PREFACE

Finance is the lifeblood of any successful industrial unit. Non availability of adequate and timely finance is one of the major causes for the failure in industrial growth in Eastern region of India. The capital and money markets influence the flow of finance into the industrial sector to a great extent. The companies find it very difficult to procure funds from external sources because of the unavoidable external factors.

The growing sickness among industries in India (both in private and public sector) is posing a serious challenge to the top management. Therefore, the top management is now paying more attention to manoeuvre one of the most complicated aspects of financial management, namely capital structure decisions. The role which finance plays in the overall making of a firm is undoubtedly crucial, but the critical part which the tax plays in the performance of the finance function by an enterprise is of no less significance in any way, though it has hitherto been fully appreciated. One of the aspects of the present study is to highlight the importance the tax factor has in shaping the vital financial decisions of a corporation.

The provisions of corporate taxation in India are apt to strike a detached observer as a perfect maze of unnecessary complications, the accretion of years of
futile endeavour to reconcile fundamentally contradictory objectives. The Government comes with amendments quite often to make the Act even more complicated. Therefore, these require a thorough and in-depth study. Besides, the Government has taken a number of tax measures for socio economic development of the country by providing incentives or disincentives to the corporate sector. Therefore, large corporations have to think of availing themselves of these advantages to minimise their tax burden. Tax heavens/shields offer a very large scope of tax planning for them.

Taxation is an important instrument not only for allocation of resources and distribution of income, but also in promoting capital formation. Today, taxation is attracting wider attention and more careful study than has been the case in the past. The considerable increase in public expenditure in recent years has coincided with the search for more revenue to meet the development expenses of the Government. Therefore, in search for 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. 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 taxes paid by the companies constitute a major portion of the total spending of a company. 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. Thus, it will be right to say that in India the business is not run from the office of the chief executive but of the tax consultant because of the omnipotent and omnipresent laws of taxation. Therefore, tax planning has gained significant importance in recent years. The effects of taxation are so widespread and complicated that it is hardly possible to take a business decision without regarding the tax implication involved. One of the most important effects of taxation upon the corporate financial policy is its direct influence on the sources of financing. Finding out the influence of tax on corporate debt policies forms one of the aspects of our research. During the recent years of high corporate tax rates (though it has been moderately lowered in recent past), it is observed that most of the companies in India are relying heavily on debt capital for meeting their capital requirements. The usual argument put forth for such discrimination in favour of debt financing arises primarily from the fact that interest payment on indebtedness is recognised as deductible expenses in computing taxable profits, whereas dividend on equity capital is not. One of the objectives of the present study is to examine the impact of tax on corporate capital structure financing in the private corporate sector.

Corporate income tax may adversely affect a company's capacity and desire to save. The capacity of a corporate entity to save is reduced when its net profits
are reduced by heavy taxation. Since the income of companies generally comes under high brackets on which the rate of taxation is generally high, a corporation tax is likely to lead to very considerable extent in reduction of corporate savings and consequently the investment. In this study an attempt has been made to know the fixed assets financing of the companies and the sources of funds available for the purpose.

The present study is divided into eight chapters. The first chapter gives an outline of the synopsis of the present study including the review of literature. The second chapter "History of Corporate Tax Legislation in India" deals with the objectives of corporation tax, growth of corporate sector and history of tax legislation in relation to corporate sector in India. A brief justification regarding the taxation of corporate sector along with the basis and effects of corporate taxation is made in the third chapter "Economics of Corporate Taxation and Industrial Growth". The fourth chapter "Impact of Tax Concessions on the Financial Policy of the Corporate Enterprise" has been devoted to the important tax concessions available to business enterprises. The fifth chapter "Corporate Tax Planning and Financing of Capital Structure", presents the importance of tax planning and management in relation to corporate sector and effect of corporate taxation on financing the capital structure. The sixth chapter "Tax Structure of the Corporate Entities Under Study: Their Financing of Fixed Assets", Comprises of
Corporation tax structure in India and the availability of funds to fixed assets financing of the corporate entities. "Tax policy and its Implication on Depreciation", The seventh chapter presents the theories regarding depreciation, depreciation and its related problems. The last chapter deals with summary and conclusion.

The work has been performed on hypotheses that

i) The higher the corporate income tax rates, the greater will be the preference for debt capital over the equity, the preference share capital;

ii) The equity capital is influenced by the demand for additional finances to meet the expansion programmes of the company;

iii) Internal funds play a significant role in financing the companies; and

iv) Retained profit plays an important role in the flow of internal funds.

The methodology adopted comprises of collection of data and materials from different university, organisations such as Bombay Stock Exchange, C & A. G. office, Reserve Bank of India, National Library, Dept. of Company Affairs etc.