CHAPTER 4

IMPACT OF TAX CONCESSIONS ON THE FINANCIAL POLICY OF THE CORPORATE ENTERPRISE.
Introduction

In the past, only a relatively few countries in the world have experienced, and come to expect a continued improvement in the material condition of their populations. Since the end of World War II, however, the expectation of significant material progress has become a powerful political and social force in many countries whose economic energies have been long dormant and whose material progress relatively retarded. As a result of these newly aroused expectations, Governments and people around the world are embracing the view that their material progress is an immediately achievable objective, and that success in achieving it will turn on their own ingenuity, vigour and discipline.

An important by-product of the desire in many countries for a quickened rate of economic and social progress has been a heightened awareness of the key role of tax legislation and tax administration in fashioning the pace and direction of economic development. The necessity of reshaping the tax system so that its burden distribution is constant with economic development has become acute in many countries where insufficient revenues, a maldistribution of wealth, or a lack of refined fiscal tools for controlling inflation or influencing saving and investment pattern to thwart economic progress. Another by-product is the impetus that has been given to experimentation in utilising the tax laws as mechanism for diverting
the flow of investment or wealth away from activities that have little or no development merit into activities whose encouragement is important for development. For example, were large holdings of insufficiency exploited constitute an impediment to social and economic progress, higher taxes are being utilized to encourage the breaking up of these holdings or to promote their more efficient exploitation. Similarly, taxation has been utilized as a means of channeling capital away from luxury imports or consumption and into economically desirable savings or investment. The most commonly encouraged development - oriented tax legislation, however, should be one that reduce taxes for industries engaged in selected activities whose encouragement is considered of particular economic or social merit.

While corporate taxes are important source of revenue and their use is constantly increasing for purposes of social control, they have another controversial aspect. Corporate taxes emerge as a cost of conducting business. It is thus a factor of crucial significance in financial management. Today, taxation is attracting a wider attention and more careful study as compared to the past. In search of more revenues, the corporate sector has received full attention from the state as in view of their growth in size and profitability, the corporate undertakings have afforded a convenient basis for special tax treatment. This arises partly because the taxation of corporations is politically feasible and partly because of
administrative convenience. It is quite easier from the political point of view to levy taxes on a few thousand corporations, which presumably do not vote, than millions of individuals.¹

The amount of corporation tax, i.e., the income tax paid by the companies is a significant contribution from the corporate sector to the Indian Exchequer. The rates of Income tax on companies both private and public, are very high and constitute a major portion of the total spending of a company.² Thus a careful study of taxes influencing the business decisions and financial policies is of great importance in view of the constantly increasing burden of taxation placed upon the corporate sector. The most important effect of taxation upon the corporate financial policy is its direct influence on the sources of financing. Broadly speaking, an existing company depends mainly on two sources of finance for expansion purposes; (i) retained earnings, and (ii) the savings of individual and institutional investors which are obtained through the sale of securities.

The tax liability of a company is directly responsible for influencing the quantum and magnitude of the above mentioned sources of business finance. Through various Finance Act, Several Union Finance Ministers have made several modifications in the existing framework of corporate taxation which are likely to influence the investment decisions and make substantial changes in the financial

policies of the corporate enterprise in our country. A few tax concessions have either been withdrawn completely or slashed down considerably. An attempt is made in this chapter to study various implications of the existing provisions of the Income Tax Act and modifications made by the various Finance Act on the financial policies of the corporate enterprise. For this purpose, this chapter has been devoted mainly to a consideration of the important tax concessions available to the business enterprises.

**Tax concessions or Tax Incentives:**

Tax incentives represent the major legislative effort undertaken to hasten development. The tax subsidies may be cast in a variety of forms. The most common are partial or complete exemptions, ordinarily for a limited period of time, from one or several taxes, and special allowances to accelerated depreciation or re-investment. The major significance of tax incentives however, lies in their utilization as a means of promoting objectives. One such objective may be to encourage investment in selected manufacturing activities of special economic or social worth. Other objectives of incentives may be to encourage the improvement of product quality or the utilization of domestically manufactured raw or semi-finished goods. The purpose of most tax incentive legislation is to promote

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increased investment, to undertake new ventures and/or expanding existing units. Hence, taxes operate as an impediment to invest and suggests that “any obstacles to such investment in the form taxes, should be recognised and where possible, eliminated.” In recent years, these tax incentive devices have attained prominence in development planning, when the need for overall tax revision has come to be widely recognised as most urgent. Moreover in a developing country like India where insufficient capital is one of the most crucial factors resulting in failure to offer the desirable location for investment to both indigenous and foreign investors, tax incentives become valuable in such a situation and act as an indirect stimulus to investment in so far as they enhance the country’s investment climate and attract foreign investment.

Tax considerations are highly important in decisions to invest. The removal or minimization of tax obstacles to investment will not only encourage investment but also make unpromising investment attractive because they permit a rapid recovery of capital and higher rate of return. In addition to the above, they encourage re-investment by making available to the taxpayer funds that would not otherwise be at his disposal for this purpose. Moreover in developing countries where insufficient capital is one of the most crucial factors resulting in underdevelopment, tax incentives become valuable as an indirect stimulus to

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investment in so far as they enhance the investment climate of the country and attract foreign investment.

It is pertinent to note, however, that inducing economic progress in an intractable or only sluggish responsive environment is challenging and difficult task, in that the urgency of advancing economically is evident, but the appropriate means of doing so are not.\(^4\) For example, tax incentives bring about a reduction in government revenue,\(^5\) introduces new differentials in tax treatment with equal incomes, besides, imposing additional burden on fiscal administration. Therefore, an important Question may be asked: can developing countries provide skilled technical personnel 'to perform satisfactorily the demanding functions of benefit conferral, surveillance of benefit grantees, and over-all review of the operation of the statute;\(^6\) and at the same time afford loss of revenue especially when (countries) 'with its endless extension of functions, can never have too much finances.'\(^7\)

Not necessarily we have to go very far to search for the answers. It is a well-known fact that developing countries lack efficient and skilled personnel to handle delicate fiscal instruments to tailor the priority objectives and hence, tax incentives may be jeopardised. So far as the answer to the loss of revenue is concerned, most underdeveloped countries can probably afford it, may be with


\(^5\) The times of India, April 28, 1978.

some difficulties, so long as incentives can fulfil some of the social and economic objectives. Here, it is worth noting the observation made by the United Nations Industrial Development Organisation, in a seminar held in Vienna on March 10-12, 1969: "A package of incentive measures, however, well formulated and implemented, is no magic formula to ensure that a country will obtain investment in the industrial sector at a sufficient level, of the appropriate quality and in the desired direction." 8. In fact, tax incentive policy is a delicate instrument of economic policy whose efficacy depends, besides others, on the favourable climate to private investment. As the 1960 survey of Economic commission for Asia and the Far East (ECAFE) rightly puts it. "Tax liability is one of several factors taken into account in arriving at investment decisions; although it is an important consideration, it is not necessarily the most important one. If the concessions are to be effective, they have to be coordinated with other factors having a bearing on private investment." 9

These observations of the United Nations Suggest that tax incentives require utmost care in their usage. Indeed, they can not be used in a general fashion; they have to be pragmatic, selective and experimental so that given a favourable investment climate, they can play an active role in promoting

investment for the industrial sector and as a policy instrument to achieve other objectives.

**Tax Incentives for Industries – An Overview.**

The taxpayer, whether an individual or a corporate body, who bears the burden of the tax, is normally resentful specially in respect of direct tax policy of the Government. Though taxpayer is vocal about the tax burden yet it is usually found that he remains silent about the tax incentives because of one or more factors as; i) he is not fully aware of these; ii) of complicated verbiage of the tax law; iii) he is not able to comprehend these incentives iv) the tax lawyers and practitioners besides relevant books on taxation do not bring out the beneficial aspects of the tax incentives. However, in the context of industrial development, it may be noted that tax incentives do play a decisive role. It is in this light a brief account of the historical evolution of the use of tax resources by the Government, we discuss hereunder the subject matter of tax incentives.

In nineteenth century, the role of taxation was confined mainly to the mobilisation of revenues for running the day-to-day administration, raising the resources and, second, channelising them for achieving desired priorities and goals. In pursuit of long-term socio-economic objectives set out in Article 39 of the constitution, in conjunction with the dominant and continuing one of mobilising
additional financial resources to meet the emergent needs of the country, the tax instrument has to perform the aforesaid dual functions. The former is achieved by the structure, spread and rates of the tax, while the latter is met by a system of incentives designed to direct economic activity in desired areas, priorities and choice.

**Definition of A Tax Incentive:**

Whenever we talk of incentives, the first question that comes to our mind is: “What is an incentive, in this context?” The classical school believed that the tax system should be strictly neutral as between alternative courses of action in the field of economic activity. However, this is no longer accepted as the consideratum. On the other hand, the currently accepted concept is that taxation can and should be used to favour certain types of economic decisions and disfavour others. This selective approach and planning to the use of the tax instrument to promote particular activity and discourage others, is the basis for all system of incentives. A definition of ‘incentive’ may be thought of in the above context. In its elementary form, a tax incentive may be defined as a tax provision which favours a particular type of economic activity or mode of utilisation of the country’s resources, in preference to others, by giving up totally or partially the tax which would otherwise be chargeable on the production, profits or income.
Distinction between Direct Incentive and Indirect Incentive:

One can envisage incentives even outside the ambit of the tax system such as direct incentives provided by the state in the form of subsidies, infrastructure facilities, price preference and similar advantages. However, the philosophy and the mechanics underlying the operation of the ‘Indirect’ incentives provided through the tax system are different from those of ‘direct’ incentives. While direct incentives, particularly the monetary ones, result in transfer of wealth to the favoured sectors from the rest of the economy. The indirect incentives on the other do not. The indirect incentives merely permit wealth to remain with the sector, which generates it, in preference to drawing it out and adding it to the general pool.

Need For Incentives:

An important feature of the evolution of the system of taxation in our country since independence is the enactment of a large number and variety of provisions designed to facilitate and stimulate economic growth according to the national commitments of the successive Governments embodied in the planned documents. These provisions may be grouped into two broad categories namely; i) general and selective tax concessions of substantial magnitude, aimed at: a) promoting personal saving and investment; b) rewarding enterprise and initiative in the field of industrial growth so as to augment the productive capacity of our
industry and strengthen its base in various key areas; c) strengthening our agricultural base; d) activating our external trade; e) encouraging investment in science and technology through research and development; ii) second group comprises negative incentives which include certain levies and disallowances designed; a) to mop up excessive profits in the corporate sector and unearned income in personal wealth; b) discouraging lavish and often wasteful expenditure in trade and industry.

**Function Of Tax Incentive:**

The tax element often exercises a decisive influence in economic and investment decisions. Reduction or elimination of this influence in the calculation of viability of a contemplated investment and its cash flow and profitability can make all the difference in either accepting a proposal or rejection it. This is a function of tax incentive. The acceptance or rejection of an investment proposal depends on its merit of the tax incentive. Further, as between competing avenues for employment of resources, other thing being equal, the entrepreneur would be inclined to invest in the venture which is more profitable and quick yielding than the other. But the slow yielding and less profitable investment may be Significant from the point of view of the national economic growth. The fiscal incentives are imperative for this type of projects. For instance, as between a steel plant or a
cement plant on the one hand and a unit making soaps or cosmetics on the other, the choice before the fiscal authority would be the former one. However, the tax concession can play a major role by neutralising the disadvantages of low profitability and long gestation period for the entrepreneur to be diverted to the sector of national priority.

**Limitation of Tax Incentives:**

Though tax incentives have an important role in the economic and social development of the country. But, at the same time it is necessary to take note of their limitations and their adverse consequences. The first limitation is that a tax incentive is meaningful only if, and to the extent that, there would be a tax liability but for the incentive. The tax incentive does not, by itself, create profits, it can only help to conserve, within the enterprise, the profits generated by the factors of production, for its further expansion and diversification or even for distribution to the owners. If the enterprise does not produce any profits due to the operational factors, then the tax incentive becomes virtually meaningless and ineffective. This brings out the vital fact that a tax incentive can operate effectively only where the other conditions are favourable for profitable operation.

The Second limitation is that, with a multiplicity of incentives operating in the same field, the effect of any particular incentive tends to be weakened. This is
nothing but a variation of the ‘Marginal Utility’ concept which, in this context, may be defined as “The incentive effect of a tax concession diminishes progressively with the addition of a new concession to the existing one or ones”.

The most serious of a tax incentive from national point of view is that, it leads to prodigality in the use of scarce resources. As an incentive once introduced in the law is not frequently reviewed not only as to its effectiveness but also to the need for its continuance. Any deleterious effects of the incentive on the use of scarce resources or in the employment of the wrong type of technology do not come to light until after considerable wastage has occurred.

Yet another fall-out of the proliferation of incentives for various purposes is the increase in the tax legislation. An incentive is introduced in the law with an avowed objective, such as i) it should induce taxpayers to save and invest their incomes in certain approved modes; ii) they should incur expenditure in developing markets for Indian goods abroad; iii) they should set-up industries in rural areas; iv) they should contribute to research programmes. However, once the legislation has been brought on the statute book, one should not lose sight of the purpose of a piece of legislation. However, there are instances when the practitioners set about bisecting, dissecting, analysing and interpreting every word of the legislation with a view to serving the clients interest most.
In the light of the foregoing observation, this chapter has been devoted mainly to a consideration of the important tax concessions as offered in the Indian Fiscal System.

Development Rebate:

This is one of the most important tax concessions and was introduced in 1955 on the recommendation of the Taxation Enquiry commission (1953). Development rebate was admissible in respect of ship, air craft, machinery or plant. A rebate at the rate of 25 percent was allowed on all new plant and machinery installed after March, 1954 to all industries. In the subsequent years, several changes were made in the provisions relating to development rebate: 20 percent rate in 1961, extension of the provision to second-hand machines in 1964, 25 percent rate for priority industries and 15 percent for other industries in 1964, etc. The allowance had been discontinued after 31st May, 1974. But Section 16 of the Finance Act 1974 has made an independent provision so as to continue the development rebate in respect of ships acquired after 31st May, 1974 but before 1st January, 1977. The assessee is required to furnish evidence that he had entered into contract for the purchase of the ship with the builder or owner there of before 1st December, 1973. Likewise, development rebate has been continued in respect of

coal-fired equipment or any machine or plant for converting Oil-fired equipment into coal-fired equipment, installed after 31st May, 1974 but before 1st Jun, 1977.

Investment Allowance:

The Finance Act, 1976 has introduced a new scheme of investment allowance, replacing the development allowance, which ceased to be in operation after 31st March, 1976 by inserting section 32A in the Income Tax Act. The investment allowance was initially made available in respect of a new ship or aircraft or plant or machinery, installed after 31st March, 1976 for the purpose of generation or distribution of electricity or any other form of power or business of construction, manufacture or production of any one or more of the articles or things specified in the list of the Ninth schedule of the Income Tax Act or in a small scale undertaking. The admissible rate was 25 percent of the actual cost of such plant or machinery as was installed. Later, the Finance Act, 1978 widened the scope of investment allowance to apply in the case of all industries excepting non-priority industries, as specified in the Eleventh Schedule11, added to the Income Tax Act.

The investment allowance to be deducted in the tax computation has been increased to 40 percent with effect from 1st April, 1979. But, the central

11. The Eleventh Schedule contain 34 articles or things which fall under the category of non-priority industries.
Government notified vide Notification No. GSR 870 (E), dated 12-7-1986 that deduction in respect of investment allowance shall not be allowed in respect of any ship, air-craft or plant and machinery installed after 31st March, 1987. However, the Direct Tax Laws (Amendment) Act, 1989 has reintroduced investment allowance at a lower rate of 20 percent (instead of 25 percent earlier) on ship or an air-craft or plant and machinery specified in section 32 A (8B) with effect from 1st April, 1989.12

The central Government has again notified vide Notification No S.O. 233 (E) dated 19-3-1990 that the deduction allowable under section 32A shall not be allowed in respect of any new ship or new air craft acquired or any new machinery or plant installed after the 31st day of March, 1990 13.

The deduction for investment allowance shall be allowed only if i) the particulars prescribed in this behalf have been furnished by the assessee in respect of the ship or air-craft or machinery or plant; ii) an amount equal to 75 percent of the investment allowance to be actually allowed is debited to the profit and Loss Account of the previous year in respect of which the deduction is to be allowed or any earlier previous year not being a previous year earlier than the year in which the ship or air-craft was acquired or the machinery or plant was installed or the ship, air-craft, machinery or plant was first put to use and credited to a reserve

account to be called the "Investment Allowance Reserve Account"; iii) the amount credited to the above mentioned Account is to be utilised a) for the purpose of acquiring new ship, air craft, machinery or plant within a period of 10 years next following the previous year in which the ship or air-craft was acquired or the machinery or plant was installed; b) for the purpose of the business of the undertaking other than for distribution by way of dividends or profits or for remittance outside India as a profit or for the creation of any asset outside India, until the acquisition of a new ship or new air-craft or new machinery or plant as given above. However this provision will not apply if i) any machinery or plant installed in any office premises or any residential accommodation, including any accommodation in the nature of guest-house; ii) any office appliances or road transport vehicles; iii) any ship, machinery or plant in respect of which the deduction by way of development rebate is allowable under Section 33 of Income Tax Act; iv) any machinery or plant, the whole of the actual cost of which is allowed as deduction (whether by way of depreciation or other wise); v) any new ship or new air-craft acquired or any new machinery or plant installed after 31st March, 1987 but before 1st April, 1988 unless such ship or air-craft is acquired or such machinery or plant is installed in the circumstances specified in sub section 8B (a) and assessee furnishes evidence to

13 Ibid - P.35.
the satisfaction of the assessing officer as specified in that clause (Inserted by the Direct Tax Laws (Amendment Act, 1989 with effect from 1st April, 1989). Further section 32A (3) allows an assessee to carry forward the investment allowance for 8 assessment years immediately succeeding the assessment year relevant to the previous year in which the ship or air-craft was acquired or the machinery or plant was installed or, as the case may be, the immediately succeeding previous year.

The scheme, no doubt, aims at helping business enterprises in acquiring new assets but is available only after the capital investment is made whereas, what is needed is that sufficient resources must accumulate in the company itself either for rehabilitating the plant or for modernising the existing units. It is feared that companies will find it difficult to plough back their resources after they meet the demands of employees for bonus and return to the shareholders.14

Exemption in Long-Term capital Gains:

The Finance (No2) Act, 1977 has introduced a new section 54 E, in the Income Tax Act which provides tax exemption in case of capital gains arising from the transfer of long term capital assets, provided the entire consideration so received is invested or deposited for three years in any specified assets within six months from the date of such transfer. In case of only a part of consideration so

invested or deposited, the Act provides for proportionate exemption only of the capital gains so invested or deposited. In order to make this concession more meaningful and to ensure that it leads to the flow of fresh investible funds in risk capital, the Finance Act, 1978 inserts a new section 80cc, to provide that investment in equity shares made after 28th February, 1978 will be regarded as an eligible mode of investment.

However, in order to provide an impetus to investment in priority sectors of the economy, a new section 54 EA was inserted in the Income Tax Act. Under the new section the exemption is available:

(i) In case net consideration, of any or all long term capital assets, transferred during the previous year, is reinvested in bonds, debentures, shares of a Public Limited Company or units of mutual funds, which are so notified in official Gazette, within six months from date of transfer of capital assets; ii) If the bonds, debentures, shares or units so acquired are not sold or otherwise converted into money for three years from the date of their acquisition. Section 54 EB inserted in the Income Tax Act provide that the capital gain arising from the transfer of a long term capital assets will be exempt from tax, if the capital gain so arising is reinvested within six months in specified assets notified by the Central Board of Direct Taxes. If part of the capital gain is so invested in the specified assets, proportionate exemption would be available. A lock-in period of seven years is
prescribed. If the asset is transferred before the expiry of the lock-in period of seven years, the exemption will be liable to be withdrawn.

Amortisation of Certain Preliminary Expenses:

Section 35D of the Income Tax Act, inserted by the Taxation Laws (Amendment) Act, 1970 entitles an Indian company or any person resident in India to deduct preliminary expenses at the rate of 2.50 percent or in the case of industrial company, of the capital employed in the business of the company. Such expenses as incurred after 31st March, 1970 will include: expenditure in connection with preparation of feasibility report, project report, conducting market survey, engineering services related to the business of the assessee, etc. Legal charges for drafting the memorandum and articles, printing charges for the Memorandum and Articles of Association, fees for registration, Underwriting commission, brokerage, drafting charges, typing, printing, etc, of the prospectus relating to issue of shares and debentures and any other item of expenditure as prescribed by the Act, are also covered under this section. The deduction allowed is of an amount equal to one tenth of the approved expenditure for each of the ten successive previous years beginning with the previous year in which business commences or extension work is completed or the new industrial unit commences production as the case may be.
Rural Development Allowance:

Development of rural areas was one of the main objectives of the then Janata Government. In this light the Finance (No2) Act, 1977 inserted a new section 35cc in the Income Tax Act, which became effective from 1st April, 1978. Under the provision of this Act, if an assessee, being a company, incurs after 30th June, 1977 any expenditure on any programme of rural development, it will be allowed to deduct such expenditure as incurred in the previous year, the only condition being that these programmes are a priori approved by the prescribed authority before incurring such expenditure.15 Programmes of rural development include any programme for promoting the social and economic welfare of public or their upliftment in rural areas.

The Act further provides that if these expenditures result in acquiring any such asset as building, plant, machinery or furniture before the end of previous year and the assessee does not divest itself of the owner ship, on deduction will be allowed in computing taxable income. However in this case, the assessee will be entitled to depreciation allowance in respect of asset so acquired. The Act further provides that deduction so allowed can not be utilised under any other provisions of this Act.

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15. The Secretary in the Ministry of Agriculture is the prescribed authority for the purpose of this provision of the Act.
Exemption for Investment in New Industrial Companies:

To stimulate investment in equity shares of new industrial companies, the Finance Act, 1978 inserts a new section 35ccA in the Income Tax Act. This section provides for deduction for any expenditure incurred during the previous year by any assessee by way of payment of any amount: a) to an institution or association which has its object the undertaking of any programme of rural development; b) to an institution or association which has its object the training of persons for implementing the rural development programmes; c) to a rural development fund set up and notified by the central Government; d) to the National Urban poverty Eradication Fund set up and notified by the Central Government. The Act became effective from 1st June, 1978 and applied accordingly in relation to assessment year 1979-80 and subsequent years.

Expenditure on Acquisition of Patent Rights or Copyrights:

The Finance Act, 1966 for the first time, introduced a system of exemption on the expenditure in acquiring patent rights or copyrights for business purposes. Section 35 A in the Income Tax Act was accordingly introduced.

The Act had been in force since 1st April, 1966 and provided that expenditure of capital nature would be allowed to be deducted in fourteen years – to be calculated on the basis of equal appropriate fraction of the amount of such
expenditure every year-and the expenditure so computed in previous year would be
deducted from the taxable income of the previous year. If the rights come to an end
or are sold and sale proceeds are less than the cost of acquisition thereof not
charged, so far, a deduction equal to such cost remaining is allowed or, as the case
may be, such cost remaining unallowed as reduced by the proceeds of the sale shall
be allowed in respect of the previous year in which the rights come to an end, or as
the case may be, are sold. If the sale proceeds are more than the cost of acquisition
remaining unallowed, the excess part will be the business income of the previous
year. However, in case of loss, the loss will be spread over remaining number of
years. The excess of amount realised over actual cost shall be treated as capital
gain.

Expenditure on Scientific Research:

To encourage the use of scientific research in business, section 35 of the
Income Tax Act provides that any expenditure will be allowed in tax computation,
if scientific research is carried out by the assessee himself\textsuperscript{16} or by any recognised
University / College / Scientific Research Association, whose object is the
furtherance of scientific research or research in social or statistical sciences. In

\textsuperscript{16} In this case, only revenue expenditure will be allowed for Income Tax deduction.
certain cases, deductions are allowed even if the expenditure is incurred prior to the commencement of business.

In the present-day context, expenses on research and development are important from the point of view of the business and industry and from national angle too. This expenditure brings about innovations in the product and thus helps various parties associated with business. Important features of the allowability are as under.

a) Revenue expenses on scientific research pertaining to business are allowed in full [35(1) (i)]

(b) Sum paid to scientific research association which has its object the undertaking of scientific research or to a University, College or other institution to be used for scientific research [35(1) (ii)]

(c) Sum paid to a University, College or other institution to be used for research in social science or statistical research [35(1) (iii)]

(d) Capital Expenditure on Scientific Research relating to business is also allowed in full [35(1) (iv)]

With effect from 1st April, 1984 only that sum shall be allowed which is paid with specific direction that the sum paid shall not be used for the acquisition of any land or building or construction of any building.
With effect from Assessment year 1994-95 an assessee can claim a deduction of 125 per cent of actual amount given to a National Laboratory to be used for scientific research undertaken under a programme approved by the prescribed authority. The Finance Act, 1994 has extended this benefit for any amount given to any University or Indian Institute of Technology and it shall also qualify for weighted deduction.

With effect from 1st April, 1967 capital expenditure incurred on scientific research is fully allowed to be debited in the year in which it is incurred. Where, however, any capital expenditure has been incurred before the commencement of business, the aggregate of such expenditure, incurred within three years immediately preceding the commencement of the business is deemed to have been incurred in the previous year in which the business in commenced. Unabsorbed capital expenditure on scientific research, if any, to the advantage of an assessee, can be carried forward without any time limit.

Concession for Rehabilitation of Sick Industrial Units:

For quite sometime, a number of industrial units have been reporting "Sick" because of their financial non-viability resulting in no production or less production which in turn, has social and economic implications. Sometimes the business of an industrial undertaking carried on by the assessee is discontinued
because of flood, riot, explosion, war, etc. The loss sustained by such business before the discontinuance can ordinarily not be carried forward for set-off. But sec 72 enables the carry forward of losses of such discontinued business if it is revived, re-established or reconstructed by the assessee with in three years. Such loss will be carried forward for a period of seven years next following subject to the condition that re-established, reconstructed or revived business continues to be carried on by the assessee.

Further to facilitate the rehabilitation of sick units, the Finance (No2) Act, 1977 has inserted a new section 72A, which provides for carry forwarding and setting off accumulated loss and unabsorbed depreciation allowance, if such an unit is amalgamated with a sound one.

Under the provision of the new Act, if i) the accumulated loss of the amalgamating company before amalgamation exceeds 50 percent of the aggregate of its paid-up share capital; ii) the company was not financially viable at the time of amalgamation; iii) the amalgamation was in public interest then, on the recommendation of the ‘specified authority’, and subject to the satisfaction of the Central Government, amalgamation of sick units and to carry forward and set-off loss and unabsorbed depreciation allowance will be allowed, accordingly.

The Act became effective from 1st April, 1978 and applied accordingly in relation to the assessment year 1978-79 and subsequent years.
Tax Concessions to Small-scale Industrial Units Set Up in Rural Areas:

Development of rural areas is one of the political and economic strategies of any welfare Government. As such, with a view to provide an incentive to set up small-scale industrial units in rural areas, a new provision, by inserting section 80 HHA, is made in the Income Tax Act.

Under the provision of the Act, an assessee is entitled to a deduction in respect of profits derived by it from a new small-scale industrial undertaking set up in rural area. This section applies to any small-scale industrial undertaking which fulfills all the conditions, namely i) It begins to manufacture or produce articles after 30th September, 1977 but before 1st April, 1990, in any rural area; ii) It is not formed by the splitting up, or the reconstruction, of a business already in existence; iii) It is not formed by the transfer to a new business of a machinery or plant previously used for any purpose; iv) it employs ten or more workers in a manufacturing process carried on with the aid of power, or employs twenty or more workers in a manufacturing process carried on within the aid of power and v) it should not be mining undertaking.

The assessee is entitled to a deduction equal to 20 percent of the profits and gains (before claiming deduction under section 80 – 1 and 80 J) derived by it from
such new small-scale industrial undertaking in respect of each of the ten assessment years in which the industrial undertaking begins production.

**Tax Concessions to Promote Export Business:**

Under section 80 HHC of the Income Tax Act, an assessee being an Indian Company or a person (other than a company) resident in India engaged in the business of exports out of India of any specified goods or merchandise, shall be allowed; in computing the total income, a deduction of profit derived from the export of such goods or merchandise. In order to claim deduction under section 80 HHC, the conditions which are to be fulfilled are i) goods are taken from India to outside India; ii) Sale proceeds of the eligible goods exported out of India must be received in, or brought into, India by the assessee in convertible foreign exchange within a stipulated time period. However, the assessee can with the prior approval of the Reserve Bank of India credit the sale proceeds to a separate account maintained by the assessee within any bank outside India, in that case those sale proceeds will be deemed to have been received in India; iii) where any goods or merchandise are transferred by a tax payer, to a branch office, warehouse or any other establishment of the tax payer situate outside India and such goods are sold from such branch office, warehouse or establishment, such transfer effected by the

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17. A rural area is an area which is beyond the jurisdiction of a municipality or a cantonment board; is not situated within the radius of 8 kilometres of a municipality or cantonment board and has a
assessee shall be deemed to be export out of India; iv) this section applies to sale proceeds of all goods exported out of India except a) Mineral oils and b) Mineral & Ores excluding processed minerals & ores Specified in Twelfth Schedule; vi) any person who claims deduction under this section shall have to get his accounts audited as per provisions of Income Tax Act. The amount of deduction under

Section 80 HHC is equal to

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\left( \frac{\text{Net profit} \times \text{Export turnover}}{\text{Total turnover}} \right) + \left( \frac{90\% \times \text{Export turnover}}{\text{Total turnover}} \right)
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Incentives for Infrastructure Development:

The availability of adequate infrastructure facilities is vital for accelerating the economic development of the country. In recognition of this fact, the existing provisions of the Income Tax Act, provides a five-year tax holiday to an enterprise carrying on the business of developing, maintaining and operating any infrastructure facility. However, in order to attract further investment in this sector, an urgent need has been felt for providing more tax incentives to investors.
Under the provisions of section 80-IA of the Income Tax Act, a five year tax holiday and a deduction of 25 per cent (30 per cent in case of company in the subsequent five year is allowed to an undertaking engaged in the business of generation, or generation and distribution of power or to an undertaking (industrial) set up in backward states districts.

From the discussion above, it is clear that Indian Exchequer has a significant contribution from the corporate sector in terms of corporate income-tax. As a result of this the corporate sector has attracted wider attention of the state. On the contrary, the state is required to uplift the degree of industrialisation by providing certain tax concessions or tax incentives. Tax incentives have become valuable as indirect stimuli to investment in so far as they enhance the investment climate of the county and attract foreign investment. In this respect, it can be mentioned here that, while presenting the budget for 1992-93, the Finance Minister allowed reputable foreign investor to invest in the country's capital markets. In pursuance of this, guidelines were issued in 1992 for such investment by Foreign Institutional Investors. Income from such investment has been taxed at a concessional rate.

To conclude tax incentives to corporate sector in India represent the major legislative effort undertaken to hasten development. Tax considerations are highly important in decisions to invest. Tax incentive policy is a delicate instrument of
economic policy whose efficacy depends, besides others on the favourable climate to private investment. If the concessions are to be effective, they have to be coordinated with other factors having a bearing on private investments, though tax incentives have an important role in the economic and social development of the country. But sometimes it leads to prodigality in the use of scarce resources. Therefore, each tax incentive requires constant evaluation from time to time. This is necessary to know whether these incentives herald the expected result of them and whether industries actually are being benefited. This evaluation should be made periodically since industrial priorities change over a period of time, making it necessary to adjust the tax incentive schemes accordingly.