Do Entrant Tax Cuts Create Firms or Shift Incorporation Dates? Evidence from India's Manufacturing Tax Notch

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Abstract

This paper examines whether entrant-specific corporate tax preferences induce net formal enterprise creation or merely trigger strategic intertemporal retiming of firm incorporation. Exploiting India's September 2019 corporate tax reform, which made new domestic manufacturing companies incorporated on or after 1 October 2019 eligible for a 15% statutory rate, the paper evaluates a natural experiment using all-India administrative company registration records from 2016 to 2019. The 11-day announcement-to-eligibility window separates behavioral timing frictions from net extensive-margin entry. Manufacturing firm births fell by 67 registrations, or 12.6%, during the pre-cutoff anticipation window, then surged by 946 registrations across the first two post-cutoff months, with post-cutoff registrations 23.1% to 35.2% above expected levels. Pre-cutoff retiming explains only 7.1% of the post-cutoff expansion, showing that the response represents additional extensive-margin formal firm creation rather than administrative birthday shifting. Triple-difference models confirm statistically significant manufacturing-specific gains, while same-date placebo years and leave-one-major-state-out tests show that the pattern is not explained by ordinary seasonality or any single major state. Post-cutoff entrants also account for ₹169 crore in excess paid-up capital, showing that the entry response carried measurable equity capital at incorporation. The findings provide causal evidence that tax incentives for new entrants can rapidly expand formal industrial enterprise formation and generate measurable paid-up equity capital commitments.

JEL Classification: H25, H32, L26, O14

Keywords: corporate tax, firm entry, manufacturing, formalization, industrial policy

1. Introduction

1.1 Background and Research Question

Industrial expansion and formal enterprise creation are central to structural transformation and sustained economic growth in developing economies. Manufacturing has long been treated as a distinctive engine of development because it supports productivity growth, scale economies, learning, and cross-sector reallocation, although the strength of this relationship varies across countries and periods (McMillan and Rodrik, 2011; Szirmai, 2012; Rodrik, 2013, 2016). Across emerging markets, governments frequently deploy targeted fiscal incentives, tax preferences, and regulatory concessions to stimulate domestic manufacturing, accelerate capital accumulation, and move employment from informal activities into organized corporate production. The rationale for prioritizing manufacturing entry is grounded in classical growth models and industrial organization, which show that formal industrial firms can generate productivity spillovers, technological upgrading, backward and forward supply linkages, and a broader formal tax base.

In economies characterized by extensive informality, the incorporation of formal enterprises also strengthens state capacity by creating transparent accounting trails that support commercial credit, contract enforcement, fiscal compliance, and tax administration. This institutional linkage between formal economic activity, fiscal capacity, and development is central to Besley and Persson (2013), while La Porta and Shleifer (2014) emphasize the productivity and organizational divide between informal and formal firms. Despite these potential benefits, the efficacy of tax policy as an instrument of industrial development remains one of the most contested issues in public economics. A fundamental problem confronting researchers and fiscal authorities is whether tax-induced firm registrations reflect genuine extensive-margin enterprise creation or merely administrative and behavioural manoeuvres designed to capture fiscal advantages without generating new formal industrial activity.

When governments introduce preferential corporate tax regimes targeted exclusively at newly incorporated entities, they create an immediate administrative distortion. An entrant-specific tax cut changes economic incentives along several competing margins. On the one hand, the

neoclassical investment framework developed by Hall and Jorgenson (1967) implies that a lower statutory corporate tax rate can reduce the user cost of capital and increase the expected net present value of prospective industrial investments, lowering the hurdle rate of return and inducing the entry of new manufacturing entities that would have remained unviable under the higher tax regime. It can also induce informal or unincorporated businesses to formalize into registered companies in order to secure the fiscal surplus. On the other hand, an eligibility rule that conditions preferential tax treatment on a sharp legal registration date creates powerful incentives for strategic retiming.

The public finance literature on behavioural responses to taxation shows that tax reforms can generate income shifting, timing changes, and reclassification rather than real economic creation (Slemrod, 1995). Entrepreneurs who were already planning to establish formal enterprises in the immediate pre-reform period have a clear incentive to postpone legal incorporation until the policy takes effect. Such behaviour generates a visible surge in post-reform registrations that reflects the intertemporal shifting of legal incorporation dates rather than the creation of new formal firms. Preferential corporate tax rates can also encourage tax-motivated organizational restructuring, as firms shift income across tax bases or alter legal form to capture lower tax treatment without necessarily expanding operations (Gordon and Slemrod, 2000).

Distinguishing between these competing behavioural mechanisms is essential for the economic evaluation and optimal design of industrial policies. The bunching and notch literature shows that observed clustering around regulatory thresholds may reflect real economic adjustment, avoidance behaviour, or administrative reclassification, making it necessary to identify which margin is actually moving (Kleven, 2016). An industrial policy that merely induces the intertemporal retiming of firm incorporation or the proliferation of zero-capital legal conduits generates administrative friction, fiscal erosion, and limited industrial expansion. Conversely, an entrant-targeted policy that successfully catalyzes new formal manufacturing births accompanied by shareholder equity commitments creates legal entities through which future physical investment, factory setup, job creation, borrowing, contracting, and tax compliance can occur. Evaluating this distinction requires an empirical setting with a transparent policy notch, high-frequency administrative data, and observable financial metrics measured at the time of legal birth.

This paper investigates this fundamental distinction in the context of a major corporate tax overhaul in an emerging market, namely India's September 2019 corporate tax reform (Government of India, 2019; Income Tax Department, 2026). On 20 September 2019, the Government of India announced a major corporate tax reduction, headlined by the enactment of Section 115BAB of the Income Tax Act. Under this provision, a highly concessional statutory tax rate of 15%, representing a reduction of more than one thousand basis points from prevailing headline rates of 25% to 30%, was made available to new domestic manufacturing companies incorporated on or after 1 October 2019. This legal architecture generated a sharp, publicly observed administrative cut-off exactly eleven days after the official announcement.

The paper asks a central research question with major policy implications. Do entrant-specific corporate tax cuts create new formal manufacturing firms or merely shift legal incorporation dates across administrative thresholds? Answering this question is critical for understanding whether fiscal incentives can jumpstart formal industrialization in developing countries and for assessing whether administrative transition windows weaken policy effectiveness through intertemporal gaming. By exploiting this high-frequency natural experiment using population-level administrative records from the Registrar of Companies covering hundreds of thousands of firms over a multi-year panel, this study provides a comprehensive empirical decomposition of intertemporal retiming versus net extensive-margin formal entry, while directly examining initial equity commitments to assess the financial substance of new entrants.

1.2 Prior Literature, Conceptual Deficits, and Empirical Gaps

1.2.1 Corporate Taxation and the Firm Entry Margin

The first literature investigates the empirical relationship between corporate income taxation, entrepreneurship, and firm creation. In a foundational cross-country study, Djankov et al. (2010) examine effective corporate tax rates across eighty-five countries and document that higher corporate taxes exert large adverse effects on aggregate investment, foreign direct investment, and entrepreneurial activity. Focusing on European economies, Da Rin et al. (2011) assemble country-industry data to evaluate structural tax reforms, finding that corporate taxation significantly reduces entry rates, particularly in sectors with higher capital intensity. Bacher and

Brülhart (2013) add evidence from subnational tax variation, showing that firm births respond to the structure and level of business taxation. At the local policy margin, Venâncio et al. (2022) exploit municipal corporate income tax reductions in Portugal and show that local tax cuts stimulate firm creation and employment gains, with stronger responses among higher-quality entrepreneurs. Complementing these entry studies, an extensive empirical literature in corporate taxation examines how statutory rates and international tax differentials shape multinational location decisions and capital expenditure, including seminal contributions by Devereux and Griffith (1998), Devereux et al. (2002), and Klemm and Van Parys (2012).

However, a fundamental limitation of this literature is its reliance on annual, cross-sectional, or aggregated regional data. Because most existing studies observe firm entry only at annual intervals, they cannot identify high-frequency behavioral dynamics around the exact moment at which tax eligibility changes. Specifically, they cannot determine whether an annual increase in registrations represents additional extensive-margin enterprise creation or an intertemporal reallocation of incorporations across calendar periods. This paper fills that identification gap by observing the universe of corporate registrations at daily frequency around a precise statutory cutoff, allowing the empirical separation of timing adjustments from additional formal entry gains.

1.2.2 Policy Notches, Dynamic Bunching, and Intertemporal Shifting

The second literature evaluates behavioral responses to administrative thresholds, notches, and kinks in public finance. Kleven (2016) places bunching methods at the center of modern empirical public finance because they identify how taxpayers respond to discontinuities in incentives, enforcement, and administrative rules. The notch framework developed by Kleven and Waseem (2013) is especially relevant because it shows that discontinuities can generate both excess mass on the preferred side of a threshold and missing mass on the less preferred side. In the corporate sphere, Almunia and Lopez-Rodriguez (2018) examine how Spanish firms strategically manipulate reported revenues to bunch below a regulatory threshold that triggers intensive tax auditing, revealing substantial compliance frictions and reporting elasticities. Best et al. (2015) exploit minimum tax notches in Pakistan and show that production inefficiency

arises when tax bases shift from profits to turnover, highlighting severe administrative and enforcement constraints in developing countries.

The broader public finance literature also shows that behavioral responses to anticipated tax changes may reflect timing, shifting, and reclassification rather than real economic creation. Slemrod (1995) distinguishes income creation from income shifting in responses to tax reform, while Feldstein (1999) emphasizes that avoidance and reclassification responses can generate substantial deadweight costs. The investment-incentives literature similarly shows that temporary tax incentives can affect the timing, incidence, and firm-level distribution of investment responses, including capital-goods price effects, bonus-depreciation timing, and heterogeneous investment responses across firms (Goolsbee, 1998; House and Shapiro, 2008; Zwick and Mahon, 2017).

Despite these major advances, the bunching and notch literature has remained largely organized around size, revenue, audit, or income thresholds. Much less is known about how a notch operates when the threshold is temporal and the behavioral object is firm birth itself. Very few studies extend the notch framework into high-frequency event time to evaluate discrete extensive-margin entry decisions. This study bridges that divide by adapting the notch framework to an incorporation-date threshold and formulating a dynamic mass-conservation test that separates temporal bunching from additional extensive-margin entry.

1.2.3 Place-Based Incentives and National Industrial Policy

The third literature analyzes place-based tax incentives and targeted industrial policies. In developing economies, governments frequently employ spatially targeted corporate tax exemptions to revitalize lagging regions. Chaurey (2017) studies India's New Industrial Policy in Uttarakhand and Himachal Pradesh, finding that corporate tax holidays and capital subsidies substantially increased formal employment, output, and investment in treated areas. Hasan et al. (2021) evaluate India's backward-district tax exemption scheme under Section 80-IB, documenting positive entry and employment effects that were concentrated in light manufacturing within relatively developed backward districts. In advanced economies, Criscuolo et al. (2019) exploit enterprise eligibility boundaries under the United Kingdom Regional

Selective Assistance program and show that direct industrial subsidies generated causal increases in manufacturing employment and fixed capital investment at treated plants. These evaluations build upon broader welfare frameworks for place-based interventions developed by Busso et al. (2013) and Kline and Moretti (2014), which emphasize the equity-efficiency trade-offs of spatial policy.

The renewed interest in industrial policy has also created a demand for research designs that can evaluate state-led manufacturing incentives with institutional precision. Aghion et al. (2011) provide an influential framework for rethinking industrial policy, while Lane (2020) reviews the new empirical industrial policy literature and emphasizes how credible research designs are beginning to close the gap between policy relevance and causal evidence. Juhász et al. (2024) similarly argue that modern industrial policy research increasingly depends on careful institutional detail, transparent policy variation, and measurable economic margins.

However, place-based tax policies are inherently bundled with geographic eligibility criteria, local infrastructure grants, regional labour market frictions, and possible spatial relocation. Consequently, identifying the extensive-margin response of corporate entry to a national statutory tax cut, unconfounded by place-specific subsidies or local infrastructure packages, has remained challenging. This study provides such an evaluation by analyzing a nationwide policy that applied uniformly across all states and union territories, conditioning eligibility solely on incorporation date and sector.

1.2.4 Regulatory Barriers, Micro-Formalization, and Corporate Scale

The fourth literature examines entry deregulation, red tape, and formalization in developing economies. Klapper et al. (2006) and Ciccone and Papaioannou (2007) show that cumbersome registration procedures, high administrative entry costs, and red tape impose severe barriers to entrepreneurship and delay market entry. In developing countries characterized by large informal sectors, formalization policies have typically focused on reducing administrative burdens or providing financial incentives to microenterprises. Bruhn and McKenzie (2014) review the experimental and quasi-experimental evidence on business registration reforms, concluding that simplifying registration procedures increases formal firm registrations, but that most informal

micro-entrepreneurs do not formalize. de Mel et al. (2013) conduct a randomized field experiment in Sri Lanka and show that direct financial inducements lead to substantial registration, although formalization alone does not automatically raise profits, output, or access to commercial credit. Monteiro and Assunção (2012) evaluate Brazil's SIMPLES program, which combined administrative simplification with reduced tax rates, and show that tax reductions increased formal registration among existing retail microenterprises, with effects that varied across sectors.

The broader informality literature emphasizes that formalization is not a uniform transformation process. La Porta and Shleifer (2008, 2014) describe a sharp productivity and organizational divide between informal and formal firms, while Hsieh and Klenow (2009) show how misallocation can depress aggregate productivity when resources are trapped in low-productivity firms. McKenzie (2017) further shows that policy support can matter for high-growth entrepreneurship when it relaxes capital and entry constraints, but this evidence also highlights the difference between microenterprise formalization and scalable enterprise creation.

A critical limitation of this literature is that it has focused primarily on microenterprises, single-window administrative simplifications, small grants, or existing informal firms. There is much less evidence on how large-scale statutory corporate tax cuts influence the entry of incorporated manufacturing companies with observable equity capitalization. Previous formalization studies also tend to treat firm registration as a binary count, without verifying the financial scale of newly born firms. This paper addresses that gap by observing both the volume of formal registrations and the initial paid-up and authorized equity capital committed at the exact moment of legal birth.

1.3 Research Contributions

This paper makes two central contributions to public finance, industrial development, and enterprise dynamics. First, it extends notch-based identification into high-frequency temporal event space by using an 11-day announcement-to-implementation window to separate intertemporal retiming from additional extensive-margin formal entry. The design maps the pre-cut-off missing mass of registrations against the post-cutoff excess, providing causal evidence on

whether an entrant-specific corporate tax cut creates new formal manufacturing firms or merely shifts incorporation dates. Second, the paper develops a capital-at-birth validation approach by linking firm counts with paid-up and authorized capital at incorporation. This shows whether the entry response carried measurable equity capital at legal birth, rather than treating registrations as simple administrative counts.

The findings show that entrant-specific tax incentives should be evaluated at the entry margin, not only through aggregate investment announcements or later output measures. A credible tax notch can rapidly expand formal manufacturing firm creation, but the relevant evaluation question is whether the response reflects additional entrants, how much retiming occurs, and whether new firms carry capital at incorporation. The results also show that administrative company registry data can serve as a high-frequency monitoring tool for industrial policy, allowing governments to track daily firm births and initial paid-up equity commitments before slower manufacturing surveys become available.

The remainder of the paper proceeds as follows: Section 2 describes the company registration database, sample construction, and variables. Section 3 presents the empirical design and triple-difference specifications. Section 4 reports the main results, placebo checks, state robustness, and capital-at-birth analysis. Section 5 concludes with policy implications for industrial strategy, fiscal design, and state capacity.

2. Data

The empirical analysis exploits administrative company registration master records from the Ministry of Corporate Affairs, Government of India (Ministry of Corporate Affairs, 2020). The database covers formal corporate entities in India and reports firm-level characteristics including the unique Corporate Identification Number, exact daily registration date, registered state jurisdiction, principal business activity classification, corporate class, authorized share capital, and paid-up capital.

The estimation sample comprises 447,603 domestic company incorporations across all 36 Indian states and union territories between 1 January 2016 and 31 December 2019. Registrations from 2016 through 2018 establish baseline seasonal, day-of-week, and multi-year secular trends, while

2019 captures the high-frequency behavioural response to the Section 115BAB tax reform. Enterprises are categorized into manufacturing and non-manufacturing control groups based on their statutory principal business activity classification.

To evaluate the financial substance of entering firms, the study examines two capital metrics recorded at the moment of legal birth. Paid-up capital measures share capital credited as paid up in respect of issued shares, while authorised capital reflects the maximum share capital permitted under the company's memorandum of association (Companies Act, 2013, Sections 2(64) and 2(8)). Both capital series are winsorized at the 99.5th percentile. Table 1 reports the dataset dimensions and analysis-sample composition.

Table 1. Dataset Dimensions and Sample Composition

Sample Characteristic	Value
Empirical estimation window	2016–2019
Total company registrations in analysis sample	447,603
Manufacturing company registrations in analysis sample	59,190
Non-manufacturing registrations in control group	388,413
States and union territories	36

Note: Data sourced from the Ministry of Corporate Affairs, Government of India. Manufacturing classification is based on the statutory principal business activity field.

3. Methodology

The empirical strategy exploits the incorporation-date eligibility threshold created by India's September 2019 corporate tax reform as a high-frequency natural experiment. Section 115BAB was announced on 20 September 2019 and became applicable to eligible new domestic manufacturing companies incorporated on or after 1 October 2019. The eleven-day announcement-to-eligibility window makes it possible to separate behavioural timing responses from additional extensive-margin formal entry. The design draws on Kleven and Waseem (2013) and Kleven (2016), where discontinuities generate missing mass and excess mass around thresholds, and adapts that logic to a temporal cutoff in firm birth rather than a size or income threshold.

3.1 State-Day Counterfactual Benchmark

The unit of analysis is a balanced state-day panel covering all states and union territories from 2016 to 2019. Let Y_{sdt}^{M} denote new manufacturing incorporations and Y_{sdt}^{C} denote new non-manufacturing incorporations in state s on date d of year t. Non-manufacturing registrations serve as a within-state control group because they absorb high-frequency administrative conditions, working-day effects, and general incorporation shocks that affect corporate registration but are not directly targeted by the manufacturing tax preference.

$$S_{sdt}^{M} = \frac{Y_{sdt}^{M}}{(Y_{sdt}^{M} + Y_{sdt}^{C})} \qquad (1)$$

Equation (1) defines the manufacturing share of daily incorporations. The share S_{sdt}^{M} is the main counterfactual object because total daily registration activity can vary sharply with weekends, administrative processing, holidays, and state-specific registration intensity. Modeling the share, rather than only the raw manufacturing count, allows non-manufacturing registrations to absorb common registration shocks.

$$logit(E[S_{sdt}^{M}]) = \alpha_s + \mu_m + \delta_w + \beta_1 D_d + \beta_2 D_d^2 + \tau T_t \qquad (2)$$

Equation (2) estimates the expected manufacturing share using the pre-reform baseline years 2016 to 2018. The model is estimated as a grouped logit using a quasibinomial likelihood, which is appropriate for shares constructed from grouped manufacturing and non-manufacturing counts and follows the fractional-response logic of Papke and Wooldridge (1996). The state fixed effect α_s absorbs time-invariant differences in registration intensity across states. The month fixed effect μ_m captures regular calendar seasonality, while the day-of-week fixed effect δ_w captures weekly registration cycles. The day-of-year term D_d and its square D_d^2 allow the expected manufacturing share to move smoothly within the year. The time trend τT_t captures secular changes in the manufacturing share of incorporations during 2016 to 2018.

$$\hat{Y}_{sdt}^{M} = \hat{S}_{sdt}^{M} \times (Y_{sdt}^{M} + Y_{sdt}^{C}) \qquad (3)$$

The fitted values from Equation (2) generate out-of-sample predicted manufacturing shares $\hat{S}_{sdt}^{M}$ for the 2019 policy year. Equation (3) converts those predicted shares into expected manufacturing births $\hat{Y}_{sdt}^{M}$ by multiplying them by observed total daily registrations. The

implementation then calibrates expected manufacturing counts to match the 50-day pre-announcement period from 1 August to 19 September 2019. This calibration anchors the counterfactual to the immediate pre-policy level before the announcement window begins.

$$Excess_d = \Sigma_s(Y_{sdt}^M - \hat{Y}_{sdt}^M) \qquad (4)$$

Equation (4) defines daily excess manufacturing births $Excess_d$. A negative value during 20 to 30 September indicates missing mass before the eligibility date, while a positive value after 1 October indicates excess formal manufacturing entry relative to the counterfactual. Summing $Excess_d$ across policy windows gives the main decomposition used in the paper.

3.2 Retiming and Net Formal Entry

The core identification problem is whether the post-cutoff increase reflects new formal enterprise creation or firms that would have incorporated anyway but delayed their legal birth to qualify for the lower tax rate. The public finance literature on tax responses distinguishes real economic creation from timing, shifting, and reclassification responses (Slemrod, 1995). The same concern motivates the retiming test here.

$$Retiming\ Share = \frac{|\Sigma_{d\in A} Excess_d|}{\Sigma_{d\in P} Excess_d} \qquad (5)$$

Equation (5) measures the share of the post-cutoff excess that can be accounted for by the missing mass in the anticipation window. The window A denotes 20 to 30 September, while the window P denotes 1 October to 30 November. Under pure intertemporal substitution, the denominator in Equation (5) should be approximately equal to the absolute value of the numerator, producing a retiming share close to 100%. A small retiming share means that the post-cutoff excess is much larger than the missing mass before the cutoff, which supports additional formal entry beyond administrative birthday shifting.

3.3 Triple-Difference Manufacturing Share Model

The second test asks whether the event-window pattern is statistically specific to manufacturing rather than a general registration cycle. The paper estimates a grouped logit triple-difference specification (Olden and Møen, 2022) on state-day manufacturing shares. This model compares

manufacturing with non-manufacturing registrations, 2019 with earlier years, and the policy windows with the same event-time structure around 1 October in each year.

$$logit(E[S_{sdt}^{M}]) = \alpha_s + \lambda_t + \gamma_e + \theta_1 A_{dt} + \theta_2 O_{1dt} + \theta_3 O_{2dt} + \theta_4 N_{dt} \quad (6)$$

In Equation (6), α_s denotes state fixed effects, λ_t denotes year fixed effects, and γ_e denotes event-day fixed effects. Event day is measured relative to 1 October in each year, so γ_e absorbs the normal registration pattern around the same calendar timing in 2016, 2017, 2018, and 2019. The indicator A_{dt} identifies the 2019 anticipation window from 20 to 30 September. The indicators O_{1dt}, O_{2dt}, and N_{dt} identify 1 to 15 October, 16 to 31 October, and 1 to 30 November 2019. The coefficients θ_1 through θ_4 estimate the manufacturing-specific deviation in each policy window relative to non-manufacturing registrations and earlier-year event-time patterns.

$$Odds\ Effect_j = 100 \times (exp(\theta_j) - 1) \quad (7)$$

Equation (7) converts each log-odds coefficient θ_j into the reported odds effect $100 \times (exp(\theta_j) - 1)$. Standard errors are clustered by state to allow arbitrary correlation of residuals within jurisdictions over time. This inference choice follows Bertrand et al. (2004) on serial correlation in difference-in-differences settings and Cameron and Miller (2015) on cluster-robust inference. The model is supplemented by same-date placebo exercises for 2016, 2017, and 2018 and leave-one-major-state-out checks. The placebo exercise tests whether the 2019 pattern is simply an ordinary October registration cycle, while the leave-one-major-state-out exercise tests whether the result is driven by one large registration jurisdiction.

3.4 Capital at Birth and Entry Scale

The final test examines whether the post-cutoff entry response carried measurable equity capital at incorporation. This is important because firm registration is a legal event and can include low-substance entities. The analysis estimates counterfactual capital at birth separately for paid-up capital and authorized capital. Paid-up capital measures shareholder equity credited as paid up at incorporation, while authorized capital measures the legal share-capital ceiling of the company. Both series are winsorized at the 99.5th percentile before aggregation.

$$log(1 + K_{sdt}^{M}) = \alpha_s + \mu_m + \delta_w + \beta_1 D_d + \beta_2 D_d^2 + \tau T_t + \rho_1 log(1 + K_{sdt}^{C}) + \rho_2 log(1 + Y_{sdt}^{C}) + \varepsilon_{sdt} \quad (8)$$

Equation (8) is estimated separately for paid-up and authorized capital using 2016 to 2018 data. The variable K_{sdt}^{M} denotes total manufacturing capital registered at birth in a state-day, while K_{sdt}^{C} denotes corresponding non-manufacturing capital. The term $log(1 + Y_{sdt}^{C})$ controls for non-manufacturing registration volume. The coefficients ρ_1 and ρ_2 absorb co-movement in non-manufacturing capital and non-manufacturing registration volume. The residual term ε_{sdt} captures remaining state-day variation in manufacturing capital. The log-one-plus transformation keeps zero-capital state-days in the analysis and reduces sensitivity to extreme capital observations.

$$K_{sdt}^{M} = max\{exp(\xi_{sdt}) - 1, 0\} \quad (9)$$

In Equation (9), ξ_{sdt} is the fitted log-capital index from Equation (8), and K_{sdt}^{M} is the predicted level of manufacturing capital after converting the fitted value back from logs. The capital analysis is interpreted as evidence on financial scale at legal birth, not as evidence on subsequent factory construction, employment, output, or machinery investment. If the entry response were dominated by zero-capital conduit incorporations, total paid-up capital would not rise meaningfully and average paid-up capital per entrant would collapse toward very low levels. If the tax preference induced additional formal entrants with financial substance, total paid-up capital should rise with firm births and average paid-up capital should remain stable or increase. The study therefore evaluates the entry response jointly through firm counts, retiming intensity, paid-up capital, and authorized capital.

3.5 Empirical Tests

The empirical design reports seven connected tests:

i. The first test estimates the main excess registration decomposition.
ii. The second test computes the retiming share by comparing the pre-cutoff missing mass with the post-cutoff excess.
iii. The third test estimates the grouped logit triple-difference model.
iv. The fourth test repeats the same cutoff structure in placebo years.

v. The fifth test excludes each major manufacturing registration state one at a time.

vi. The sixth test examines paid-up capital at firm birth.

vii. The seventh test examines authorized capital at firm birth.

Together, these tests show whether the policy changed formal manufacturing entry, whether the response is mainly retiming, whether it is manufacturing-specific, whether it is unusual relative to earlier years, whether it is geographically broad, and whether new entrants carried measurable capital at incorporation.

4. Results

4.1 Policy Shock and Manufacturing Incorporations

The empirical analysis begins by examining the high-frequency response of manufacturing incorporations around the 1 October 2019 eligibility cutoff.

Table 2. Main excess decomposition for manufacturing registrations

Window	Days	States	Actual manufacturing	Expected manufacturing	Excess manufacturing	Excess percent
Pre-period	50	36	2845	2,845.0	-0.0	-0.0%
20-30 Sep	11	36	468	535.3	-67.3	-12.6%
1-15 Oct	15	36	916	744.3	171.7	23.1%
16-31 Oct	16	36	1289	953.5	335.5	35.2%
1-30 Nov	30	36	2210	1,770.7	439.3	24.8%

Note: Expected manufacturing registrations are predicted from 2016-2018 using state, month, day-of-week, day-of-year and trend controls, then calibrated to the 2019 pre-period. The policy announcement was on 20 September 2019 and the eligibility date was 1 October 2019.

Table 2 reports the main excess decomposition across the pre-announcement baseline, the anticipation window, and three post-cutoff policy windows. In the 50-day pre-announcement baseline from 1 August to 19 September 2019, actual manufacturing registrations stood at 2,845 firms against an expected counterfactual of 2,845.0 firms after calibration. This anchors the

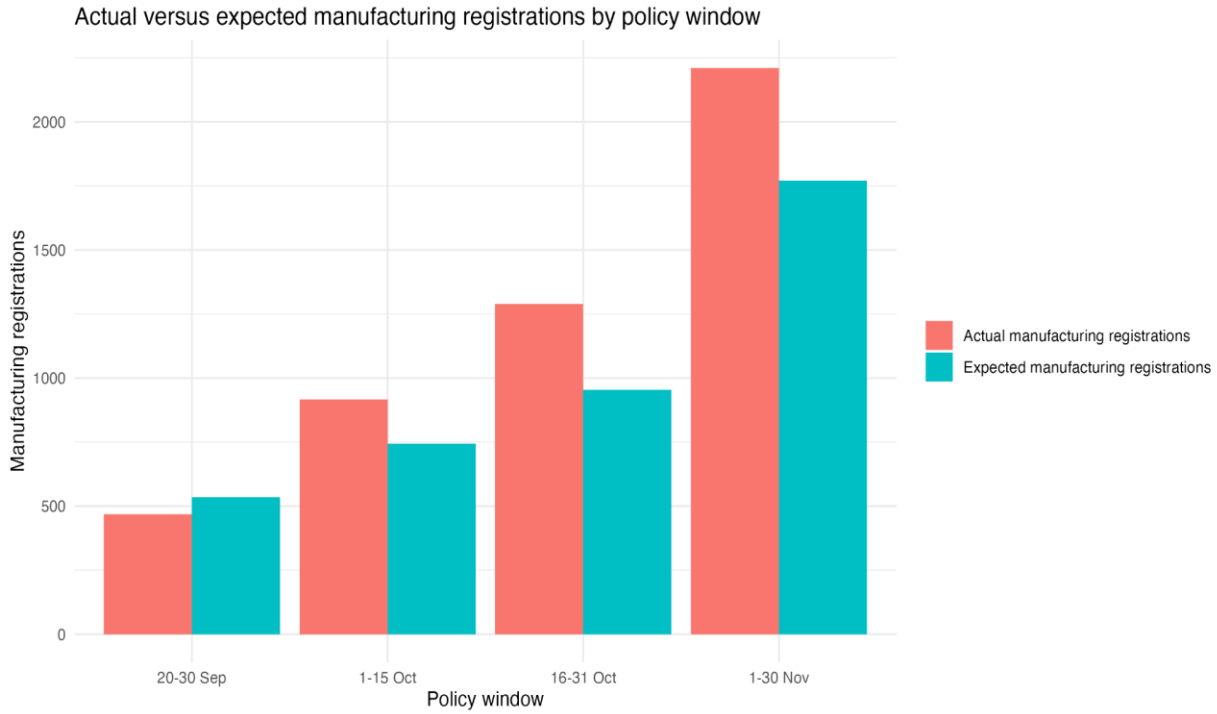
counterfactual to the immediate pre-policy registration level before the announcement window begins.

The announcement of Section 115BAB on 20 September 2019 generated an immediate contraction in formal manufacturing incorporations. During the 11-day anticipation window from 20 to 30 September 2019, observed manufacturing registrations fell to 468 firms compared with an expected counterfactual of 535.3 firms. This produces an anticipation shortfall of 67.3 manufacturing registrations, representing a 12.6% contraction below expected levels. The decline is exactly the type of behavioural timing response predicted by a temporal tax notch, because firms close to incorporation had an incentive to delay legal birth until the lower tax rate became available.

The implementation of the 15% statutory tax rate on 1 October 2019 produced a sharp and policy-consistent reversal in manufacturing firm births. During the first post-cutoff window from 1 to 15 October 2019, manufacturing incorporations rose to 916 firms against an expected counterfactual of 744.3 firms, generating an excess of 171.7 formal entities, or 23.1% above expected levels. The response strengthened in late October, when manufacturing incorporations reached 1,289 firms against an expected baseline of 953.5 firms. This yielded an excess of 335.5 firms, representing a 35.2% expansion above expected levels.

The expansion remained substantial throughout November 2019. Manufacturing registrations reached 2,210 firms against an expected baseline of 1,770.7 firms, producing an excess of 439.3 firms, or 24.8% above expected levels. Across the first two post-cutoff months, the economy generated 946.4 gross excess formal manufacturing registrations.

Figure 1. Actual versus expected manufacturing registrations by policy window



Note: Bars compare actual manufacturing registrations with expected manufacturing registrations in the key policy windows. The figure shows a pre-cutoff shortfall followed by a persistent post-cutoff excess.

Figure 1 illustrates this shift by comparing actual and expected registrations across policy windows, showing the sharp contrast between the brief pre-cutoff deficit and the much larger post-cutoff accumulation.

4.2 Retiming versus net firm creation

Table 3. Retiming versus net formal manufacturing entry

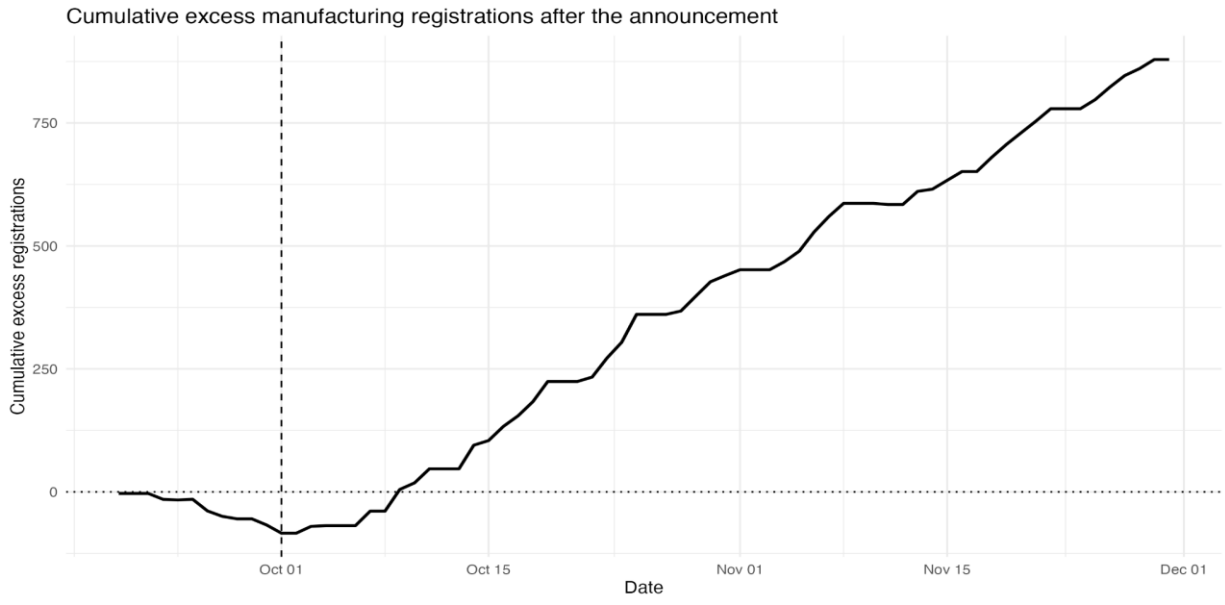
Anticipation shortfall	Post-cutoff excess	Net excess after shortfall	Retiming share
-67.3	946.4	879.1	7.1%

Note: Retiming share is the absolute anticipation shortfall divided by post-cutoff excess. A small share means that the post-cutoff increase is too large to be explained mainly by delayed September registrations.

To determine whether the post-cutoff expansion represents genuine extensive-margin enterprise creation or merely the realization of delayed registrations, Table 3 presents the formal retiming decomposition. Under the pure intertemporal substitution hypothesis, the total volume of excess post-cutoff registrations should equal the missing mass observed during the anticipation window. The empirical results strongly reject retiming as the primary explanation. The anticipation shortfall of 67.3 registrations accounts for only 7.1% of the 946.4 gross excess registrations generated after the cutoff.

Even under the conservative assumption that every single missing incorporation from late September was shifted into October to capture the 15% rate, intertemporal retiming explains less than one-fourteenth of the total post-reform entry surge. Accounting for the pre-cutoff deficit leaves an unexplained net excess of 879.1 formal manufacturing enterprises incorporated within the first sixty days of policy implementation. This shows that the reform acted primarily as a catalyst for net formal manufacturing entry rather than a simple calendar reshuffling of incorporation dates.

Figure 2. Cumulative excess manufacturing registrations after announcement



Note: The vertical dashed line marks 1 October 2019. The line cumulates excess manufacturing registrations from the anticipation window through November. The cumulative excess reaches about 879 registrations by the end of November.

Figure 2 reinforces this conclusion by displaying the daily cumulative trajectory of excess manufacturing registrations from the announcement window through 30 November 2019. The cumulative series falls during the anticipation period, reaching a deficit of 67.3 registrations by 30 September. After the 1 October cutoff, the trajectory reverses and rises steadily through October and November, reaching 879.1 net excess registrations by the end of November. The scale and persistence of this accumulation show that the response was too large to be explained mainly by the clearing of delayed September incorporations.

4.3 Triple-Difference Manufacturing-Share Estimates

Table 4. Triple-difference manufacturing-share estimates

Window	Coefficient [SE]	Odds effect	95% CI for odds effect
20-30 Sep	-0.113** [0.045]	-10.7%	[-18.2%, -2.5%]
1-15 Oct	0.271*** [0.050]	31.1%	[18.8%, 44.7%]
16-31 Oct	0.423*** [0.058]	52.6%	[36.1%, 71.1%]
1-30 Nov	0.307*** [0.046]	36.0%	[24.3%, 48.8%]

*Note: The dependent variable is the manufacturing share of daily registrations, estimated as a grouped logit with state, year and event-day fixed effects. Standard errors are clustered at the state level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.*

Table 4 reports the grouped logit triple-difference estimates used to verify that the registration response was statistically significant and specific to the manufacturing sector targeted by Section 115BAB. The specification controls for state fixed effects, year fixed effects, and event-day fixed effects, with standard errors clustered at the state level across all 36 jurisdictions.

The estimated coefficient for the anticipation window is -0.113 and statistically significant at the 5% level. In odds terms, the manufacturing share of total daily registrations fell by 10.7% during the anticipation period, with a 95% confidence interval ranging from -18.2% to -2.5%.

Following the 1 October cutoff, all three post-cutoff coefficients turn strongly positive and are statistically significant at the 1% level. In the early October window, the coefficient rises to 0.271, implying a 31.1% increase in the odds that a registration is in manufacturing. The effect

peaks in late October, where the coefficient reaches 0.423, implying a 52.6% increase in manufacturing registration odds. In November, the coefficient remains large at 0.307, translating to a 36.0% increase in odds. These estimates show that the observed post-reform boom was sector-specific, demonstrating a pronounced reallocation of corporate entry toward manufacturing relative to non-manufacturing control sectors and pre-reform baseline years.

4.4 Falsification Checks Using Historical Placebo Years

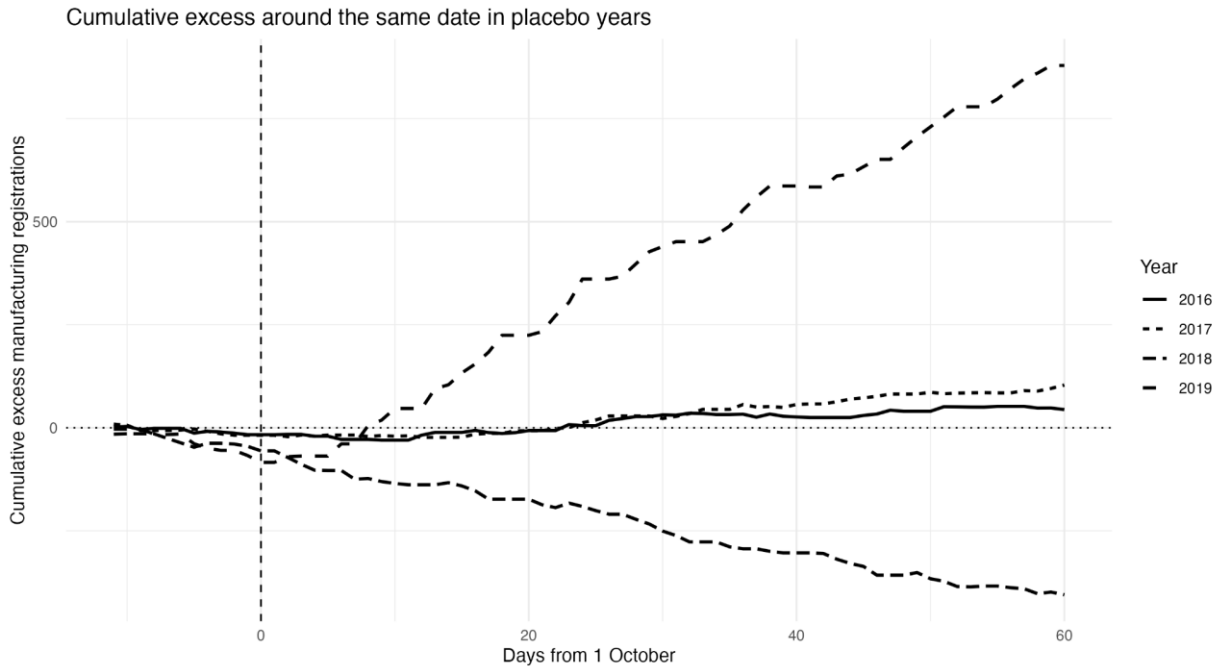
A potential concern is that the October surge could reflect ordinary seasonality, holiday schedules, working-day variation, or recurring administrative filing cycles. Table 5 and Figure 3 address this concern by applying the same empirical model and the same 1 October cutoff structure to the pre-reform placebo years 2016, 2017, and 2018.

Table 5. Same-date placebo years

Year	20-30 Sep excess	Post-cutoff excess	Net excess
2016	-16.7	60.8	44.1
2017	-18.1	121.9	103.7
2018	-45.0	-360.2	-405.2
2019	-67.3	946.4	879.1

Note: Each placebo year applies the same 1 October cutoff structure to earlier years. The 2019 result is compared with the same relative calendar window in 2016, 2017 and 2018.

Figure 3. Cumulative excess around the same date in placebo years



Note: The figure plots cumulative excess manufacturing registrations from 20 September to 30 November in each year. The 2019 series is visibly different from the placebo years.

The results show that historical years display no comparable dynamics around the 1 October date. In 2016, the net post-cutoff excess was only positive 44.1 registrations. In 2017, the net excess was positive 103.7 registrations. In 2018, manufacturing registrations actually contracted post-cutoff, yielding a net deficit of minus 405.2 registrations.

These historical variations stand in stark contrast to the large accumulation of 879.1 net excess registrations recorded in 2019. Figure 3 tracks the cumulative excess series across all four years, demonstrating that while the 2016, 2017, and 2018 placebo curves oscillate closely around the zero horizontal axis, the 2019 series diverges sharply after day zero. This falsification test shows that ordinary seasonal fluctuations and administrative registration cycles do not generate a comparable same-date pattern in earlier years.

4.5 Sub-National Stability and Leave-One-major-State-Out Robustness

Table 6 and Figure 4 examine whether the national findings are driven by one large registration state or a single major Registrar of Companies market. The model is re-estimated ten times,

sequentially excluding each of the ten largest pre-policy manufacturing registration states. This is a leave-one-major-state-out robustness check.

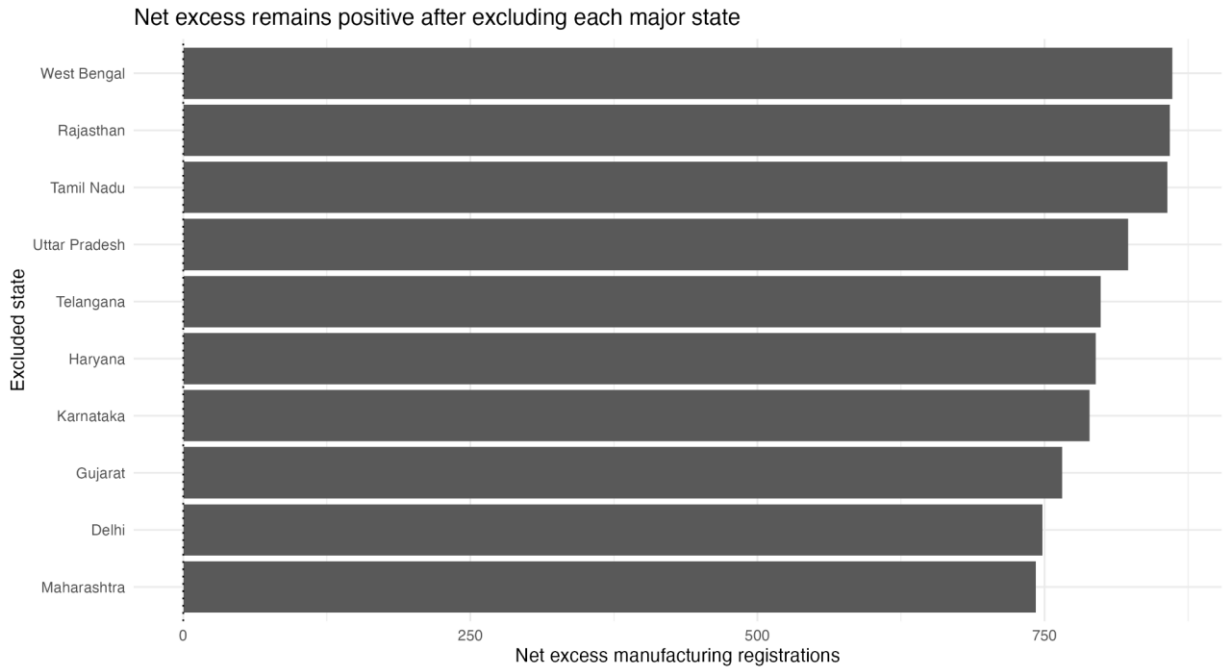
Table 6. Leave-one-major-state-out robustness

Excluded state	Anticipation shortfall	Post-cutoff excess	Net excess
Maharashtra	-48.8	791.1	742.3
Delhi	-59.9	808.0	748.0
Gujarat	-67.5	832.7	765.2
Uttar Pradesh	-49.0	871.7	822.8
Tamil Nadu	-65.6	922.8	857.2
Karnataka	-72.5	861.6	789.1
Telangana	-63.3	862.1	798.8
Haryana	-65.4	860.0	794.6
West Bengal	-62.7	923.8	861.2
Rajasthan	-66.8	926.0	859.2

Note: Each row re-estimates the main excess calculation after removing one major manufacturing registration state. The result remains positive in every case.

The net manufacturing excess remains large and positive in every iteration. Excluding Maharashtra, the largest corporate registration market, still leaves an anticipation shortfall of 48.8 firms, a post-cutoff excess of 791.1 firms, and a net excess of 742.3 firms. Excluding Delhi leaves a net excess of 748.0 firms, Gujarat leaves 765.2 firms, Karnataka leaves 789.1 firms, Haryana leaves 794.6 firms, Telangana leaves 798.8 firms, Uttar Pradesh leaves 822.8 firms, Tamil Nadu leaves 857.2 firms, Rajasthan leaves 859.2 firms, and West Bengal leaves 861.2 firms.

Figure 4. Net excess after excluding each major state



Note: The horizontal bars show net excess manufacturing registrations after excluding each major state. All estimates remain positive and large.

Figure 4 illustrates these estimates, showing that the net expansion remains positive and economically large regardless of which major state is removed. This supports a geographically broad manufacturing-entry interpretation and shows that the result is not an artifact of one dominant regional registration centre.

4.6 Initial Capital Commitments and Entry Substance at Birth

The final empirical analysis examines whether the additional manufacturing entrants carried measurable financial substance at incorporation. This analysis is important because preferential entrant tax rates can, in principle, induce low-capital legal entities created mainly to access tax advantages. If the post-cutoff surge were dominated by such entities, the influx of registrations would be expected to coincide with weak paid-up capital and a collapse in average equity capital per entrant.

Table 7. Registered capital of new manufacturing companies

Capital type	Window	Manufacturing firms	Actual capital (₹crore)	Expected capital (₹crore)	Excess capital (₹crore)	Excess %	Actual capital per firm (₹lakh)
Paid-up capital	20-30 Sep	468	37.0	30.0	7.0	23.3%	7.9
Paid-up capital	1-15 Oct	916	92.6	69.1	23.4	33.9%	10.1
Paid-up capital	16-31 Oct	1289	169.6	83.8	85.8	102.5%	13.2
Paid-up capital	1-30 Nov	2210	227.7	168.3	59.4	35.3%	10.3
Authorised capital	20-30 Sep	468	62.9	62.6	0.3	0.5%	13.4
Authorised capital	1-15 Oct	916	256.8	148.7	108.1	72.7%	28.0
Authorised capital	16-31 Oct	1289	394.2	181.0	213.2	117.8%	30.6
Authorised capital	1-30 Nov	2210	598.8	358.2	240.6	67.2%	27.1

Note: Capital values are winsorised at the 99.5th percentile before aggregation. Paid-up capital measures initial shareholder capital credited as paid up. Authorised capital measures legal share-capital capacity. Values are reported in crore and lakh in Indian rupees (₹).

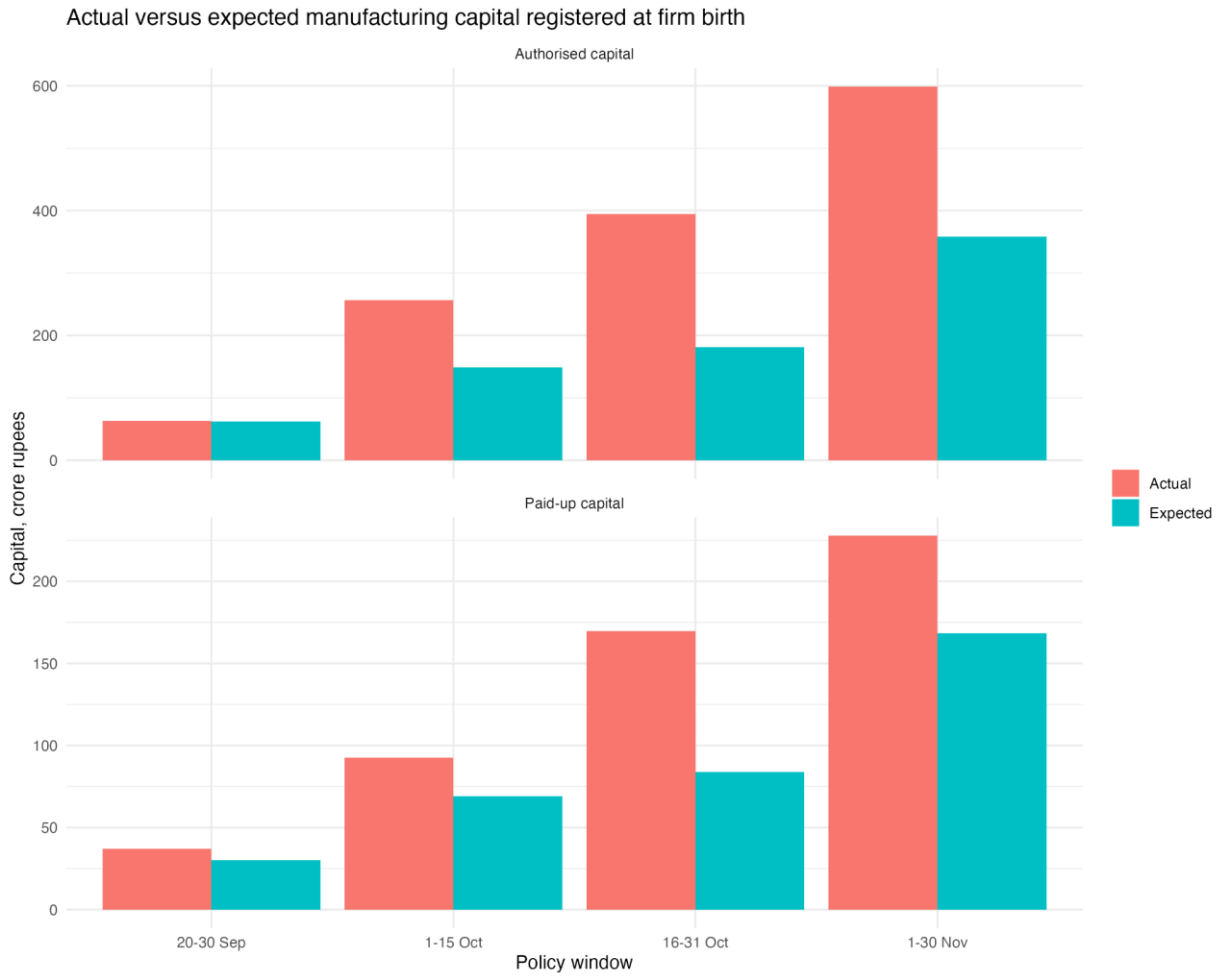
Table 7 reports the empirical results for paid-up capital and authorized share capital across each policy window. The data reveal that the post-cutoff influx of manufacturing firms was accompanied by a large increase in committed equity capital. In early October, entering

manufacturing firms committed ₹92.6 crore in actual paid-up capital against an expected ₹69.1 crore, generating an excess of ₹23.4 crore, which is 33.9% above baseline.

In early October, entering manufacturing firms recorded ₹92.6 crore in paid-up capital against an expected ₹69.1 crore, generating an excess of ₹23.4 crore, or 33.9% above baseline. In late October, paid-up capital rose to ₹169.6 crore against an expected ₹83.8 crore, producing an excess of ₹85.8 crore, or 102.5% above baseline. In November, paid-up capital remained elevated at ₹227.7 crore against an expected ₹168.3 crore, yielding an excess of ₹59.4 crore, or 35.3% above baseline. Across the first two post-cutoff months, entrants accounted for ₹168.7 crore in excess paid-up capital and ₹561.9 crore in excess authorized capital.

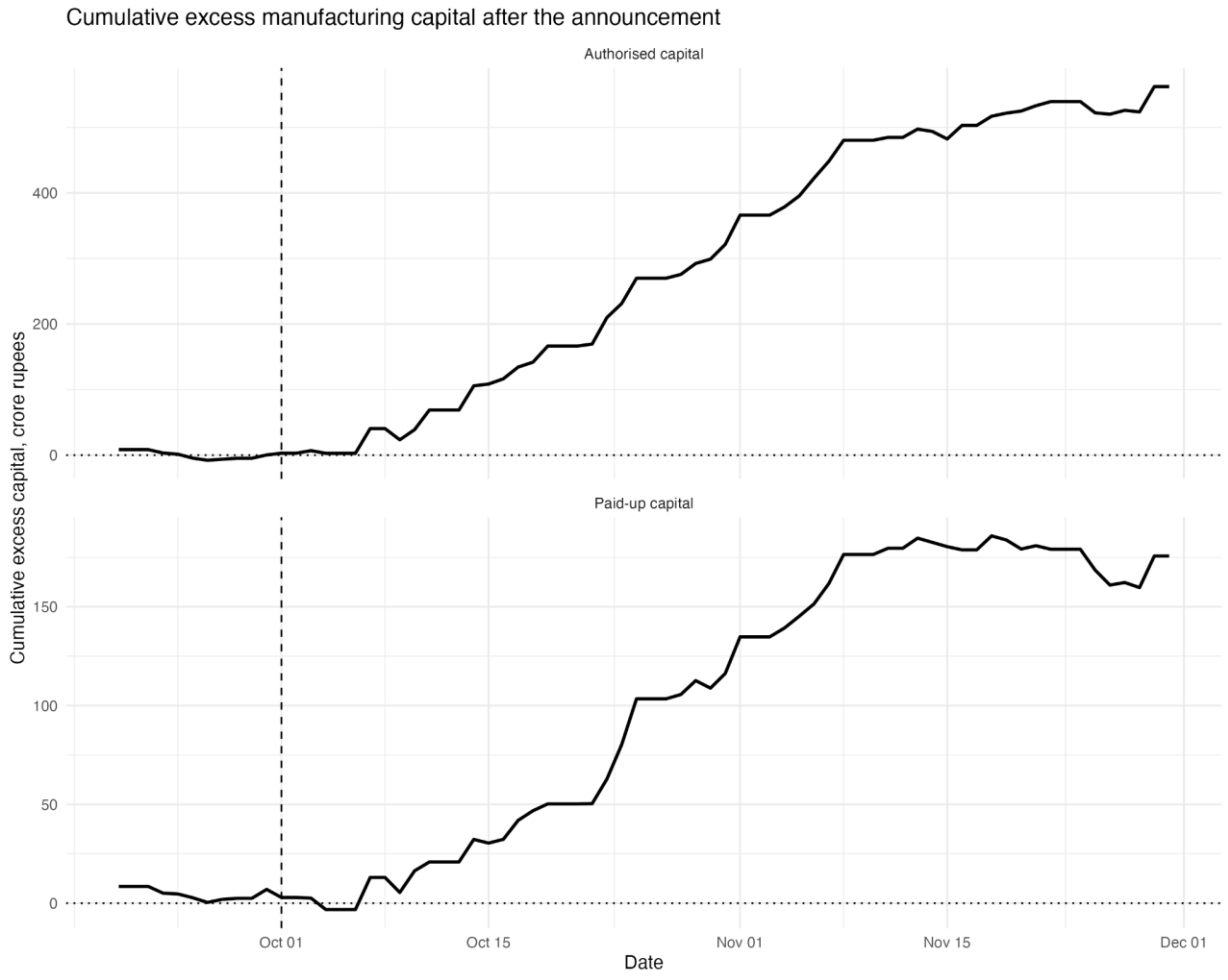
The average capital evidence points in the same direction. Actual paid-up capital averaged ₹7.9 lakh per firm during the anticipation window. After eligibility began, average paid-up capital rose to ₹10.1 lakh in early October, ₹13.2 lakh in late October, and ₹10.3 lakh in November. Authorized capital per firm also increased, rising from ₹13.4 lakh before the cutoff to between ₹27.1 and ₹30.6 lakh across the post-cutoff windows.

Figure 5. Actual versus expected manufacturing capital registered at firm birth



Note: The figure compares actual and expected paid-up and authorised capital in each policy window. Post-cutoff actual capital is above expected capital for both measures.

Figure 6. Cumulative excess manufacturing capital after the announcement



Note: The figure cumulates excess paid-up and authorised capital from the anticipation window through November. Both capital measures rise strongly after the eligibility date.

Figure 5 confirms this pattern by displaying actual versus expected capital totals across policy windows, showing that actual capital substantially exceeded counterfactual projections for both financial metrics in every post-cutoff period. Figure 6 tracks the cumulative excess trajectories for both capital measures, showing an immediate, steep upward trajectory beginning on 1 October 2019 that mirrors the firm registration series. The capital pattern is inconsistent with a response dominated by low-capital paper incorporations and instead shows positive scale selection among post-cutoff manufacturing entrants. The capital evidence therefore shows that Section 115BAB catalyzed capital-backed formal manufacturing entry at legal birth.

Overall, the results provide a consistent empirical picture across the main decomposition, retiming bounds, triple-difference estimates, placebo tests, state-exclusion checks, and capital-at-birth evidence. The 1 October eligibility cutoff generated a brief pre-cutoff contraction followed by a much larger and sustained post-cutoff expansion in manufacturing incorporations. The missing mass before the cutoff explains only 7.1% of the post-cutoff excess, while triple-difference estimates confirm that the response was manufacturing-specific, placebo years rule out ordinary seasonal registration cycles, and leave-one-major-state-out checks show that the result is not driven by a single dominant state. The accompanying increase in paid-up and authorized capital further shows that the entry response carried measurable financial substance at incorporation. Taken together, the evidence shows that Section 115BAB induced net formal manufacturing firm creation with capital commitments at legal birth, rather than merely shifting incorporation dates across the tax threshold.

5. Conclusion and policy implications

This paper provides causal evidence on whether entrant-specific corporate tax incentives stimulate net formal enterprise creation or merely induce strategic intertemporal shifting of firm incorporation dates. Exploiting the natural experiment generated by India's September 2019 corporate tax reform, which granted a concessional 15% statutory tax rate exclusively to new domestic manufacturing companies incorporated on or after 1 October 2019, the analysis evaluates high-frequency behavioural dynamics across nearly half a million company incorporations. By leveraging the 11-day anticipation window between the official policy announcement and its statutory implementation date, the study develops an empirical framework that separates temporary timing frictions from additional formal enterprise creation and evaluates the financial substance of new entrants at the moment of legal birth.

The empirical findings yield three central conclusions for public economics and industrial development. First, the results demonstrate that statutory corporate tax cuts can exert a powerful and immediate effect on the extensive margin of firm formalization in developing economies. Manufacturing firm births contracted by 12.6% during the 11-day anticipation window, consistent with firms close to incorporation temporarily delaying legal registration. After

eligibility began, incorporations surged by 23.1% to 35.2% across the post-cutoff windows, generating an excess of 946 formal manufacturing companies within the first 60 days of policy implementation.

Second, the paper resolves the central question regarding intertemporal substitution by showing that the post-reform entry boom cannot be explained by administrative birthday shifting. The missing mass of 67 registrations observed during the anticipation window accounts for only 7.1% of the gross post-cutoff surge. This dynamic decomposition establishes that less than one-fourteenth of the post-reform expansion can be attributed to delayed incorporations, leaving a net excess of 879 additional formal manufacturing enterprises. Triple-difference estimates and historical placebo tests confirm that this expansion was manufacturing-specific and not present in comparable form during identical calendar windows in preceding years.

Third, the financial analysis at incorporation shows that the post-cutoff entry response carried measurable capital at legal birth. Rather than indicating a response dominated by low-capital paper entities, entering firms accounted for ₹169 crore in excess paid-up equity capital and ₹562 crore in excess authorized capital capacity. Average paid-up equity capital per entrant increased from ₹7.9 lakh before the cutoff to more than ₹10 to ₹13 lakh after the cutoff, showing that the 15% tax rate was associated with positive initial equity scale selection and substantial shareholder capital commitments at firm birth.

These findings generate direct implications for the design and administration of industrial tax policy in emerging markets. A primary policy lesson concerns the management of legislative implementation windows. The contraction in manufacturing registrations observed during late September 2019 shows that even an 11-day notice period can induce immediate timing responses and temporary incorporation stalling. To minimize administrative bunching and intertemporal shifting, fiscal authorities designing entrant-specific tax preferences should align statutory eligibility with the date of official policy announcement.

The results also demonstrate that governments can use population-level administrative company registries as high-frequency policy evaluation systems. In developing economies, public authorities frequently evaluate industrial policies using non-binding corporate investment

pledges or lagged, multi-year industrial surveys. Tracking daily corporate registrations alongside paid-up capital commitments provides an immediate and objective diagnostic of whether tax preferences are mobilizing private entrepreneurial capital into targeted sectors.

Finally, the study highlights that while lower entrant corporate tax rates can provide a powerful catalyst for enterprise formalization, maximizing the long-run returns to industrial policy requires continuity beyond the point of legal birth. Formal incorporation is the first institutional gateway for commercial production, credit access, labour hiring, and tax compliance. Fiscal authorities should therefore reinforce entrant tax preferences with transparent post-entry regulatory compliance, stable dispute resolution frameworks, and credible administrative follow-through. By demonstrating that credible entrant tax cuts can rapidly expand the formal corporate sector and mobilize measurable paid-up equity capital at incorporation, this study shows that corporate taxation can constitute a binding extensive-margin barrier in developing economies and provides a rigorous empirical foundation for the design of modern industrial strategies.

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