4. CONCLUSIONS & RECOMMENDATIONS

In the preceding chapters a study is made on various aspects of managerial decision making in the area of Tax planning. The study made a focal point on the ideological background, process of decision making and the practices followed by the concerned decision makers.

The conclusions inferred along with the recommendations are narrated below: -

1) Regarding decision-makers, it is found that:

   Overall business policies of the organization are framed by Board of Directors, Managing Directors, while mostly Tax policies are influenced by executives and consultants. Thus, it is observed that influence of consultants and executives on Tax Policy is very high which, in turn, affect the business policy of the organization.

While framing a policy on tax planning, experts contribute to a great extent, however their efforts should be integrated with the managerial persons responsible for framing various business policies. There should be complementary & supplementary relationship between persons involved in business policy as well as persons involved in framing Tax policies. There should be Shared goal and co-operation between the experts for Taxation and managerial persons for business policy decisions.
2) Regarding consideration of various incentives, it is found that
(a) There are numerous interrelationships between tax provisions and managerial decisions.
(b) Awareness level of various types of concessions, deductions, incentives etc. available under the Income Tax law is very high.
(c) Awareness level of impact of various types of concessions, deductions, incentives etc. on other managerial decisions is not very high.
(d) Some expressed inability to analyse all relevant aspects of managerial decisions with their tax planning decisions and disclosed shortcoming of making comprehensive decisions.
(e) In some cases, narrowly focused tax driven decisions become counterproductive.

Awareness about the Tax provision is a welcome feature, however it should not be the only consideration and in the final decision making it should be Traded off with the overall business policy which are formulated for survival & growth of the company for long term perspectives.

3) Regarding main focus kept in mind about tax planning it is found that
(a) Setting of goals is useful to give direction in the planning efforts.
(b) If tax affairs are properly managed, the company may avail maximum deductions and exemptions. Where proper tax planning
is resorted by the company in conformity with the tax laws and provisions, the chances of litigation are minimised and company may be saved from the hardships and inconveniences caused by the unnecessary litigation.

(c) In obsession of minimizing the tax, considerable concentration is made on tax avoidance. This leads to adhocism and creates short-term myopic vision. In many instances, it is found that it did more harm than benefit to the tax management.

Many companies are attempting Tax planning exercise by means of Tax avoidance. By & large assesses are encouraged to attempt Tax avoidance because Tax planning has been wrongly understood to be mere legal exercise. But this is not so. Tax planning is an integral part of total management, where understanding the legal meaning of the provisions of the act is only one important facet of Tax planning. Taxation, being an important environmental factor, is both an opportunity and a threat to the organisation. It will be an opportunity realised, if the incentives offered in the law are weighted against other managerial issues. It becomes a threat, if the Tax factor is either ignored or considered, in isolation of management planning. Tax planning should therefore be an integral part of the corporate planning exercise.

4) Regarding objectives setting, it is found that

(a) Objectives, which are kept in mind for tax planning, are reduction of Tax liability, minimization of regulations etc. Thus, it is
observed that Tax Planning is, by and large, a legal focus and largely directed towards reduction of tax incidence.

(b) Main object of tax planning is to make the investments more productive, by reducing the tax liabilities. Many corporate bodies also keep minimization of litigation as their objective.

(c) Laws on taxation suffers continuous legislative experiments by amendments in order to cope up with pace of changing times. The tax planner has to exercise prudence and plan to reduce the incidence of the tax to the minimum by diligently and intelligently planning his tax affairs.

Objectives set for any decision guides the resources of the company and also affect behavioural pattern in an organisation in this context. Reduction of Tax liability, minimization of litigation etc. as Sole objectives is not a healthy practice. Tax planning is not an isolated and independent legal exercise confined to the chambers of Tax advisors and solicitors. The whole exercise should be integrated into the overall corporate long-range planning process.

5) Regarding decision involving investment into industrial projects and business units, it is found that

(a) For establishment of new business, it’s expansion and diversification, as well as for major commitments of Capital Expenditure decisions, taxation plays a very dominant role.
(b) Tax consideration plays vital role in selection of location. When "location" has been selected, keeping the tax consideration in mind, factors like power, raw material, transportation, labour, production, communication, timings, market and unwanted elements etc. have negative implications.

While inducement and incentives etc. play a very important role in guiding capital expenditure decisions, it is a major commitment of finding for implementation of the project and has a strategic influence over a long period for the survival of the chosen project. It becomes all the more crucial, when the selection of the project is made in the industrially backward area, for availability subsidies and other Tax advantages. A final cost benefit analysis of the project decision should also take into consideration factors like continues supply of R/M inputs, labour power and infrastructural requirement like transportations, communication etc.

6) The major instruments of tax planning are various provisions regarding tax concessions. In this respect it is found that

(a) While choosing the nature of business, prime consideration is given to the tax concessions, deductions and incentives.

(b) 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 investments in capital assets whether owned or leased, decisions relating to the investments in energy saving equipment like windfarm or pollution control equipment and the timings 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 lump sum 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. The above
list of decision areas is not an exhaustive list but an illustrative one.

(c) The nature of business and statutory regulations are the major factors, while technological requirements and gestation period are the other factors influencing the capital structure.

(d) Tax planning begins before company starts its operation. Tax consideration plays vital role in making the decision of various factors affecting type of organisation. Availability of market, Investment capacity, Statutory requirements etc. also affect the decision of type of organisation.

Though Tax planning is a major considerations in selection of a type of company as well as the nature of business the benefit arising out of Tax consideration should be evaluated in consideration with other business factors like deciding the level of capital requirement, range of product, Technical requirement, Diversification needs etc. It is also found that the executives involved in managerial decisions do not miss the other business factors. This may be the out come of the fact that respondent companies are from the well organised corporate sector and comparatively more enlightened top management of the chosen companies.

7) Regarding decisions pertaining to capital structuring, it is found that

(a) Considering tax benefit, loans and other outside borrowings are preferred for raising funds.
(b) Internal sources like retained earnings, depreciation and tax saving incentives are also given preference to strengthen the equity base and to provide liquidity base for survival and growth of the company’s activities.

(c) While choosing capital structure, “trading on debt-equity” plays a vital role.

(d) Tax consideration plays important role in making the decision of various factors of “financial management”.

(e) Tax consideration plays vital role in making the decision of various factors regarding “sources of finance”.

Various sources of fund are evaluated by considering relevant factors affecting capital structure decisions. However there is a preference for external borrowings which are interest bearing securities as interest is deductible expense which reduces Tax liability. The preference shown for a borrowed capital can be well understood. While taking advantage of Trading on equity to increase EPS, caution is required not to go beyond a certain limit and a fine balance between return & risk should be struck so that there is a value addition to the companies and it’s Share holders.

8) About decision of acquisition/ sale of assets, it is found that

(a) The managerial decision regarding acquisition of assets is an important task not only from the viewpoint of finance but also from the viewpoint of tax.
Sale proceeds of the assets must be reinvested to avail exemption from capital gain tax, but most of the companies are not reinvesting the sale proceeds and are not availing this benefit. The reason for not taking advantage of tax benefits is largely found to be trade-off between tax benefit versus liquidity requirement of the business.

In the matter of acquisition of asset a preference is shown to direct purchase vis-a-vis the other options of lease etc. Preference is obviously because of the tax consideration. However viewpoint of flexibility and maneuvering against volatile situations should not be last sight of. Likewise, while considering exemption from capital gain tax, essential requisite of re-investment of the Sale proceeds and there by affecting the liquidity position of the company also should not be over looked. There is a need of Trade off between the Tax benefit v/s liquidity requirement of the business.

9) Tax consideration also plays important role in various decision areas of functional management. In this respect it is found that

(a) Tax consideration plays vital role in making the decision of various factors of “production planning”.

(b) Tax consideration also plays vital role in making the decision regarding “research and development”.
(c) Tax consideration also plays vital role in making decision regarding "marketing management" along with other factors like demand, test of customer etc.

(d) Tax consideration also plays important role in making decision regarding "framing of operational policies".

(e) Tax consideration also plays vital role in making decision regarding "valuation of inventories".

(f) Tax consideration also plays vital role in making the decision of various factors of "personnel management".

Tax considerations play vital role in the areas of functional Management like production Management, Marketing management, Personal management, R & D management and Operation policy including valuation issues. Advantages of Tax considerations in the areas of functional management should be weighed along with the criteria of efficiency & effectiveness of caring out activities of production, marketing, HRD, R & D etc.

10) On the matter of certain recent provisions, which affect the tax policies, it is found that

Introduction of "minimum alternate tax" - MAT has regulated the decision making process of the companies. Earlier attempts towards "zero-tax-planning" by companies resulted in unrelated business decisions. These are plugged by the modification and it
has helped the Tax Planning process of the corporate world in general.

While planning a capital expenditure decision, Taxation decision do play a major role and this can lead to what was hitherto known as Zero Tax planning. Recent introduction of ‘MAT’ has regulated the decision making process in this area. The lesson that can be drawn is that a company should understand the intent of the Government and national priorities, which are reflected from time to time. This would ensure not only co-operation between the business and the Government but would also facilitate the growth without friction.

11) Regarding another aspects of timing factor of decision making, it is found that

"Timing of transaction" is very crucial in all the functional and policy areas including tax planning. To execute the decision in timely manner, it requires a team effort.

Proper scheduling and the timing of the project implementation will help the company in this aspect of Timing of Transaction.

12) In the concluding remarks by the respondents it is summarised that

(a) Tax consideration plays very important role in making the decision of various factors of form of business organisation, nature of business, location, capital structure, sources of finance, research
and development management decision, personnel management and other general management decisions.

(b) Any planning exercise done exclusively for a single area creates imbalance in the master plan and leads to sub-optimal utilisation of corporate resources. An integrated approach to the planning process requires that tax planning be an important and an equal partner along with other segments like production planning, marketing planning, etc. Just as corporate planning is an incomplete endeavor without tax planning, tax planning is an incomplete exercise without being fitted into the corporate planning framework. Corporate planning and tax planning should thus go hand in glove with each other.