1. INTRODUCTION

IMPORTANCE OF THE PRESENT STUDY

Now a days nearly all countries assess income tax on corporations as well as individuals. The personal income tax system has been introduced long before the introduction of corporation income tax. For example, The United Kingdom introduced the personal income tax in 1799, and for a long time applied the income tax on corporations purely as a supplement to the taxation of individuals. The U.K. modified the earlier system in 1937, and replaced it in 1965 by a separate corporation tax. Thus in The U.K. personal income tax was introduced about two centuries ago, while a separate corporation tax was introduced only about three decades ago. Thus, the corporation tax structure is comparatively new and needs to be studied in depth, for its effects on the industrial sector.

The ultimate goal of financial management is to maximize the wealth of shareholders. This can be done by increasing the value of the company which, in turn, depends on increase in EPS (earning per share) i.e. EPS which is available after tax. Lesser the tax, greater the earnings, greater the EPS, higher value of the company and greater the wealth of shareholders. Thus, efforts to minimize tax are important.

The effects of taxation are so wide spread and complicated that it is hardly possible to take a business decision without regarding taxation implication involved in decision making process. Situations emerge where the business is really run, not from the office of the chief executive but from the office of the
tax consultant because of the omnipotent and omnipresent laws of taxation. This call for the induction of taxation in the corporate planning process.

A company defines its business in terms of what products they want to be in, what markets they want to be in, what functions / activities they want to be in to achieve the mission, basic purpose and objectives of establishing the business. In the process, there has to be meaningful synthesis of the business goals with the tax savings goals.

Thus the basic aim of any commercial enterprise is to maximise profits and to maximise retention of such profits after tax. Various methods have been employed with a view to maximising profits. This can be either maximisation of revenue by obtaining higher realisation at market place or minimisation of cost or expenditure. Various techniques such as value engineering, inventory control, variance analysis, budgetary control and profit analysis are being implemented to reduce the cost of inputs and, thus, to maximise the profits. It is equally necessary that the revenue once earned needs to be judiciously retained for the business. Though income tax is not an element of cost of production or operation, it is an important outgoing which affects the retention of profits and, therefore, it plays an important role in the total business planning and in many business decisions where an effect of taxation is either positive or negative.

Though the primary goal of any business has to be the maximisation of profits and all decisions must be taken keeping this goal in view particularly for a
long term business arrangement, all such decisions must be tested on the anvil of taxation so that a meaningful synthesis of the business goals with the tax saving goals is achieved, resulting into maximisation of retention of profits earned. Tax planning assumes a vital role while taking various business decisions where taxation is involved. While the fundamental business decisions has to be aimed at maximisation of the revenue and minimisation of the cost, all such business decisions must also have tax planning as one of the important facet to ensure that earned profits are not drained away in avoidable tax payments. If outgo by way of tax can be reduced, it will help the business in maximising its retained earnings. Shareholders equity or Shareholders wealth depends on the reserves accumulated by Business entity. Such reserves are reflected by retained earnings. The Earning Per Share (EPS) is reflective of the shareholders equity and net earnings after payment of taxes. Thus, reduction in tax results in higher retention of earned profits and therefore increases the reserves and shareholders equity. It is also reflected in net higher earnings after payment of taxes with a result that EPS also increases. Thus by effective tax planning on one hand, the net profit after tax is increased and on the other hand, the shareholders equity is also increased. Thus, efforts to minimise tax result in increase in EPS.

The taxation laws give various concessions, allowances and deductions and there are also various precedents formed by the decisions of the various authorities, which help in interpreting the tax laws. Therefore, a complete knowledge of taxation laws, its various provisions, concessions, allowances, inducements and compliance vis-a-vis the prime object of the business should
constantly be kept in view for arriving at corporate decisions. Such decisions can be regarding to capital structure, whether to have owned funds or borrowed funds, whether to resort to debentures or to convertibles, whether to pay interest on front-ended or on maturity or otherwise, decisions related to location whether it should be in a backward area or in a metropolitan town, decisions relating to the structure of business whether private or public limited, whether SSI or large scale, decisions relating to the timing whether the business should be commenced on the last day of the year or on the beginning of the year, decisions relating to investments of surplus funds, decisions relating to the investments in capital assets whether owned or leased, decisions relating to the investments in energy saving equipment like windfarm equipment or pollution control equipment and the timing for it, decisions as to whether a particular expense should be treated as capital or revenue and whether the expenditure should be amortized for a period in the books though a different treatment be given for the purpose of taxation, decisions to make or buy, decisions on collaborations and its payment by lumpsum or royalty or recurring payments, decisions of amalgamation and acquisition and the valuation of various assets, decisions regarding the structuring of employee emoluments and the like are some of the decisions which are affected by the tax consideration and for any decision making on such issues, the tax planning should be resorted to after viewing and weighing the tax advantage vis-a-vis resultant additional cost, inconvenience or disadvantage to business and if a planned decision is taken considering the pros and cons of such decisions, the business will avoid undue tax payment without any additional cost and will maximise its retained earnings.
Any attempt to reform the tax system or rewrite the tax law has to keep in the view the basic criteria of a good tax system viz. equity, efficiency and simplicity. Obviously, the revenue aspect cannot be overlooked. The simplification of law through rationalization of the structure, and codification of a new law are the requirements of an increasingly open and competitive economy. But then, tax law cannot be simplified beyond a point, as there can be a conflict between simplicity and precision. Simplicity sometimes results in ambiguity, providing scope for varying interpretation. Hence it is the need of the time to study the managerial implication of present taxation system of the corporate sector to help to achieve maximum benefit in open and competitive economy.

Like many developing countries, India also has adverse effects of taxes that are equitable in intent but poorly administered. Reflecting this realization, many countries including India, have introduced radical reforms in their tax systems in recent years. Another factor contributing to the major tax reform in tax structure in India is the economic reforms initiated in 1991.

A rather peculiar situation is gradually emerging in companies in India, where the business runs from the office of the tax consultant, instead of the Chief executive, because of the omnipotent and omnipresent laws of taxation. This calls for the induction of taxation in the corporate planning process, as the ultimate goal of a financial management is to minimise tax. Hence this study
aims at exploring the prevalent practices followed by the corporate sector in tax planning and also to study their implications.

**RATIONALE FOR RESEARCH**

The books and literature are numerous on the subject matter of taxation. The main coverage of this literature is to find out one best answer to minimize tax incidence and the legalities involved in it.

Importance of tax planning is described above. However it is felt that in practice, a narrow focus is given on the consideration by focusing on tax evasion and / or tax avoidance. It is mostly treated as a legal exercise. It is hardly considered as a macro level environmental factor, which is to be screened and integrated into chosen business plans of the companies. Resorting to tax avoidance / evasion leads to serious implications on long term healthy development of the organization.

Available literature also indicates that focus of tax planning largely evolves on minimization of tax. Very scanty work is done to analyse the tax factor in the broader context with its implications on various managerial decisions. This study aims at exploring the prevalent practices followed by the businessmen in tax planning and also studies their implications.

It is in the above context, that an attempt is being made in the thesis to make an exploratory research to understand relationship of taxation with other managerial decisions.
OBJECTIVES OF STUDY

The main objectives of this study are:

1. To study the existing practices followed for tax planning.
2. To study the process of decision making regarding tax planning.
3. To study how the policies are framed where tax considerations are involved.
4. To study the basic focus of the management when tax planning is undertaken.
5. To study methods of tax planning in corporate sector by availing the incentives and benefits provided by the legislature.
6. To study the impact of tax planning process on managerial issues of the company.
7. To study the implications of tax planning policies.
8. To derive logical conclusions on the basis of findings and to evolve guidelines for using the tool of taxation for overall development of the corporate sector and to suggest feasible recommendations.

RESEARCH METHODOLOGY

The research design for this study is exploratory in nature. Considering that very little research work has been done in the area of Tax Planning, it is difficult to have hypothesis for further testing and to come out with conclusive studies. Under the circumstances, research design is based on explorations. As hardly previous research study is available in the subject area, basic thrust of the study is to understand the various factors, which
guide the decision in the area of taxation. The outcome expected of the study is not to prove or disprove any hypothesis, but to have deeper understanding of the practices followed by the companies. Hence, in-depth probing of the executives in the organisations, established case studies of the organisations and composite opinion of the expertise were used to come out with the findings.

Again, as the focus is on decision making in the area of tax planning and identifying the ideological background which affect a particular course of tax planning, it is considered relevant that probing made with knowledgeable practitioners and expertise unearth useful ideas and relationships of taxation with managerial decisions. Considering qualitative nature of the research, seminar in a focus group of consultants was also undertaken. The study is also supported by the case studies.

To have comprehensive coverage of respondents sampling, the study is spread over to trading, industrial, finance, investment, service, and export companies etc.

SAMPLE SELECTED FOR THE STUDY
According to the information available from the Registrar of Companies (ROC), Gujarat and The Ahmedabad Share and Stockbrokers Association, there were 5392 companies registered with the ROC on March 31, 1997. Of these 5392 companies, 2826 companies are located in or around Ahmedabad. It was learnt that a large number of these 2826 companies are defunct and no
authentic data were available about the defunct companies. Hence it became necessary to select the sample for the present study from the companies listed in the Ahmedabad stock exchange. A list procured from The Ahmedabad Share and Stockbrokers Association (dated 16-1-1998) indicates that there are 813 companies listed with the Ahmedabad Stock Exchange. Out of these 813 companies, not a single company is quoted at the Ahmedabad Stock Exchange (ASE) but 62 companies are quoted at the Bombay Stock Exchange (BSE). Hence about 90% of the sample for the present study has been selected from these 62 companies. About 10% of the companies of the sample include Government Company, semi Government Company, closely held company and subsidiary companies. The sample of companies for the present study was selected in such a way that almost all the areas of Corporate Sector of Gujarat are represented. Hence 24 companies were selected. They represent areas like Finance, Electricity, Steel, Chemical & allied; Textile, Medicine, Pharmaceutical, Detergent, Engineering, Hotel, Real Estate etc. of corporate Sector of Gujarat.

A list of names and addresses of these 24 companies is given in annexure-C.

The tools used for the present study are:

1. Questionnaire 2. Interviews

1. **QUESTIONNAIRE**

An inquiry form used for obtaining data as well as opinion of individuals for some phenomena is termed as questionnaire. The data required for the present study were collected by a questionnaire. The
questionnaire is given in annexure -A. The questionnaires were sent to twenty four organizations of Gujarat, with an humble request to the Management to supply the data for this research purpose. This was followed by unstructured interviews with members of the top management, executives and experts.

2. INTERVIEWS

As a research tool, an interview is relatively a more flexible tool than written inquiry form. The interview necessitates asking someone else for factual information. This method also provides an opportunity for the exchange of thoughts and for the observation of facial, physical and vocal reaction not obtainable by any other methods. Thus interview is based on a process of interaction between the interviewer and the interviewee. It also involves much more than an oral questionnaire as it also allows the investigator to obtain more confidential information.

In the present study, the technique of interview was utilised to discuss practical aspects of different tax planning processes. A schedule was prepared on the basis of the information received in response to the questionnaires. The schedule used for interviewing the Management of organizations is given in annexure-B. The information thus obtained was used for interpreting the data and generalising the conclusions.
ANALYSIS AND INTERPRETATION OF THE DATA

The data received through the questionnaires were analysed with the help of computers. Various software available for analysis of financial and numerical data were used. These analyses were further studied and interpreted on basis of information received during personal interviews and discussions with the experts.

LIMITATIONS

1. Among the various types of income the study concentrates only on business income.
2. Among the various types of organization, the study focuses mainly on large-scale companies in the corporate sector.
3. The study focuses mainly on income tax.
4. The study is mainly confined to Indian Corporate Sector.

The above limitations are preferred to have deeper insight and understanding of the chosen subject.