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It is, no doubt, well known that taxation is one among many factors that affect the pattern and volume of investments made particularly by corporate bodies. In fact, tax provisions may be such that they may often act even as a disincentive for the said purposes. Consequently, it is widely felt that the tax system should provide suitable incentives designed to promote the investment activities. In fact the use of tax incentives for stimulating industrial growth and expansion has become a recent trend in the area of fiscal administration of different countries. In practice, the policy of providing tax incentives to private sector corporate saving and investment is found to operate not only in underdeveloped countries but also in highly developed countries of the world.

It may, however, be mentioned that the principle of neutrality in the field of taxation is often advocated on the ground that it seeks to avoid interference in the private allocation of resources. But it has been argued that the principle of neutrality might be "defensible in a developed economy but is of little relevance to the problem of economic development".

The adoption of the scheme of tax incentives in respect of stimulating industrial growth and expansion in an underdeveloped country like India is not needed by domestic industries alone. Here foreign industrial investment is, and will still continue...

to be, of equal importance in the sphere of the economic development of the country. It rests on the premise that the benefits accruing from tax relief granted by the Government will induce not only the domestic industrialists, but also the foreign entrepreneurs, either to initiate activities which they would not have otherwise undertaken or to expand their activities already undertaken.

The tax system in India provides a number of incentives to stimulate industrial growth and development in the country. Development Rebate, Tax Holiday for new investment, carry-forward of losses, depreciation allowances are some of the effective measures included in the tax law to encourage investment in the corporate sector. Of these, Development Rebate which was introduced in the year 1955 represents a major incentive for industrial growth and expansion in India. The purpose of Development Rebate was to induce industrialists to initiate expansion, replacement or undertake new projects and modernisations. Development Rebate was freely extended to all concerns, Indian and foreign, and no discrimination was made on the same.

This study deals with various pertinent aspects of Development Rebate. The aim of this study is to examine the benefits or otherwise of the incentive made available to industry. An obvious example, which has possibly been given the greatest emphasis in the study, is that under conditions of rising prices, existing depreciation allowances available to industrial concerns in India are found not to serve its purpose. It is inadequate not only for meeting the need for additional working capital
commensurate with the normal operation and growth of the firm, but also for financing the enhanced costs of replacement of fixed capital assets in future. The Development Rebate system, though originally introduced mainly with the objective or providing incentive for industrial development in general, could go a long way in ameliorating this difficulty.

Severe criticisms have been advanced against the system of depreciation allowances as provided by the Indian tax system. It has been argued that as depreciation provisions have been framed in terms of original costs, they are of diminishing usefulness particularly in an inflationary period and consequently, the system does not provide adequate incentive for raising the depreciation charges. In this context, the present study also makes an attempt to examine the propriety or otherwise of the argument particularly of the private sector enterprises in favour of depreciation provisions being enhanced in terms of replacement cost.

The reshaping of the tax system, by the introduction of the Development Rebate, had a great impact on industrialisation in the country and on industrial production. For the past two decades India had been in the midst of a vigorous industrial transformation both quantitatively as well as qualitatively. But, what caused concern to all is that, the Government subsequently (the year 1971-72) indicated its intention to withdraw the system of allowing Development Rebate on the ground that "the development rebate has had a full pay". The Direct Taxes Enquiry Committee has also endorsed the Governments' decision to abolish Development

2. Budget for 1971-72 : Vol.II; Speech of Finance Minister ; Ministry of Finance ; Government of India ; Manager of Publications,Delhi,1972, pp.116-117.
Rebate by observing that "development rebate has outlived its utility". What was more disquieting is that a study on industrial production brought out by the Reserve Bank of India in its Bulletin in the month of December, 1973, was a clear pointer towards the declining trend in industrial production in some of the major industries. What the Finance Minister, Shri Chavan said while presenting the Central Budget for 1974-75 also indicated a declining trend in industrial production. Several factors are, however, found to be responsible for the downward trend in industrial production; inflationary situation getting from bad to worse, continuing scarcity of most of the essential items of industrial consumption, cost of production rising at a high rate etc are some of these contributory factors. Although industrial growth depends upon a number of factors, yet a realistic taxation policy can go a long way in achieving the essential pre-requisites which ultimately lead to industrial growth. It is, therefore, obvious that adequate fiscal relief should be provided to the corporate sector so that it can play its role effectively in the nation's development. The country's success in its fight against inflation and unemployment will depend, to a great extent, on how efficiently the corporate sector is able to function.

The decision of the Government to abolish Development Rebate was viewed by many with great concern particularly when advanced countries like the U.K., the U.S.A., West Germany, France, Australia etc. still prefer to continue the system more

or less identical for furtherance of industrial expansion. A perusal of speeches delivered by the company-chairmen on various occasions, on the question of withdrawal of Development Rebate shows that according to their opinion, there ought to be no case for India to give up Development Rebate as was in existence.

With the inflationary situation almost going out of hand, the need for incentives to counteract its impact was never more urgent than at its present juncture. In this context, it is important to assess how far the Government may be justified in deciding to abolish the Development Rebate system immediately or gradually. The present study is concerned with the question of the withdrawal of Development Rebate as was proposed by the Government against the background of the incentives like investment allowances, investment grants, accelerated depreciation etc that are provided to industries by tax laws in both highly developed and underdeveloped countries to further industrial expansion. The investment allowance system, it may be noted, was actually introduced from the year 1976.

This study starts with the analysis of the factors leading to the introduction of Development Rebate by our national Government to promote economic expansion and high-level national income.