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TABLE OF CONTENTS

S. No.	Title of the Paper / Author	Page No.
1.	Sextortion: Addressing the Impact and Law in India *Dr. Smita Sarmah & Dr. Kasturi Gakul*	1
2.	Cyber Operations Against Space Assets: A Legal Reassessment under the Law of Armed Conflict and International Telecommunication Regulation *Raghavendra S Kollurkar*	17
3.	The Basic Structure Doctrine as a Thin Line of Distinction Between Constitutional Amendment & Constitutional Dismemberment: An Analysis *Raajdwip Vardhan & Susmit Isfaq*	28
4.	Faith and Law at Crossroads: Unravelling the Complexities of Cult Crimes in India's Socio-Legal Framework *Saumya Tripathi*	46
5.	Navigating The Extent of Judicial Intervention in Pre-Arbitral Proceedings vis-a-vis Contemporary Judicial Trends in India *Meher Malik*	58
6.	Bridging Arbitration and Mediation: Evaluating the Arb-Med-Arb Hybrid in India's Investor-State Disputes *Jagyansh Kumar*	76
7.	Navigating Conflicts between IBC and PMLA: Prioritizing Insolvency Resolution over Asset Attachment *Shraddha Tiwari*	93
8.	Unearthing the Vices in Presumed Consent Law In Light of Recent Amendments To Transplantation of Human Organs and Tissues Act *Rishi Khemnani & Hardik Jain*	105
9.	Clickwrap Agreement: Validity, Enforceability And Challenges *Akarsh Raj*	115

10. Ethics v. Governance: A Critical Study of Misleading Advertisements And Consumer Rights in India
Palak Sharma 126

11. Post-Decisional Hearing In Administrative Law: Balancing Procedural Fairness And Administrative Efficiency
Garima Bansal 146

12. Balancing Corporate Tax Incentives and Revenue Collection: A Framework for Promoting Sustainable Business Practices in India
Shrey Bhatnagar & Mahi Singh 165

13. Electoral Disqualification Due To Criminal Antecedents: A Comparative Study
Diya Dhall & Suhani Anand 179

14. From Boardrooms to Ecosystems: A Study of Directors' Duty under Section 166(2) and Environmental Concerns With Reference To UK And Indian Laws
Prabhav Tripathi & Gargi Bindal 200

15. The Enforcement Dilemma of Interim Measures in Foreign Seated Arbitration: Emergency Arbitrator's Award in India
Divyam Desai & Shravin Relan 216

LEGISLATIVE COMMENT

16. Legislative Comment on the WAKF (AMENDMENT) BILL, 2025: Quoting the Contemporary Analysis of the Bill
Taarini Bhardwaj 226

Submission Guidelines 234

Balancing Corporate Tax Incentives and Revenue Collection: A Framework for Promoting Sustainable Business Practices in India

Shrey Bhatnagar*
Mahi Singh**

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ABSTRACT

The research article explores the link between corporate tax incentives and sustainable development, arguing that fiscal tools can be redesigned to promote eco-friendly business practices without significantly affecting government revenue. As environmental concerns rise, repurposing incentives offers a path to align economic and sustainability goals. The research article outlines key Indian corporate tax incentives- such as tax holidays, deductions, concessional rates (115BAA/115BAB), PLI, and SEZ benefits- while pointing out gaps in sustainability-focused incentives. It reviews regulatory frameworks like CSR mandates under the Companies Act and SEBI's BRSR, comparing them with international standards like the EU's CSRD and US climate disclosures. While recognizing potential revenue loss, it notes increased tax collections and cautions against over-relying on incentives, emphasizing the need for equitable distribution. The research article also makes the point that, as ESG metrics influence investment priorities, clear corporate tax disclosures have become essential for building investor confidence. Beyond compliance, they show a company's commitment to society, especially under the 'S' in ESG. The research article proposes more targeted, performance-based green incentives, including carbon taxes, enhanced deductions for green technology investments, tax credits for circular economy practices, and progressive CSR obligations. Learnings are drawn from international models such as the US IRA and EU policies. Challenges such as revenue loss, market distortion, greenwashing, administrative

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costs, and complexities arising from global tax reforms (OECD Pillar 2) are discussed. Policy recommendations include performance-based incentives, digital compliance platforms, awareness programs (especially for MSMEs), regulatory sandboxes for testing policies, sector-specific incentives, and potentially green tax dispute tribunals. The conclusion emphasises that sustainability must be integrated into India's tax framework for long-term, resilient growth and requires careful design and adaptation.

Keywords: *Corporate Tax Incentives, Sustainable Development, ESG Disclosures, Green Fiscal Policy, Revenue Impact*

1. INTRODUCTION:

Corporate taxation and Sustainable Development have become closely interlinked in policy discussions and economic strategies, especially as India's economic landscape undergoes great changes[1]. Corporate tax revenue serves a major role in funding government welfare programs, infrastructure development, and social initiatives. [2] With this, the concern of environmental degradation cannot be forgone. Corporate tax incentives traditionally opted to stimulate the economy and encourage investment, present a much greater opportunity to redirect such tax savings to address present environmental challenges and broader sustainability challenges. However, such incentives must be balanced not to be detrimental to the exchequer, noting that India's development needs are still far from sufficient and cannot be carried on without substantial expenditure[3]. The tax incentives balanced with revenue collection can be very instrumental in fostering sustainable business practices in India. A better understanding of current incentive offerings and sustainability within the Indian context helps propose a revised framework where the broader sustainability needs can be achieved through tax incentives, drawing lessons from the international framework, and addressing the boulders and trade-offs—with policy recommendations for the Indian government.

1 PricewaterhouseCoopers (PwC), Tax Transparency in ESG: Sustainable Practices of Indian Businesses 1 (2024), https://www.pwc.in/assets/pdfs/esg-consulting/tax-transparency-in-esg-v1.pdf (last visited Mar. 28, 2025).

2 Government of India, Income-tax Department, Time-Series Data: Direct Tax Collections and Administration, Financial Year 2021–22 1 (2000), https://incometaxindia.gov.in/Documents/Direct%20Tax%20Data/time-series-data-2021-22.pdf (last visited Mar. 28, 2025).

3 Joachim Betz, India's Economic Development, Policies and Current Problems, in Standardization Strategies in China and India, ed. Joachim Freimuth, Siglinde Kaiser & Monika Schädler 265–77 (Springer, Wiesbaden 2025), https://doi.org/10.1007/978-3-658-45583-5_16.

2. CORPORATE TAX INCENTIVES IN INDIA: AN OVERVIEW:

Types of Incentives: Corporate tax incentives in India are worked up by various means,[4] which include tax holidays such as for Special Economic Zones (SEZs)[5], deductions for infrastructure[6] and R&D companies[7], depreciable and investment allowances[8], and sector-specific incentives for Export-oriented units[9]. Corporate tax varies for domestic and foreign companies in India[10], with domestic corporations subject to tax rates based on their turnover and the tax regime they opt for, whether old or new. The government offers concessional tax rates for companies under section 115BAA (22%) and 115BAB (15%)[11], which reduce the tax base. However, this is contingent upon businesses opting not to claim other benefits, such as those available for SEZs, or having not claimed set-offs for losses, potentially impacting government revenue collection. Another significant incentive is the Production-Linked Incentive (PLI) scheme for manufacturing automobiles, textiles, pharmaceuticals, and electronic components. PLI involves financial incentives often linked to the manufacturing of electronic and medical devices designed to provide incentives with increasing sales primarily aimed to bolster domestic manufacturing over imports and sole assembling.

Sector-Specific Measures: SEZ units enjoy exemption from customs duty and GST for both imports and procurement of indigenous goods and services[12]. Supplies made by SEZ units to locations outside India are treated as exports and are zero-rated under GST[13], aimed at enhancing export capabilities and attracting Foreign Direct Investment (FDI).

Gaps in Sustainability Incentives: Tax benefits also extend to startups to promote innovation and keep the spirit of entrepreneurship alive, with a 100% tax rebate on profits for a specified period during their early years (subject to conditions like eligibility under the Startup India

4 Gangotree Ghosh, Fiscal Incentives, Additional Taxes and Problems of Management of Corporate Taxes in India (Ph.D. dissertation, University of North Bengal 2013).

5 Income Tax Act, 1961, § 10AA, No. 43, Acts of Parliament, 1961 (India).

6 Income Tax Act, 1961, § 80-IA, No. 43, Acts of Parliament, 1961 (India).

7 Income Tax Act, 1961, § 35, No. 43, Acts of Parliament, 1961 (India).

8 Income Tax Act, 1961, § 32, No. 43, Acts of Parliament, 1961 (India).

9 Ministry of Commerce & Industry, Directorate General of Foreign Trade, Foreign Trade Policy, ch. 6: Export Oriented Units (EOUs) (2025), https://www.dgft.gov.in/CP/?opt=ft-policy (last visited Mar. 26, 2025).

10 PwC, India – Corporate – Taxes on Corporate Income (2024), https://taxsummaries.pwc.com/india/corporate/taxes-on-corporate-income (last visited Mar. 28, 2025).

11 Income Tax Act, 1961, amended by Taxation Laws (Amendment) Act, 2019, No. 37, Acts of Parliament, 2019 (India).

12 KULWANT RAI GUPTA, SPECIAL ECONOMIC ZONES: ISSUES, LAWS AND PROCEDURES, VOL. 2 (ATLANTIC PUBLISHERS 2008).

13 Integrated Goods and Services Tax Act, 2017, §§ 7(5)(b), 17, No. 13, Acts of Parliament, 2017 (India).

scheme). Exemptions from long-term capital gains tax for investments meeting certain conditions. Tax exemptions on investments exceeding fair market value, often referred to as "Angel Tax exemptions," under prescribed scenarios[14]. Further, the government aims to promote the development of the critical infrastructure of essential services like cold chain facilities[15], agricultural warehousing, and healthcare offers sector-specific incentives through 100% deduction of capital expenditure in these. Fiscal Policy has given special consideration to research and development to bolster technological advancement across all industries.[16] The government's focused attention on promoting domestic manufacturing and technology seems like a strategic move to present India as a global manufacturing hub, advancing and innovating. However, a potential gap can be observed in sustainability sectors, such as renewable energy and waste management, beyond general capital expenditure deductions. However, when companies need to choose between a concessional tax rate and potentially more beneficial sector-specific incentives, they must align their decision with long-term goals and assess whether it supports their growth and investment objectives.

3. CORPORATE LAW AND SUSTAINABILITY: A REGULATORY PERSPECTIVE

Legal Framework in India: Sustainable business practices integrate environmental concerns and social welfare in economic operations, considering the needs of both present and future generations; in other words, they aim to create a balance between economic growth, social responsibility and environmental protection in the corporate activities.[17]By sustainability in business, we mean that the continued existence and growth of businesses must go hand in hand with reducing negative impacts on the environment and society. This can involve a commitment to resource efficiency, pollution reduction, and the adoption of cleaner technologies.

The Companies Act and CSR: Two pillars of sustainable business practice can be understood to be environmental sustainability and social responsibility. Environmental Sustainability involves but is not limited to reducing carbon footprint, conserving natural resources, using clean energy, minimising waste generation and ensuring compliance with domestic

14 D. Mahadeshwara, *An Analysis of the Tax Incentives Aimed at Fostering Entrepreneurial Spirit in India,* 3 Jus Corpus L.J. 1240 (Dec. 2022).

15 India Brand Equity Foundation, India's Food Processing Industry: Growth & Opportunities (2023), https://www.ibef.org/industry/food-processing (last visited Mar. 31, 2025).

16 Aakanksha Kaushik, *The Effectiveness of Research and Development Tax Incentives in India: A Quasi-Experimental Approach,* 14 Int'l J. Syst. Assurance Eng'g & Mgmt. 2329 (2023), https://link.springer.com/article/10.1007/s13198-023-02077-x#citeas.

17 Frances Westley & Harrie Vredenburg, *Sustainability and the Corporation,* 5 J. Mgmt. Inquiry 104 (1996), https://journals.sagepub.com/doi/abs/10.1177/105649269652003.

environmental laws. Social responsibility defined as the ''The set of obligations an organisation has to protect and enhance the society in which it functions''[18] is largely mandatory and governed by the Companies Act, under Section 135, it mandates that companies having a net worth of 500 crores or more, turnover of 1,000 or more or a net profit of 5 crores or more, must engage in Corporate Social Responsibility (CSR). They must contribute at least 2% of the average net profit from the preceding three financial years to CSR activities. Schedule VII of the Act lists the activities that can qualify for CSR, including promoting education, alleviating poverty, and ensuring environmental sustainability. This is a comply or explain provision. Additionally, provisions have also been incorporated to monitor and evaluate the process of CSR projects.[19] SEBI has made efforts to encourage corporations to adopt more sustainable practices by introducing Business Responsibility and Sustainability Reporting (BRSR) for listed companies. Good governance, which includes transparency in management, financial reporting, and ethical conduct, is a vital component of business operations, and companies are obliged to comply with applicable laws and regulations.

SEBI's BRSR Guidelines*:* Under SEBI's BRSR framework, strategic steps have been adopted to address environmental, social, and governance (ESG) issues. Key attributes of BRSR include tracking greenhouse gas emissions, water usage, and energy footprint, along with promoting employee well-being. Companies are required to report their business practices in three sections: general disclosures, management and process disclosures, and principle-wise performance disclosures. Further, BRSR encourages the disclosure of metrics related to the company's value chain, which involves assessing the behaviour of upstream suppliers.[20]

International Reporting Mandates**:** Due to the growing importance of legislative reporting, various jurisdictions have made legislation on sustainability reporting to enhance the transparency and enforceability of ESG. European Union (EU) brought the Corporate Sustainability Reporting Directive (CSRD) in 2023, which applies to nearly 50,000 EU companies even if it only has a presence in the EU but are abroad-based, are mandated to incorporate all sustainability-related information in their annual reports[21]. The companies

18 Josie Fischer, *Social Responsibility and Ethics: Clarifying the Concepts,* 52 J. Bus. Ethics 381 (2004), https://link.springer.com/article/10.1007/s10551-004-2545-y.

19 R. Uma Rani, *Corporate Social Responsibility in India: Exploring the Legal Mandate Under the Companies Act,* 2013, 27 Afr. J. Biomed. Res. 1359 (2024).

20 AZB & Partners, Driving Sustainable Business Practices: The SEBI's BRSR Core Framework and Internationally Evolving ESG Disclosures (2024), https://www.azbpartners.com/bank/driving-sustainable-business-practices-the-sebis-brsr-core-framework-and-internationally-evolving-esg-disclosures/ (last visited Apr. 1, 2025).

21 PricewaterhouseCoopers, ESG Reporting and Preparation of a Sustainability Report | PwC Slovakia (2021), https://www.pwc.com/sk/en/environmental-social-and-corporate-governance-esg/esg-reporting.html (last visited Apr. 1, 2025).

are mandated to disclose the effect on business that they are facing due to climate change as well as the impact of their business on climate. These data will be submitted in digital form, and this will make a uniform format for all as well.[22] Similarly, the United States (US), on March 6, 2024, adopted the rules to enhance climate-related disclosures for investors; however, it applies only to publicly listed Companies. Companies are mandated to disclose the steps they took to mitigate climate-related risks as well as the expenditures they incurred.[23] To assess the material climate-related risk, is the responsibility of the Board of Directors. These steps ensure that investors make clear and better decisions.

4. THE REVENUE IMPACT OF CORPORATE TAX INCENTIVES

The government surely loses part of its revenue when it offers incentives. Data from the Ministry of Finance in response to an unstarred Rajya Sabha question[24] highlights a significant loss of revenue due to corporate incentives that have had a significant impact in recent years.

Table 1: Revenue impact of major tax incentives

Financial Year	For Corporates (in Rs Crore)	For Individuals/HUFs (in Rs Crore)
2019-20	94,109.83	1,55,429.45
2020-21	75,218.02	1,28,244.23
2021-22	96,892.39	1,68,566.30
2022-23	88,109.27	1,96,678.95
2023-24*	98,999.57	2,20,988.47
Total	**4,53,329.08**	**8,69,907.40**

Source: Receipt Budget of respective years

**Total Revenue Impact for FY 2023-24 is projected revenue impact.*

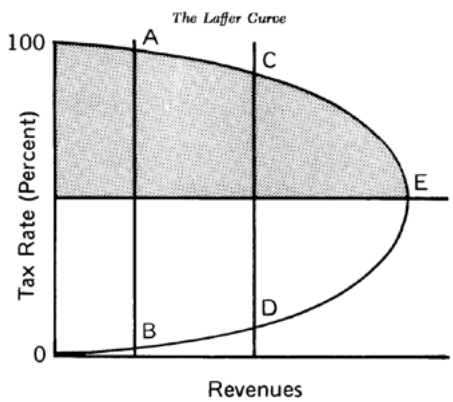
22 Alexander Schmidt & Evan Farbstein, *The Corporate Sustainability Reporting Directive (CSRD), Explained,* Normative (2021), https://normative.io/insight/csrd-explained/ (last visited Apr. 1, 2025).

23 U.S. Securities and Exchange Commission, SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors, SEC.gov (2024), https://www.sec.gov/newsroom/press-releases/2024-31 (last visited Apr. 1, 2025).

24 Shri Pankaj Chaudhary, Government of India, Ministry of Finance, Department of Revenue, Rajya Sabha Unstarred Question No. 224 (Dec. 13, 2022), https://sansad.in/getFile/annex/267/AU224_EmJz6o.pdf?source=pqars.

The direct cost on fiscal is a tangible outflow from the government's potential earnings. However, despite the reduction in corporate tax rates, India has witnessed an upward trajectory in corporate tax collection[25]. This suggests that the government's vision behind incentives to stimulate the economy is actually yielding results and positive outcomes in terms of revenue. Parliamentary records have highlighted that the initial reduction in corporate tax rates did not have a corresponding loss in revenue due to subsequent economic growth.[26] This potentially aligns with the Laffer Curve principle which posits that lower tax rates under certain conditions can help stimulate the economy and eventual growth in revenue.

Graphical Representation 1



Still, the sole consideration of incentives cannot be accepted; there are many other factors like investment climate, which includes but are not restricted to ease of doing business, relaxed compliances, single window clearances and regulatory stability[27], which have a significant influence on investment decisions eyeing positive prospects. Data from FY 2022-23[28] on corporate tax liability and effective tax rates indicates a disparity wherein effective tax rates

25 Comptroller and Auditor General of India, Direct Taxes Report No. 13 of 2024 (Mar. 19, 2025), https://cag.gov.in/en/audit-report/download/121131.

26 Shri Pankaj Chaudhary, Government of India, Ministry of Finance, Department of Revenue, Rajya Sabha Unstarred Question No. 544 (Mar. 22, 2022), https://sansad.in/getFile/annex/259/AU544.pdf?source=pqars.

27 Hania Kronfol & Victor Steenbergen, Evaluating the Costs and Benefits of Corporate Tax Incentives: Methodological Approaches and Policy Considerations 1 (World Bank Grp. 2020), https://documents1.worldbank.org/curated/en/180341583476704729/pdf/Evaluating-the-Costs-and-Benefits-of-Corporate-Tax-Incentives-Methodological-Approaches-and-Policy-Considerations.pdf.

28 Government of India, Ministry of Finance, Receipt Budget 2024–25, Annex 7: Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2021–22 and 2022–23 1 (2024), https://www.indiabudget.gov.in/doc/rec/annex7.pdf.

of larger companies were lower than that for smaller companies despite companies being prescribed higher tax rates by law. This raises concerns about the inequitable distribution of tax favouring large corporations. This poses a challenge to policymakers who view tax incentives as the sole or major component responsible for stimulating economic growth and sustainable development.

5. INVESTOR CONFIDENCE DEPENDS ON TRANSPARENT ESG-ALIGNED TAX DISCLOSURES

From the investor's view, the quality of corporate disclosures, especially regarding environmental, social, and governance (ESG) metrics, is an important factor in assessing long-term viability. Strong climate and ESG reporting frameworks are not just compliance tasks; they help guide informed investment choices. Institutional investors now see ESG performance as essential to financial success, not just a responsible add-on. In 2020, 72% of investors surveyed by EY conducted structured ESG assessments, which is more than double the rate in 2018[29]. Clear ESG disclosures offer insight into both risks and strengths, allowing investors to make choices that foster lasting economic growth[30]. Transparent and fair tax contributions are now viewed as a sign of a company's commitment to society the 'S' component of ESG disclosures. Investors want clear information about tax governance, contributions by region, and how incentives are used, especially since sustainability-linked tax incentives are on the rise. Tax practices matter financially to investors and socially to regulators, employees, and the public[31].

29 EY, *Why ESG Performance Is Growing in Importance for Investors,* EY.COM (2025), https://www.ey.com/en_gl/insights/assurance/why-esg-performance-is-growing-in-importance-for-investors#:~:text=Companies%20that%20have%20treated%20their%20staff%20and%20suppliers%20well%20during%20the%20COVID%2D19%20pandemic%20have%20likely%20improved%20their%20corporate%20reputations%2C%20and%20potentially%20gained%20more%20business (last visited June 21, 2025).

30 Ziqing Zheng, *The Impact of ESG Report Transparency on Investor Behavior,* 129 ADV. ECON. MGMT. & POL. SCI. 151 (2024), https://www.ewadirect.com/proceedings/aemps/article/view/18396 (last visited June 19, 2025).

31 PricewaterhouseCoopers, Tax Is a Crucial Part of the ESG Conversation, PwC (2022), https://www.pwc.com/gx/en/services/tax/publications/tax-is-a-crucial-part-of-esg-reporting.html (last visited Jun. 22, 2025).

6. DESIGNING A SUSTAINABILITY-LINKED TAX INCENTIVE FRAMEWORK

Enhancing Green Incentives: In India, there is a need for an explicit carbon tax to foster better sustainable practices, which could significantly contribute to reducing emissions and act as an additional source of revenue. The current system of giving deductions and incentives for renewable projects is not sufficient enough, as instead of giving a 5% lower tax incentive to all involved in the production of Electronic Vehicles (EVs), the government should enhance the deductions and depreciation limits for the larger units which would serve as an incentive to increase production and achieve economies of scale.[32] Offering bonus deductions for investments in energy-efficient technologies would further encourage lower energy consumption, improving with time as has been illustrated by Asian development Bank's study.[33] There is a need to promote a circular economy involving processes with stages committed to reducing waste.

Incentivizing Circular Economy: Higher tax credits could be provided to companies that recycle materials used in the production process, thereby enhancing resource efficiency.

CSR Contribution Reforms: Other than this, instead of mandating all the companies to pay 2% of their profit under the CSR, the obligation should evolve progressively, which means the larger corporations can shoulder more CSR funding, bridging the economic disparity, whereas the companies having low profits should be given the option to contribute minimally. So, the CSR contribution can range from as low as 0.1% to 5% based on the quantum of their profit. Additionally, instead of limiting CSR to specific areas that indirectly promote a specific business's growth, it should be directed towards all essential sectors to achieve comprehensive development, such as enhancing healthcare access, reducing urban poverty, promoting environmental sustainability, and skilling the workforce.[34]

Penalties for Environmental Misconduct: In line with the polluter pays principle, the government could impose environmental taxes or levies. For instance, a company that uses excessive water in a water-stressed area could be subjected to penalties in the form of cess, directly addressing the water scarcity itself. The proceeds could later be used for green infrastructure projects and social responsibility infrastructure. Advocating Good

32 KNAV India, Investing in Sustainability: Tax Incentives and Impacts (2024), https://in.knavcpa.com/insights/investing-in-sustainability-tax-incentives-and-impacts/ (last visited Apr. 5, 2025).

33 Tapan Sarker et al., The Role of Fiscal Incentives in Promoting Energy Efficiency in the Industrial Sector: Case Studies from Asia, ADBI Working Paper Series No. 1172, at 1 (Asian Dev. Bank Inst. 2020), https://www.adb.org/sites/default/files/publication/634696/adbi-wp1172.pdf.

34 Srinath Sridharan, *Give, But Why Stick to 2%,* Econ. Times (Mar. 20, 2025), at 6.

governance, which forms an essential part of sustainability tax deductions, could be given to companies that comply with corporate governance and ethical business conduct.

7. INTERNATIONAL BEST PRACTICES AND LESSONS FOR INDIA

United States introduced the Inflation Reduction Act (IRA) in 2022, and through this Act, the government aims to reduce the energy cost which is used in the deployment of new clean electricity in different sectors such as educational institutions, businesses, non-profits, state, local or tribal collectives. Even entities that are not exempted from tax can transfer tax credits to non-related parties.[35] Other than the environment, the IRA also incentivises social policy goals by mandating the minimum wage to labourers. The tax credit offering is getting popular in the US, as the same tax credit will exist till 2032.

Similarly, the European Union is also trying to achieve its net zero carbon by 2050. Aligning with that, it has introduced zero or reduced VAT tax on certain investments and services. Most of the member states offer higher deductions on R&D and innovation costs. In France, the 2024 Bill gives tax credits to the companies involved in the battery, solar, and wind sectors. It has the potential to generate huge investment as well the employment.[36]

In Canada, to boost the clean economy, the Input Tax Credit (ITC) is given for manufacturing clean technology and clean hydrogen. So, the companies that provide support in manufacturing or processing clean technology get 30% of ITC in their cost. Meanwhile, in clean hydrogen, the ITC percentage varies from 15 to 40 depending on the projects that produce the cleanest hydrogen.[37] Japan also introduced the Green Transformation Policy in 2024; its aim is to save energy by deploying renewable energy in the nuclear infrastructure. They will also be getting the help of R&D, ammonia, and others.[38]

35 Tax incentives for sustainable investments: what businesses should be thinking about, AOSHEARMAN.COM (2024), https://www.aoshearman.com/en/insights/tax-incentives-for-sustainable-investments-what-businesses-should-be-thinking-about (last visited Apr 4, 2025).

36 A&O Shearman, Tax Incentives for Sustainable Investments: What Businesses Should Be Thinking About (2024), https://www.aoshearman.com/en/insights/tax-incentives-for-sustainable-investments-what-businesses-should-be-thinking-about (last visited Apr. 4, 2025).

37 Natural Resources Canada, Government of Canada Launches the First Clean Economy Investment Tax Credits, Canada.ca (2024), https://www.canada.ca/en/natural-resources-canada/news/2024/06/government-of-canada-launches-the-first-clean-economy-investment-tax-credits.html (last visited Apr. 4, 2025).

38 Ministry of Economy, Trade and Industry (Japan), Japan's Green Transformation Policy and Transition Finance 1 (European Union 2024), https://cdnw8.eu-japan.eu/sites/default/files/imce/2024.4.18%20METI.pdf.

Comparing the US framework with India, the IRA is more flexible as it allows the taxable entities to transfer the credits to a third party, whereas the same is not the case in India. IRA has already provided a clear and fixed credit for a decade, which brings predictability to investors; however, the same is absent in India as it is subject to periodic reviews and changes. Further, IRA is the socially inclusive model as it incentivises minimum wage requirements under environmental goals, whereas, in India, the incentives mainly focus on the financial aspect.

Aligning with France, recently, India, in its latest budget, also reduced the import duty on its solar cell from 25% to 20%, saw that the duty on solar modules has been cut from 40% to 20%. Further, the tariff on electricity meters has also been lowered from 25% to 20%. These steps will make the energy efficient.[39]

8. CHALLENGES AND TRADE-OFFS

The task of Balancing corporate tax incentives with revenue collection in pursuit of sustainability goals is not easy; it presents some inherent challenges and trade-offs, the most important being the potential revenue loss. Policymakers around the world have justified costs by emphasising benefits such as job creation and economic growth. However, these claims rarely rely on empirical or evidence-based studies[40]. Therefore, a measure of cost-effectiveness is essential before translating policy discussions on incentives into legal changes. Another considerable risk associated with this is potential market disruption[41], which deepens when sector-specific incentives are put into place, resulting in the incentivised sectors or companies gaining an unfair competitive edge over others. Greenwashing is another challenge[42], which refers to falsely presenting oneself as environmentally friendly or sustainable, while the claim might be untrue or only partially accurate, which therefore calls for laying down robust standards and monitoring alongside.

39 Energética India, FM Nirmala Sitharaman Announces Budget 2025: INR 1,500 Cr for Solar Power, Big Push for Clean Energy (2025), https://energetica-india.net/news/fm-nirmala-sitharaman-announces-budget-2025-inr-1500-cr-for-solar-power-big-push-for-clean-energy (last visited Apr. 4, 2025).

40 Kronfol & Steenbergen, *supra* note 27, at 6.

41 Alvic Padilla et al., Use and Abuse of Tax Breaks: How Tax Incentives Become Harmful 1 (Financial Transparency Org. 2020), https://financialtransparency.org/wp-content/uploads/2020/01/How-Tax-Incentives-Become-Harmful_For-Web_Jan-24.pdf.

42 TS Bureau, Can India Reimagine Tax as a Climate Action Tool?, The Secretariat (2024), https://thesecretariat.in/article/can-india-reimagine-tax-as-a-climate-action-tool (last visited Apr. 5, 2025).

Implementation of tax incentives comes with additional administrative costs[43] and also increases compliance requirements. While providing tax benefits, additional attention is needed to actually derive these benefits. Also, the Organisation for Economic Co-operation and Development (OECD) efforts to remedify challenges posed by the digitisation of the economy by proposing two pillars, of which the later PILLAR 2 – lays down the Global Minimum Tax, introduces additional complexity, as the traditional tax incentives might not remain that beneficial since additional taxes from other jurisdictions might fail the same[44].

9. POLICY RECOMMENDATIONS

Opting for performance-based green tax incentives over broad deductions or generic tax holidays might be a better fiscal decision with improved outcomes. The OECD has emphasised the higher efficiency of targeted environmental taxes[45]. This also aligns with the practices adopted by Germany and South Korea. To minimise bureaucratic hurdles and improve transparency, a single-window digital platform must be launched for all compliances, whether they relate to governance or tax, if they aim to achieve sustainability goals. While a platform known as the National Single Window System (NSWS) is already in place, its mandate is quite broad and not aimed at sustainability goals in particular. Digital compliance systems are a major tool to ease doing business, particularly in the developing world, where similar compliances often follow different laws[46]. There is a significant lack of awareness and capacity building among small enterprises. Government-backed and initiated awareness programs might trickle down their impact and achieve the goal of sustainability even among MSMEs. Harvard Business Review's study[47] also advocates that effective sustainability efforts begin with top-down awareness and compliance guidance. The introduction of regulatory sandboxes can prove to be instrumental, particularly in fostering innovation. Sandboxes are controlled environments that check and evaluate the

43 Markus Meinzer et al., Comparing Tax Incentives across Jurisdictions: A Pilot Study 1 (Tax Justice Network 2019), https://taxjustice.net/wp-content/uploads/2018/12/Comparing-tax-incentives-across-jurisdictions_Tax-Justice-Network_2019.pdf.

44 Barbara Angus, *How a Global Minimum Tax Will Affect Sustainability Tax Incentives,* EY GLOBAL (Mar. 15, 2023), https://www.ey.com/en_ee/insights/tax/how-global-minimum-tax-affects-sustainability-tax-incentives.

45 Jeffrey Greene & Nils Axel Braathen, *Tax Preferences for Environmental Goals: Use, Limitations and Preferred Practices,* OECD ENV'T WORKING PAPERS, No. 71, 1 (2014), https://doi.org/10.1787/5jxwrr4hkd6l-en.

46 BUSINESS READY (B-READY), WORLD BANK GROUP, https://www.worldbank.org/en/businessready.

47 George Serafeim, *Social-Impact Efforts That Create Real Value,* HARV. BUS. REV. (2020), https://hbr.org/2020/09/social-impact-efforts-that-create-real-value (last visited Apr. 6, 2025).

effectiveness of laws. This has been initiated in the financial sector[48], so it can serve the same purpose as Corporate Taxation through pilot programmes without relying on legislative rigidity and might pave the way for innovative green solutions. Every industry impacts the environment variedly. Therefore, corporate invectives must be differentiated from sector to sector[49]. High-emission sectors like the construction industry, with its subsectors like cement and steel, should not be eligible for green tax credits as their processes are impossible to difficult to improve, while organic farming or recycling plants could benefit from tax credits for carbon neutrality like achievements. The National Litigation Policy advocates for specialised tribunals[50]. However, India lacks a quasi-judicial body to address green tax disputes, where expertise in both environmental and tax laws can come together, ensuring a more expert-driven outcome, while this suggestion is contingent on earlier suggestions taking legislative form to really burden down the judiciary and rather promote a better resolution while National Green Tribunal is in place green tax disputes are still beyond its jurisdiction.

10. CONCLUSION

As India embarks on a historical watershed moment in its economic journey, the trick task of using corporate tax incentives as a tool for Sustainable Development becomes crucial. We have explored how corporate tax funds serve as fuel to the government's vehicle for the development and lifeblood of public services. Yet environmental concerns cannot be compromised over economic progress. The traditional tool of tax incentives, widely used to stimulate the economy and encourage investment, holds immense potential to serve as a baton for advancing environmental and sustainability goals.

The main trouble, as discussed, lies with balancing the revenue impact. India's efforts have flowed variedly with distinct efforts involving SEZs, PLI, Mandatory CSR and Introduction of BSBR, some being unique Indian innovations while others mimicking the Global practices. The concerns regarding revenue loss are valid despite the available data reconciling us but lack of attention to concerns regarding equitable distribution and singular

48 Shashidhar K. J., *Regulatory Sandboxes: Decoding India's Attempt to Regulate Fintech Disruption,* ORFONLINE.ORG (2023), https://www.orfonline.org/research/regulatory-sandboxes-decoding-indias-attempt-to-regulate-fintech-disruption-66427 (last visited Apr. 6, 2025).

49 UN Environment, *Green Fiscal Policy,* UNEP – UN ENV'T PROGRAMME (2017), https://www.unep.org/explore-topics/green-economy/what-we-do/economic-and-trade-policy/green-fiscal-policy (last visited Apr. 7, 2025).

50 National Litigation Policy, MINISTRY OF LAW & JUSTICE (Jan. 31, 2023), https://legalaffairs.gov.in/parliament-q/national-litigation-policy-3.

credit to incentives disregarding other factors can be problematic.

Looking ahead, we propose a more explicit and targeted framework. With a system incorporating elements like carbon tax, enhanced deductions for significant investments in green technologies, and tax credits rewarding circular economy practices like recycling. Applying the 'polluter pays' principle through targeted levies in resource-stressed areas could also generate funds for green initiatives. Learning from international examples like the US Inflation Reduction Act's flexibility and long-term predictability or Europe's focus on R&D and specific green sectors can provide valuable lessons. However, these suggestions may not glide smoothly like a warm knife through butter, given the potential for market distortions, the danger of 'greenwashing', and the administrative complexities involved, further complicated by global tax reforms like OECD's Pillar 2.

Our recommendations focus on smarter, performance-based green incentives rather than general approaches. Streamlining compliance through dedicated digital platforms, boosting awareness, especially among smaller enterprises, and using regulatory sandboxes to test innovative tax policy could pave the way. Differentiating incentives based on industry impact and potentially establishing specialised tribunals for green tax disputes could further refine the system.

Furthermore, transparent and responsible tax conduct must be seen not just as a financial duty, but as a social agreement. It reflects corporate values and honesty. It ensures that corporate involvement in sustainable development goes beyond just following rules and enters the area of social responsibility.

At its core, integrating sustainability into India's corporate tax framework isn't just an environmental imperative; it's a strategic necessity for long-term, resilient economic growth. It requires careful design, continuous evaluation, and a willingness to adapt, ensuring that our goal goes hand-in-hand with respect for our environment and society.