of schemes like rooftop solarization to provide free electricity to households and promote renewable energy adoption.

- Skill Development and Education: Emphasis on skill development, vocational training programs, digital literacy, and education to empower the youth and drive economic growth.
- Healthcare and Welfare: Various schemes and initiatives to uplift the poor, women, youth, and farmers, including vaccination programs, housing schemes, and support for rural economies.

iv. Expansion of healthcare coverage, upskilling programs, and financial assistance for specific sectors like dairy farming and agriculture.[5]

(B) <u>DIRECT TAXES UNDER UNION BUDGET 2020:</u> The Union Budget 2020 introduced several key changes in the direct tax regime, aiming to address economic slowdown and control rising inflation. Some of the significant changes are as follows[6]:

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[2] India's Interim Budget 2024, A growth agenda, KPMG, https://kpmg.com/in/en/home/services /tax/indiainterimbudget2024.html

[3] Highlights of the Interim Budget 20242025, Invest India, https://www.investindia.gov.in/teamin diablogs/highlightsinterimbudget20242025

[4] Interim Budget 2024: Key Highlights, https://www.5paisa.com/blog/interimbudget2024keyhighlights

[5] Interim Budget 2024: Key Highlights, The Hindu, https://www.thehindu.com/business/budget/interimbudget2 024highlights/article67799651.ece

[6] Key Changes Brought by The Union Budget 202021 In the Direct Tax Regime, The Legal 500, https://www.legal500.com/developments/thoughtleadership/keychangesbroughtbytheunionbudget202021inthedi

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- Income Tax Slab Rates: Introduction of a new tax slab for income tax assessment year 20202021 for individuals and Hindu Undivided Families (HUFs), with the new tax regime being optional and available only if no deductions/exemptions are claimed by the assessed.
- Basic exemption limit increased to INR 3,00,000, threshold limit for total income eligible for rebate under Section 87A raised to INR 7,00,000, and highest surcharge rate reduced to 25% from 37% on income above INR 5,00,00,000.
- Modification in Residency Provision: Reduction in the number of days required to qualify as a resident of India, with changes in conditions for Indian citizens or persons of Indian origin visiting India and for individuals deemed as 'Not Ordinarily Resident'.
- Individual Taxation: Simplification of taxation by introducing an aggregate limit for employer contributions to retirement schemes, promoting investment in residential housing projects through deductions in interest, and treating income from dividends, shares, and mutual funds as part of regular income for taxation
- Dividend Distribution Tax (DDT): Abolishment of Dividend Distribution Tax (DDT), shifting the tax burden to shareholders receiving dividends from companies, and applying taxes on dividends, shares, and mutual funds as part of regular income
- Stamp Duty: Extension of the sale harbour limit under Section 43CA of the Act, amending Section 50C of the Act, and introducing changes to compute profits and gains from the transfer of land or buildings based on stamp duty valuations

These changes in the Union Budget 2020 aimed to simplify the tax regime, promote investment, and align taxation policies with economic goals and taxpayer interests.

(C) INDIRECT TAXES: Over the last 7 years, India has witnessed significant changes in its indirect tax regime. Some key developments are as follows:

- Goods and Services Tax (GST): The introduction of GST revolutionized India's indirect tax system by replacing multiple taxes with a unified tax structure, simplifying compliance, and enhancing tax collections.

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recttaxregime/

i. The tax base of GST more than doubled, and average monthly gross GST collection almost doubled to Rs 1.66 trillion, showcasing the effectiveness of this tax reform.[7]

- Presumptive Taxation: The threshold for presumptive taxation for retail businesses, covered under section 44AD of the Income tax Act, 1961, was raised from INR 20 million to INR 30 million, aiming to support small businesses and reduce compliance burdens.[8]
- Other Indirect Taxes: Various indirect taxes like service tax, excise duty, customs duty, sales tax, value-added tax (VAT), and entertainment tax have undergone changes over the years, impacting different sectors of the economy.

ii. The Union Budgets have seen modifications in tax rates, exemptions, and thresholds for indirect taxes to align with economic goals and promote growth in specific industries.

These changes in the indirect tax landscape of India reflect the government's efforts to streamline taxation, boost revenue collection, and create a more business friendly environment.

Implementation Timeline:

Table 1

Year	Tax Reform	Date	Description
2017	Goods and Services Tax (GST)	July 1, 2017	Unified tax structure replacing multiple indirect taxes, aimed at simplifying the tax regime and fostering economic integration.
2019	Corporate Tax Rate Cut	September 20, 2019	Significant reduction in corporate tax rates to stimulate investment and bolster economic growth.

[7] Budget 2024: Here's what FM Nirmala Sitharaman said about income tax, Business Standard, https://www.businessstandard.com/budget/news/budget2024hereswhatfmnirmalasitharamansaidaboutincometax124020100408_1.html

[8] Interim Budget Rounds Up Key Tax Reforms, India Briefing, https://www.indiabriefing.com/news/interimbudget2024roundsupkeytaxreformsmakescaseformodireelection30996.html/

Year	Tax Reform	Date	Description
2020	Faceless Assessment Scheme	August 13, 2020	Introduction of a scheme promoting transparency and efficiency in tax assessments by eliminating direct contact.
2020	Direct Tax Vivad se Vishwas Act	March 17, 2020	Enactment of a dispute resolution mechanism to settle pending direct tax disputes, reducing litigation and enhancing compliance.
2021	TDS and TCS for Ecommerce	April 1, 2021	Implementation of TDS and TCS provisions for ecommerce transactions, aimed at enhancing tax compliance.
2021	New Tax Regime Optional for Individuals	April 1, 2021	Introduction of a new tax regime with lower rates, providing taxpayers with flexibility in choosing their tax structure.
2022	Digital Taxation on Non-resident Ecommerce Operators	April 1, 2022	Tax measures targeting non-resident ecommerce operators, aiming to tax income from online transactions with Indian customers.
2022	Amendment to Tax Residency Rules	May 27, 2022	Alteration of criteria for determining residential status, particularly affecting non-resident Indians, to prevent tax evasion.
2022	Increase in Custom	February 1,	Revision of custom duties on

Year	Tax Reform	Date	Description
	Duties	2022	various goods to promote domestic manufacturing and address trade imbalances.
2023	Taxation of Cryptocurrency Transactions	July 1, 2023	Implementation of taxation rules for cryptocurrency transactions to regulate the market and ensure tax compliance.

III. CORPORATE GOVERNANCE FRAMEWORK

(A) Definition & Importance

"Corporate Governance is a set of relationships between a company's management, its boards, its shareholders, and other stakeholders The Organization of Economic Cooperation & Development (OECD)."

The first documented use of the word 'corporate governance' is by Richard Eells in 1960 to denote the structure and functioning of the corporate polity.

The Cadbury Committee Report 1992 under the chairmanship of Sir George Adrian Cadbury established the primary discussion on Corporate Governance (referred as CG hereafter). It was titled 'The financial aspects of Corporate Governance'. It provided the definition of CG as "the system by which companies are directed and controlled".

The Importance of Corporate Governance is as follows:

1. Facilitates Honest and Transparent Operations: Corporate governance ensures that businesses operate with integrity and transparency, fostering trust among stakeholders and minimizing the risk of misconduct.

2. Attracts Foreign Capital: Strong corporate governance practices make companies more attractive to foreign investors, as they demonstrate a commitment to sound management principles and risk mitigation.

3. Protects Investors' Interests: By holding management accountable and ensuring proper oversight, corporate governance safeguards the interests of investors, reducing the likelihood of fraud or mismanagement.

4. Ensures Fair Financial Reporting: Through robust governance mechanisms, companies uphold fairness in financial reporting, enhancing credibility and trustworthiness in the eyes of shareholders, regulators, and the public.

5. Facilitates Effective Shareholder Communication: Corporate governance structures promote transparent communication between management and shareholders, enabling informed decision-making and fostering long-term shareholder value.

6. Enhances Reputation and Goodwill: Companies with strong corporate governance earn a reputation for ethical conduct and responsible management, attracting customers, investors, and top talent while bolstering market confidence.

7. Drives Company Valuation: Effective corporate governance contributes to higher company valuations by minimizing risk, ensuring sustainable growth, and maximizing shareholder value through prudent decision-making and strategic oversight.

In essence, corporate governance is instrumental in fostering ethical conduct, maintaining stakeholder trust, and driving long-term success for businesses in an increasingly complex and interconnected global economy.

(B) Evolution & Legal Foundation

1. PRE INDEPENDENCE:

- The Companies Act was enacted in 1866 and was amended in 1882, 1913 and 1932. Partnership Act was enacted in 1932.
- These enactments had a managing organization model as a focus as people/business firms went into a legitimate contract with business entities to manage the latter.
- This period was an era of misuse/abuse of resources and shunning of obligations by managing specialists because of scattered and unprofessional proprietorship.

2. POST INDEPENDENCE:

- Soon after independence, there was interest among industrialists for production of a lot of essential items for which the Government directed and dictated fair prices. This was the point at which the Tariff Commission and the Bureau of Industrial Costs and Prices were set up by the Government.
- The fundamental code for corporate administration was proposed by the Confederation of Indian Industries (CII) in 1998. “DESIRABLE CORPORATE GOVERNANCE CODE “

- The definition proposed by CII was—corporate governance manages laws, methods, practices and understood principles that decide an organisation's capacity to take administrative choices—specifically its investors, banks, clients, the State and the representatives.
- focused at making Audit Committees and Boards more independent, focused and powerful supervisor of management and also of aiding shareholders, including institutional and foreign shareholders/investors, in supervising management. These reform efforts were channelled through a number of different paths with both the Ministry of Corporate Affairs (MCA) and the Securities and Exchange Board of India (SEBI) playing important roles.
- SEBI introduced this voluntary code on corporate governance in 1998.
- In 1996, CII taking up the first institutional initiative in the Indian industry took a special step on corporate governance.
- The aim was to promote and develop a code for companies, be in the public sectors or private sectors, financial institutions or banks, all the corporate entities.
- The steps taken by CII addressed public concerns regarding the security of the interest and concern of investors, especially the small investors; the promotion and encouragement of transparency within industry and business, the necessity to proceed towards international standards of disclosure of information by corporate bodies, and through all of this to build a high level of people's confidence in business and industry.

3. REPORT OF THE COMMITTEE (KUMAR MANGALAM BIRLA) ON CORPORATE GOVERNANCE[9]: The report of the Kumar Mangalam Birla Committee on Corporate Governance was a significant initiative aimed at evolving a comprehensive Code of Corporate Governance in India. The committee, appointed by the Securities and Exchange Board of India (SEBI) under the chairmanship of Shri Kumar Mangalam Birla, focused on shaping the governance landscape of Indian companies and capital markets.

- Importance of Corporate Governance: The report emphasized that corporate governance plays a crucial role in shaping the growth and future of capital markets and economies. It highlighted the relevance and importance of corporate governance

[9] Report of the Kumar Mangalam Birla Committee on Corporate Governance, https://www.nfcg.in/UserFiles/kumarmbirla1999.pdf

beyond academic discussions, stressing its significance in industry and capital markets.

- Global Focus on Corporate Governance: The report noted the growing international focus on corporate governance, especially in response to financial turbulence worldwide. It highlighted that corporate governance is about maximizing shareholder value legally, ethically, and sustainably, promoting fairness, transparency, and accountability within corporations.
- Regulatory Framework in India: The report acknowledged India's well-established regulatory framework for corporate governance, which has evolved over four decades. It mentioned significant changes post-2000 with the formulation of committees by SEBI and the introduction of Clause 49 in the listing agreement for stock exchanges.
- Objectives of the Study: The report outlined objectives to examine corporate governance practices in 50 NIFTY companies concerning the Board of Directors, audit committees, shareholders' rights, and compliance with regulatory changes like the Companies Act 2013.
- Recommendations: The committee's recommendations were categorized into mandatory and non-mandatory recommendations. Mandatory recommendations included aspects like board composition, audit committee structure, meeting frequency, shareholder information sharing, and remuneration committees.
- Case Study: TCS Compliance: The report highlighted TCS (Tata Consultancy Services) as an example of compliance with the committee's recommendations. TCS demonstrated an optimal mix of executive and non-executive directors on its board, established various board committees, and maintained regular meeting schedules to align with good corporate governance practices.

Clause 49:

- The Committee also realized the importance of auditing body and made many specific suggestions related to the constitution and function of Board and Audit Committees.
- At that time, SEBI reviewed its listing contract to include the recommendations.
- These rules and regulations were listed in Clause 49, a new section of the listing agreement which came into force in phases of 2000 and 2003.
- Seminal event in Indian Corporate governance, established number of governance requirements for listed companies with a focus on the role and structure of corporate

boards, internal controls and disclosure to SHs.

4. REPORT OF THE COMMITTEE (NARESH CHANDRA) ON CORPORATE AUDIT AND GOVERNANCE COMMITTEE—DECEMBER 2002: The report of the Naresh Chandra Committee on Corporate Audit and Governance Committee, presented in December 2002, focused on enhancing corporate governance practices in India. The committee was established by the Department of Company Affairs (DCA) under the Ministry of Finance and Corporate Affairs of the Union Government of India. Major Recommendations:
    - Disqualification for Audit Assignments: The committee recommended disqualification criteria for audit assignments to prevent conflicts of interest and ensure independence.
    - Prohibited Non-Audit Services: Certain non-audit services were recommended to be prohibited for audit firms to maintain objectivity and integrity.
    - Compulsory Rotation of Auditors: Audit partners and engagement teams were advised to be rotated every five years for listed companies meeting specific criteria.
    - Appointment of Auditors: The audit committee was empowered to appoint auditors, enhancing their role in audit procedures.
    - Auditor's Disclosure of Contingent Liabilities: Auditors were required to disclose contingent liabilities and provide comments on management's view in their reports.
    - CEO and CFO Certification: Designated CEOs and CFOs of listed companies were mandated to certify annual accounts, ensuring accountability.
    - Independent Directors: At least 50% of the Board of Directors in listed companies should be independent directors, promoting transparency.
    - Audit Committee Charter: The roles and functions of an audit committee within a company should be clearly defined.
    - Setting up Independent Quality Review Boards: The report recommended establishing three independent Quality Review Boards (QRB) for each major accounting body to assess audit quality.
    - Exempting Non-Executive Directors: Non-executive and independent directors

were suggested to be exempted from certain liabilities under specific acts.

- Enhancing Transparency and Accountability: The recommendations aimed at improving transparency, accountability, and governance standards within Indian companies.

5. SEBI REPORT ON CORPORATE GOVERNANCE (N.R. NARAYAN MURTHY)—FEBRUARY 2003: To improve the governance standards, SEBI constituted a committee to study the role of independent directors, related parties, risk management, directorship and director compensation, codes of conduct and financial disclosures.

   The key mandatory recommendations ”ocus’on

   - Strengthening the responsibilities of audit committees: At least one member should be ‘financially knowledgeable’ and at least one member should have accounting or related financial management proficiency.
   - Quality of financial disclosures: Improving the quality of financial disclosures, including those related to party transactions.
   - Proceeds from initial public offerings: Companies raising money through an IPO should disclose to the Audit Committee, the uses / applications of funds by major category like capital expenditure, sales and marketing, working capital, etc.
   - Requiring corporate executive boards to assess and disclose business risks in the annual reports of companies.
   - Should be obligatory for the Board of a company to lay down the code of conduct for all Board members and senior management of a company.
   - The position of nominee directors: Nominee of the Government on public sector companies shall be similarly elected and shall be subject to the same responsibilities and liabilities as other directors
   - Improved disclosures relating to compensation paid to nonexecutive directors.
   - Nonmandatory recommendations include moving to a regime where corporate financial statements are not qualified; instituting a system of training of board members; and the evaluation of performance of board members.

Clause 49 Amendment:

- In 2004, SEBI further brought about changes in Clause 49 in accordance with the

Murthy Committee's recommendations. However, implementation of these changes was postponed till 112006 because of lack of preparedness and industry resistance to accept such wide-ranging reforms.

- While there were many changes to Clause 49 as a result of the Murthy Report, governance requirements with respect to corporate boards, audit committees, shareholder disclosure, and CEO/CFO certification of internal controls constituted the largest transformation of the governance and disclosure standards of Indian companies.

6. NATIONAL FOUNDATION OF CORPORATE GOVERNANCE (NFCG):

- National Foundation for Corporate Governance (NFCG) was set up in the year 2003 by the Ministry of Corporate Affairs (MCA), in partnership with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI)
- In the year 2010, Institute of Cost Accountants of India (ICAI), National Stock Exchange (NSE) and in 2013 Indian Institute of Corporate Affairs (IICA) were included in NFCG as Trustees.
- Aim: To promote good Corporate Governance practices both at the level of individual corporates and Industry as a whole.

(C) Ethical Considerations

Ethical considerations play a crucial role within the legal framework of corporate governance, ensuring transparency, accountability, and stakeholder protection. The key points regarding ethical considerations under the corporate governance legal framework:

1. Ethical Principles in Governance[10]:

- Ethical principles underpin the way boards are required to operate and organize themselves, emphasizing values like fairness, honesty, respect, integrity, openness, and responsibility.
- Leadership attitudes and traits related to setting an ethical tone are expected in corporate governance guidance, promoting fairmindedness, courage, respect, and openness.

2. Ethical Behaviour and Governance[11]:

[10] A Review of the Ethical Aspects of Corporate Governance Regulation and Guidance in the EU, Paper by JULIA CASSON, https://mindleap.co.uk/downloads/areviewoftheethicalaspectsofcorporategovernanceregulationandguidanceintheeujune2013.pdf

[11] Corporate Governance and Ethics: Shareholder Reality, Social Responsibility or Institutional Necessity,

- Ethical behaviour in governance involves managing collective action to benefit the majority, avoiding damaging behaviours, and ensuring better control of power and responsibilities to prevent unethical practices.
- Ethics in governance aims to raise awareness of others' rights, establish minimum ethical standards, and promote shared and transparent governance based on values of transparency, responsibility, and professionalism.

3. Corporate Governance and Ethics:

- The link between corporate governance and ethics is essential for establishing a system of shared and transparent governance that enforces values of transparency, responsibility, and professionalism.
- Ethical governance seeks to align decisions and actions with acceptable values, ensuring that stakeholders behave in a reasonable and ethical manner within the legal and regulatory framework.

These insights highlight the critical role of ethical considerations in shaping corporate governance practices, fostering integrity, and ensuring sustainable business operations within the legal framework.

IV. INTERSECTION OF TAX REFORMS AND CORPORATE GOVERNANCE

The relationship between tax reforms and corporate governance in India is a critical area of study due to its profound implications for business conduct, transparency, and economic development. Tax policies shape corporate decision-making processes and behaviour, thereby influencing governance structures within corporations.

Corporate governance is essential for fostering transparency, accountability, and ethical conduct within companies, while tax policies play a pivotal role in influencing corporate behaviour. Recent tax reforms in India have sought to simplify the tax regime, attract investment, and stimulate economic growth. However, the effects of these reforms on corporate governance structures are multifaceted and intricate.

(A) Analysis of Specific Reforms

1. REDUCTION IN CORPORATE TAX RATES[12]: The reduction in corporate tax rates in India in 2019 had a significant impact on the economy, aiming to stimulate corporate

https://www.cairn.info/revuemanagement20082page65.htm

[12] Corporate Tax Cut Impact on India's Economy, Cover Fox, https://www.coverfox.com/personalfinance/tax/impactofcorporatetaxcutonindiaseconomy/

financing and boost investments.

- Tax Rate Reduction: The base corporate tax rate for existing businesses was reduced from 30% to 22%, and for new manufacturing firms established after October 1, 2019, it was reduced from 25% to 15. This reduction aimed to attract new investments in the manufacturing sector and enhance growth by making India more competitive in terms of corporate tax rates compared to other Asian economies
- Economic Impact: The tax cut was expected to improve the profitability of companies, boost Nifty earnings growth, and attract global capital, leading to increased profit margins and economic growth. While the reduction in tax rates may temporarily slow down economic activity due to reduced tax revenues for the government, it is anticipated to boost investments and increase the economy's productive capacity in the medium to long term
- Investment and Job Creation: Lower tax rates provide companies with more funds to reinvest in existing ventures or new projects, potentially leading to job creation, increased earnings, and overall economic growth. The reduction in corporate tax rates is expected to influence investors' capital allocation decisions and make India more competitive on the global stage, attracting foreign investments and fostering economic development.

2. INTRODUCTION OF MINIMUM ALTERNATE TAX (MAT) REGIME[13]: The introduction of the Minimum Alternate Tax (MAT) regime in India has been a significant step to ensure that companies, especially those reporting substantial book profits, contribute a minimum amount of tax to the nation's revenue.

- Objective of MAT: MAT was introduced to address the issue of companies reporting significant profits but utilizing various tax exemptions and deductions to avoid paying taxes, leading to the concept of zero or low tax companies. The primary objective of MAT is to ensure that all companies, regardless of their tax planning strategies, pay a minimum amount of tax, promoting equity, fairness, transparency, and accountability in the taxation system
- Impact on Taxation: MAT serves to prevent the erosion of the tax base by requiring companies to pay a fixed percentage of their profits, aligning reported profits with taxable income and reducing the scope for tax manipulation or avoidance. The regime

[13] Minimum Alternate Tax (MAT): Eligibility & Calculation of MAT Credit, https://tax2win.in/guide/minimumalternativetax

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promotes transparency in financial reporting, ensuring that profitable companies make a reasonable contribution towards their tax liability, thus enhancing the overall tax compliance environment

- Special Considerations: MAT applicability extends to all companies, including foreign companies, with specific exemptions for certain sectors like infrastructure to attract foreign business investments. Companies facing liquidity challenges have been granted rebates on book profits for MAT calculations, with relaxed norms for insolvent companies to support their financial recovery and compliance with tax obligations.

(B) Implications on Governance Structures

The deduction in corporate tax rates in India has had a notable impact on corporate governance, influencing transparency, accountability, and financial decision-making within companies. The implications are as follows:

1. Enhanced Profitability and Governance[14]: The reduction in corporate tax rates has improved the profitability of companies by lowering their tax burden, providing them with more resources to reinvest in their operations, innovate, and expand.

With increased profitability due to lower taxes, companies may have more flexibility to allocate resources towards governance mechanisms, compliance measures, and ethical practices, enhancing overall corporate governance standards.

2. Tax Compliance and Governance Dynamics[15]: Lower corporate tax rates can influence governance dynamics by reducing the financial strain on companies, potentially leading to better compliance with tax laws and regulations, which are integral to sound corporate governance practices.

The interplay between taxation systems and corporate governance highlights how tax policies can either mitigate or amplify corporate governance problems, emphasizing the importance of aligning tax laws with good governance principles for effective oversight and control.

3. Tax Policy Alignment with Governance: Tax laws play a crucial role in shaping corporate governance environments by either directly regulating behaviours or indirectly influencing governance structures through their operational mechanisms.

Effective tax policies that support revenue generation for government functions while

[14] Effective corporate tax rate in India just 22%: Report, Financial Express, https://www.financialexpress.com/policy/economyeffectivecorporatetaxrateinindiajust22report2920950/
[15] Effects of Strategic Tax Behaviours on Corporate Governance, International Journal of Finance and Accounting 2013, 2(6): 326330, https://core.ac.uk/download/pdf/32224632.pdf

promoting wealth redistribution and influencing specific behaviours can contribute to fostering a conducive environment for good corporate governance practices.

The deduction in corporate tax rates in India has implications for corporate governance by potentially improving profitability, influencing compliance behaviours, and highlighting the interconnectedness between taxation systems and governance dynamics. Lower taxes can provide companies with opportunities to strengthen their governance frameworks, enhance transparency, and promote responsible financial management practices within the organization.

The Minimum Alternate Tax (MAT) regime in India has a significant impact on corporate governance by influencing transparency, tax compliance, and financial decision-making within companies.

1. Tax Compliance and Transparency: MAT ensures that companies, especially those reporting substantial book profits, contribute a minimum amount of tax to the national revenue, promoting transparency and accountability in financial dealings.[16]

   By limiting the tax deductions and exemptions available to taxpayers through the MAT provision, companies are compelled to pay a minimum tax, reducing the possibility of zero tax scenarios and enhancing tax compliance, which is integral to good corporate governance.

2. Financial Decision-making: The MAT regime influences financial decision-making within companies by affecting their tax liability calculations and profit allocation strategies, aligning their tax payments with their actual profitability and book profits.[17]

   Companies need to manage their MAT credit effectively, ensuring compliance with the MAT provisions and utilizing any excess MAT paid over normal tax liability as a credit in future years, which impacts their financial planning and governance practices.

3. Corporate Governance Standards: MAT plays a role in shaping corporate governance standards by addressing the issue of zero tax companies and ensuring that profitable companies contribute a fair share of their profits to the national exchequer, promoting equity and fairness in the taxation system.[18]

The complexity in computing book profits under MAT provisions and recent changes in

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[16] The Minimum Alternate Tax (MAT) on Companies, Deloitte, https://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/intaxminimumalternatecompaniesnoexp.pdf

[17] Minimum Alternate Tax (MAT): Meaning, Rates & Calculation, https://www.canarahsbclife.com/taxuniversity/articles/minimumalternatetax

[18] Know all about the applicability of Minimum Alternate Tax (MAT), The Taxmann¸ https://www.taxmann.com/post/blog/knowallabouttheapplicabilityofminimumalternatetaxmat

accounting standards can increase the tax compliance burden for companies, highlighting the importance of simplifying MAT computation to assist companies in their ease of doing business and governance practices.

In summary, the MAT regime in India impacts corporate governance by promoting tax compliance, enhancing transparency, influencing financial decision-making, and contributing to the overall fairness and accountability in the taxation system. Companies are required to navigate the complexities of MAT provisions, manage their tax liabilities effectively, and align their financial strategies with governance principles to ensure compliance and transparency in their operations.

V. Case studies

1. Satyam Computer Services Scandal (2009)

The Satyam Computer Services Scandal of 2009 was a significant corporate fraud that exposed serious lapses in corporate governance practices within one of India's leading IT companies. The scandal involved the company's founder and chairman, Ramalinga Raju, who confessed to inflating profits and manipulating accounts over several years, leading to a massive financial fraud.[19]

[20]Key points include:

- Corporate Governance Failure: The Satyam scandal highlighted the lack of transparency and poor corporate governance practices within the company, revealing significant deficiencies in oversight, accountability, and ethical conduct. The scandal underscored the urgent need for improved corporate governance standards in Indian companies to prevent similar fraudulent activities and protect investor interests.
- Impact on Investors and Market: The revelation of the Satyam scandal resulted in a severe loss of investor confidence and had a significant impact on the Indian stock market, emphasizing the importance of robust governance mechanisms in maintaining market integrity.
- Lessons Learned: The Satyam scandal served as a wakeup call, prompting a re-evaluation of corporate governance norms and the enforcement of stricter regulations to prevent financial frauds and enhance transparency and accountability within

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[19] Satyam Scam and Corporate Governance Loopholes, Victims & Aftermath, https://testbook.com/iaspreparation/satyamscamandcorporategovernance

[20] A Review on Satyam Computer Failure Lessons for Corporate Governance and World, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3370291

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companies. The incident highlighted the critical role of securities laws and corporate legislation in emerging markets like India, emphasizing the need for effective enforcement and stringent penalties for fraudulent activities.

2. Kingfisher Airlines Debacle (2012):

The Kingfisher Airlines debacle in 2012 serves as a poignant example of corporate governance failures that led to the downfall of the airline. The case of Kingfisher Airlines, founded by Vijay Mallya, highlighted critical issues related to governance, financial mismanagement, and regulatory noncompliance. The key points include:

- Governance Failures: The failure of Kingfisher Airlines was attributed to governance failures, including violations of the Companies Act 2013, such as the failure to hold annual general meetings (AGMs) and submit audited financial statements on time. These governance lapses undermined transparency, accountability, and compliance within the company, ultimately contributing to its financial distress and collapse.[21]
- Financial Mismanagement: Kingfisher Airlines faced significant financial mismanagement issues, including a huge debt burden of approximately Rs. 7,000 crores, poor financial planning, overexpansion, and extravagant spending by the management. The airline's unsustainable business model, coupled with mismanagement practices, exacerbated its financial woes and led to a severe cash crunch, ultimately resulting in the grounding of its fleet and operational shutdown.
- [22]Regulatory Challenges: Regulatory challenges, such as the Directorate General of Civil Aviation (DGCA) suspending Kingfisher Airlines' flying license due to safety concerns, compounded the airline's troubles and contributed to its operational difficulties. These regulatory issues, along with intense competition, economic slowdown, and rising fuel prices, further strained the airline's operations and financial viability, ultimately leading to its downfall.

The Kingfisher Airlines debacle of 2012 underscores the critical importance of robust corporate governance practices, financial prudence, regulatory compliance, and strategic management in sustaining the viability and success of businesses. The case serves as a cautionary tale highlighting the severe consequences of governance failures and financial mismanagement within companies, emphasizing the need for adherence to governance norms, transparency, and

[21] Fall of Kingfisher Airlines: A Cautionary Tale of Corporate Governance, https://taxguru.in/companylaw/fallkingfisherairlinescautionarytalecorporategovernance.html#google_vignette

[22] Downfall of Kingfisher Airlines: Unravelling the Multiple Factors Behind Its Failure, https://www.linkedin.com/pulse/downfallkingfisherairlinesunravelingmultiplefactorsmurugan/

accountability to protect stakeholders' interests and ensure long-term sustainability.

3. IL&FS Financial Services Crisis (2018):

The IL&FS Financial Services Crisis of 2018 shed light on critical issues related to corporate governance, risk management, regulatory oversight, and financial reporting within the company. The crisis underscored the importance of robust governance practices, transparent financial reporting, and effective risk management mechanisms in ensuring the stability and sustainability of financial institutions. Some key points are as follows[23]:

- Governance Failures: The IL&FS crisis highlighted governance failures within the company, including inadequate risk management practices, lack of transparency in decision-making processes, conflicts of interest, and allegations of favouritism in awarding contracts and loans to related parties. These governance lapses significantly undermined the company's operations, eroded confidence in its governance practices, and contributed to its downfall.
- Regulatory Lapses: Regulatory mechanisms failed to accurately assess and monitor IL&FS's financial standing, leading to a misperception of the company's stability and exacerbating the crisis. Weak oversight and regulatory lapses in assessing the company's financial health contributed to the mismanagement and fraud within IL&FS.
- Financial Reporting and Risk Management: The case highlighted challenges related to accurate financial reporting, complex corporate structures with interconnected entities, hindering transparency and accurate assessment of financial risks. Inadequate risk management practices, overleveraging, mismanagement of funds, and a lack of effective risk mitigation strategies were key factors contributing to the crisis.

The IL&FS Financial Services Crisis of 2018 serves as a cautionary tale emphasizing the critical importance of transparent financial reporting, robust risk management practices, effective regulation, and strong corporate governance in maintaining the stability and integrity of financial institutions. The crisis prompted a comprehensive review of regulatory frameworks and governance practices in India to prevent similar incidents in the future and restore confidence in the financial sector.

VI. CONCLUSION

In conclusion, this paper has provided a comprehensive analysis of the impact of recent tax

[23] Unravelling the Mirage: The IL&FS Accounting and Financial Fraud Case Study, IIUM Journal of Case Studies in Management: Vol.14, No.2, August 2023, pp.18, file:///C:/Users/USER/Downloads/1001.pdf

reforms on corporate governance. By examining changes in governance structures, policies, and decision-making processes within organizations, we have identified the profound influence of tax regulations on corporate governance dynamics. Through case studies and empirical evidence, we have illustrated how organizations are adapting their governance frameworks in response to evolving tax landscapes.

Our study underscores the critical relationship between tax policy changes and corporate governance practices, emphasizing the need for organizations to proactively adjust their governance strategies to navigate the complexities of tax reforms. We have highlighted the importance of transparency, accountability, and stakeholder engagement in mitigating governance challenges arising from tax changes.

Moving forward, it is imperative for organizations to remain vigilant and responsive to future tax reforms, recognizing the integral role of governance in ensuring compliance and ethical conduct. By embracing proactive governance strategies that align with evolving tax regulations, organizations can effectively manage risks, enhance stakeholder trust, and drive sustainable business growth in the dynamic tax environment.

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