CHAPTER 2

HISTORY OF CORPORATE TAX LEGISLATION IN INDIA
Introduction

The past lives in the present and will largely shape the future. The history of corporate tax legislation in India, for this reason, a subject of great interest, for it not merely explains the existing feature of the corporate tax system of the country, but is likely to offer considerable guidance for future reforms. The tax policy, which is manifestation of the tax statute, is only a means to an end, therefore, the first step in formulating it is to determine the socio-economic goals being sought and then, to train the policy measures to achieve that objective. Otherwise, the means may be confused with the ends. In a democracy like India, there would be multiplicity of ends; for example, the desire to plan to retain and even build up the private sector in order to have a mixed economy; to increase output—both producers' and consumers' goods; to maintain economic stability, raise resources, encourage private savings and investment; achieve redistributive justice; and to increase living standards. All these may be desirable ends, which a tax policy can and should serve. A balance must be established among the competing objectives and a scale of preferences among them drawn up. Just as there is no ideal priority list for ends, so there is neither an ideal nor inflexible tax policy. Effective adjustment of the means (tax policy) to the ends (national objectives) demands a comprehensive programme and policy of tax reform.
Taxation is an important instrument not only for allocation of resources and distribution of incomes, but also in promoting capital formation and in curbing inflation. The orthodox fiscal theory that higher taxes can provide larger revenue for government has long been rejected due to inherent fallacies. The primary task of fiscal policy in underdeveloped countries is not simply to collect revenue but to raise the ratio of saving to national income, thereby making available a larger flow of resources for economic growth. To state, in the words of Dr. B. R. Agarwal, the taxation policy of the Government should not only maximise the flow of funds to the Exchequer but also promote entrepreneurial activity in desired directions by encouraging the flow of internally and externally generated funds for further investment; create employment; boost production and earnings; and in turn, reap larger revenues for the government to defray the increasing current expenditure on social welfare and to invest in public enterprise.

Taxation in our country for that matter in almost all countries may be broadly divided into two categories, viz., direct taxes and indirect taxes. Corporation tax as one of the direct taxes has been a major source of government revenue. Corporate taxes are quite convenient to collect and offer least chances of evasion. On account of technical innovations and economies of large scale production, the role of corporate form of organisation and its contribution to the

\[1\text{. Taxation and Industrial growth. A Publication of Economic and Scientific Research Association, India Exchange, Calcutta, (1976) P-4.}\]
revenues of the government are quite significant. In this chapter an attempt has been made to describe in detail the evolution of corporate tax legislation in India but before that a few observations are to be made to cover the difference between corporate tax and individual tax and definition of corporate tax.

**Objectives of Corporation Tax.**

Corporation tax, as an important ingredient of the fiscal system, has a three-fold role to play: to transfer resources from the private to the public sector, to bring about equality in income and wealth distribution; and to promote economic growth, stability and efficiency. From these angles, the corporation tax structure in our country is both a source of satisfaction and an object of criticism—a source of satisfaction, because it does not seem to have produced impeding effects on economic growth and an object of criticism, because many still believe that the corporation tax rates in India are the highest in the world. Many companies feel that the rising tax cost burden on Indian Companies is not only due to the increased earnings of the companies or the increased needs of the Exchequer to finance the ever increasing role of the state, but also due to the fact that the state can only collect this huge amount of revenue from the docile and nerveless corporate sector while making the least possible demands on the voters, due to impersonal factor.

---

3. Ibid. P-228.
This has made the government to transfer the maximum possible tax burden on this sector.

Corporate Income tax has often been referred as an elastic source of public revenue and therefore the government is justified in depending upon this direct tax. The levy of surtax on the excessive profits of the company has made it progressive. The statutory tax rates on corporate profits indicate the awareness on the part of the government of the potentiality of the tax. However, the proportion of revenue raised through this source has never been significant. The reason seems to be the deviation of the effective tax rate (the ratio of tax provision to profits before tax) from the statutory one. Though the statutory tax rate differs depending upon the nature of the company, the variations in effective tax rates are more profound. The government has given more weight to the development of the industrial sector while designing its strategy.

We have observed that tax concessions and incentives provided in the legislation has prompted many organisations to get themselves registered under the Companies Act. Thus it would be pertinent to peep into the growth of corporate entities over the period of study which has been projected in the table 2.1.

### TABLE - 2.1

Non-Government Companies limited by Shares at work with paid-up capital
(capital in crores of Rs.)

<table>
<thead>
<tr>
<th>Year ended</th>
<th>public limited</th>
<th>private limited</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>capital</td>
<td>paid-up capital</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>31.3.73</td>
<td>6819</td>
<td>2175.6</td>
<td>27147</td>
</tr>
<tr>
<td>31.3.74</td>
<td>7071</td>
<td>2323.3</td>
<td>29964</td>
</tr>
<tr>
<td>31.3.75</td>
<td>7275</td>
<td>2484.4</td>
<td>32736</td>
</tr>
<tr>
<td>31.3.76</td>
<td>7465</td>
<td>2536.1</td>
<td>35149</td>
</tr>
<tr>
<td>31.3.77</td>
<td>7585</td>
<td>2554.4</td>
<td>37346</td>
</tr>
<tr>
<td>31.3.78</td>
<td>8028</td>
<td>3113.2</td>
<td>39521</td>
</tr>
<tr>
<td>31.3.79</td>
<td>8309</td>
<td>3240.2</td>
<td>42727</td>
</tr>
<tr>
<td>31.3.80</td>
<td>8864</td>
<td>3444.9</td>
<td>46804</td>
</tr>
<tr>
<td>31.3.81</td>
<td>9388</td>
<td>3590.3</td>
<td>52475</td>
</tr>
<tr>
<td>31.3.82</td>
<td>13390</td>
<td>4083.1</td>
<td>60910</td>
</tr>
<tr>
<td>31.3.83</td>
<td>14847</td>
<td>4642.9</td>
<td>70022</td>
</tr>
<tr>
<td>31.3.84</td>
<td>16241</td>
<td>5114.3</td>
<td>80030</td>
</tr>
<tr>
<td>31.3.85</td>
<td>18067</td>
<td>6042.5</td>
<td>90262</td>
</tr>
<tr>
<td>31.3.86</td>
<td>19837</td>
<td>7139.2</td>
<td>103522</td>
</tr>
<tr>
<td>31.3.87</td>
<td>21442</td>
<td>8434.9</td>
<td>118175</td>
</tr>
<tr>
<td>31.3.88</td>
<td>22507</td>
<td>9965.8</td>
<td>134713</td>
</tr>
<tr>
<td>31.3.89</td>
<td>23749</td>
<td>11773.3</td>
<td>155445</td>
</tr>
<tr>
<td>31.3.90</td>
<td>25217</td>
<td>13573.0</td>
<td>175751</td>
</tr>
<tr>
<td>31.3.91</td>
<td>26813</td>
<td>16597.4</td>
<td>196472</td>
</tr>
<tr>
<td>31.3.92</td>
<td>29231</td>
<td>22521.8</td>
<td>219950</td>
</tr>
<tr>
<td>31.3.93</td>
<td>33549</td>
<td>25336.1</td>
<td>240925</td>
</tr>
<tr>
<td>31.3.94</td>
<td>37410</td>
<td>33350.7</td>
<td>267012</td>
</tr>
<tr>
<td>31.3.95</td>
<td>40676</td>
<td>43180.3</td>
<td>306017</td>
</tr>
<tr>
<td>31.3.96</td>
<td>56797</td>
<td>65030.8</td>
<td>351129</td>
</tr>
</tbody>
</table>


And


One of the indicators of the rate of growth of private corporate sector is the number of companies at work and their total paid-up capital. While the rate of
increase in the number of companies and their paid-up capital indicates the actual
growth of private corporate sector, the trend in the growth of both public and
private limited companies is itself a pointer to the willingness or otherwise of
entrepreneurs to start new enterprises.

Table 2.1 gives the total number and paid-up capital of non-Government
Companies limited by shares at work in the years 1973-96. It can be seen that there
has been a steady increase both in the number of companies at work and their paid-
up capital. The total number of public limited company and private limited
company as on 31\textsuperscript{st} March 1973 was 6819 and 27,147 respectively. However at the
year ended 31\textsuperscript{st} March 1996, it is found that the number of public companies has
increased to 56,797 and private limited companies have increased to 3,51,129.
Over the years while the public company has increased by 732.9 percent, the
private limited company has increased by 1193.4 percent. During the years the
paid-up capital of public limited company has increased by 2889 percent. The
increase in paid-up capital of private limited company during the period is 3251.3
percent. Both in terms of companies at work and paid-up capital, it is observed that
private limited company has an edge over public limited company.

To sum up, the size of private corporate sector in terms of paid-up capital
and number has continued to increase. It may also be said that the small and
average size of companies (assuming that private limited companies are either
small or medium scale) has gradually increased in these years at a faster rate compared to public limited companies.

**Theory of Corporate Taxation:**

As a follow up of to the growth of corporate tax legislation and the corporate sector, it would be inevitable to have a glance over the principles of Corporate taxation. There are two distinct philosophies with respect to the tax treatment of companies. According to the first a corporation does not have any taxable capacity separate from its shareholders. A corporation, after all, is an aggregate of persons—its stock holders—combined together to achieve some common purpose under ‘limited liability’. All taxation being invariably personal taxation, a corporation is not a ‘person’ in this strict sense of the word—that is, made of blood and flesh to pay taxes, and therefore it is argued that due tax credit must be given to the holders of the stock for the tax paid by the corporation. Greece, for example, is one country where this view has been followed and tax credit is allowed there to the stockholders for the taxes paid by their corporations⁷. In India also, till the assessment year 1959-60, compound system based on this philosophy, was in existence and partial credit was allowed to the stockholders in respect of the taxes paid by their corporations. Under the Income Tax Law

provisions then existing, the income tax on companies was refunded to the stockholders on super-tax was treated as non-refundable\textsuperscript{8}.

The social philosophy rests on the argument that the corporate form gives a separate entity to the company with the distinct capacity of its own to bear taxes. In corporation confers definite legal privileges on a company and it must, therefore, pay for such benefits\textsuperscript{9}. The essence of the second point of view on company taxation lies in considering a company as someone or something with its own ‘identity,’ and therefore as a natural tax paying unit, side by side, with personal tax payers. On such a consideration, the tax levied on the company can not be regarded as taxation on shareholders. That the company has an independent capacity of its own to bear taxes, is a recognised principle in the tax systems of the most countries of the world today.

**Corporation Tax and Individual Income Tax:**

To quote Henry C. Simons,\textsuperscript{10} income taxation broadly is said to be “an instrument of economic control, a means of mitigating economic inequality.” To put the same as per William H. Anderson, it is also considered as the most rational tool of taxation in the whole arsenal of tax instruments because ultimately, most

---

\textsuperscript{8} Singh, Devendra (1985): op cit.-p-12.

taxes come out of income\textsuperscript{11}. In a developing country like India, however, it can be viewed as an instrument of development finance for the public sector and as an engine of securing social justice\textsuperscript{12}.

There is one thing in common with regard to income taxation of both individuals and corporation 'income' is the tax base. Though 'income' seems simple and majestic in its basic concept like a pillar of Ashok, the concept is complex and the income tax statutes of most lands are masterpieces of complexity due to its usage and interpretation\textsuperscript{13}.

**Individual Income-Tax**

Individual income tax is a tax on 'taxable entities' levied at progressive rates on the total income at rates prescribed by the laws of respective countries. For example, in India, the taxable entities are individual, Hindu Undivided Families, Unregistered Firms and other 'association of persons'. 'Total income' consists of income from salaries, interest on security property and from all other sources. Certain exemptions and deductions by a system of personal allowances based on the tax-payer's family status, are allowed at arriving the 'total income'. Individual

income tax is a global tax assessed against taxable income from all sources. To quote Richard Goode, the individual tax is considered as the "fairest of all taxes". Because it accords best with 'ability to pay' principle. After all, 'net income' is a measure of a person's capacity to command economic resources, which is a good indicator of ability to help government finance its programmes of development.

**Corporation Tax:**

Modern business establishments may be viewed from many aspects, most of which afford a reason, or at least an excuse, for taxation. Hence, the base of business tax may be any of the wide variety of things: the enterprise, the amount of capital used, net profits, gross earnings, any excess profits, distributed dividends, undistributed profits, etc. However, it may be emphasised here that though a corporation is a separate legal entity in which the ownership is vested in the hands of its shareholders, this legal entity according to Messers Due and Friedlaender may have the following implications:

- It may not pass the earnings on to its shareholders but use them for reserves or expansion.

---

ii) The existence of the corporation and the division between initial earnings of income and subsequent payment of dividends encourages government to tax both the corporation and the dividends received, whereas no similar policy is followed with other income.

iii) The division between ownership and control may cause the reactions to the tax to be different from those to the personal income tax.

In India, as in most countries of the world, the corporation taxation varies according to (1) the tax base, i.e., 'total income' or 'distributed profits' or 'undistributed profits'. (2) the form of organisation, i.e., private or public. (3) type of business, i.e., priority or non-priority sector and (4) the residence, i.e., domestic or foreign. The 'total Corporation income' – inclusive of a wide rage of exempt receipts and deductible expenditure – is subject to promotional tax rates and the corporation are also liable to pay surcharge, thereby making the corporation tax somewhat progressive in character.

The Early History and Growth of Taxation

In tracing the history of the evolution of corporation tax in India one will have to analyse the history of levy of the tax, resembling to some extent the

---

characteristics of modern corporation tax. Tax is largely a monetary Phenomenon. The elementary condition that is imperative for taxes to emerge and develop is the presence of an evidence. If individuals consume all that they produce, there can be no commodity taxes in the absence of commercial transaction. Likewise when people do not receive money income and wealth is not calculated in terms of money, evolution of direct taxes of money, evolution of direct taxes becomes well-nigh impossible. As in the case of corporate type of business organisations, direct taxes on the business entities were not unknown in pre-British India. Thus, Sundaram writes: "Direct taxation is not a novelty in India introduced by the British, as too commonly supposed, but a most ancient and well known institution. Indian Governments have, from time immemorial, made the non-agricultural Classes Contribute their share of the expenses of the state." 

According to Manu, the great Hindu lawmaker, a king should make the traders pay duty on their profits which should be fixed having regard to the rates of purchases and sales, the expenses for food and condiments and the cost of transport and other charges for receiving the goods. The king should fix the rates of duties and taxes in such a manner that both he himself and the man who does the work

---

receive their due reward. It would be evident from the above that a reasonable tax on the profits of the traders was an accepted principle of the Hindu law.

Adhya,\(^{20}\) who studied the economic life of Northern and Western India during a period of 500 years from 200 B. C. to 300 A. D. also pointed out that traders were taxed on the profit and not on the Capital outlay.

By 1860 the Socio – economic Structure of India had almost given, way and a new India was emerging. Urban and rural industries were destroyed. The rise of the Indian middle class, the re-generative role of the British rule, the policy of discriminating protection in the 20’s and the two World Wars, transformed India into a semi – industrial economy based upon money. Income tax, Corporation tax, Customs, Sales tax, Excise duties took roots in the tax system and became responsive to industrial changes.\(^{21}\)

After the Sepoy Mutiny of 1857, the British Parliament placed the administration of the British India under the direct political control of the crown as a branch of the British Empire. Consequently, the governor-general in council was saddled with the sole authority for making rules and regulations for the entire country including financial enactments. To overcome the financial difficulties which followed the Sepoy Mutiny of 1857, Harrington, then a temporary member of the Governor General’s Executive Council, proposed a bill on August 13, 1859,

\(^{20}\) Adhya, G. L. op. cit. p-100.
for imposing a licence fee on every person, company or association or body of
persons. This was not, however, passed into law. The first tax on trades and
professions was proposed by James Wilson, the first Finance Member of India, in
his final statement on Feb. 22, 1860. This was passed into law on July 24, 1860
and became operative from Aug. 1, 1864. This was virtually the first income tax
in India. Subsequently, the License Tax (different from income tax in the method
of assessment), was proposed in 1867. Under the provisions of the License Tax
Act, 1867 annual licenses had to be taken out by companies and the paid – up
capital was the tax base. The license Act continued in that form until they were
repeated by the Indian Income-tax Act, 1886.

The Indian Income-tax Act, 1886 (Act II of 1886) became a permanent
feature of the Indian tax statute and was not enacted for a specified period as was
the case with the earlier enactments. The Act also provided for the expenses rule
for the computation of profits for taxation purposes with the notable absence of any
provision for depreciation or bad debts. The Act did not apply to the profits of
foreign Shipping Companies (the Indian Income tax Act, 1869, however, taxed
such profits) or those derived from Agricultural Operations Dividends paid by
companies out of taxed profits were not taxed again in the hands of the recipient

24. The Gazette of India Part IV, Feb. 6, 1886.
Shareholders including corporate bodies. In fact, the Act of 1886 was the first basic Act on which further elaborations were engrafted in course of time.

The Operation of the Indian Income-tax Act, 1886 went on smoothly even after the turn of the present century. With a view to warding off a large number of small assesses and thereby to enhance the efficiency of the administrative machinery, the Indian Income-tax (Amendment) Act, 1903 exempted all income below Rs. 1000/- per annum from taxation. This change did not, however, affect the corporate assesses as they continued to be taxed on their entire income. This system continued up to the assessment year 1915 – 16.

Tax Statutes during the Period 1916 - 1939

The first World War broke out in 1914 and the financial year 1915 – 16 ended with a large imperial budget deficit. With a view to obtaining additional revenue, a Bill was introduced, on March 1, 1916, to amend the Indian Income-tax Act 1886. The select committee, Which submitted its report on the Bill on March 7, 1916, did not oppose any change in the provisions. The Indian Income-tax (Amendment) Act, 1916 not only raise the rate of tax for corporate assesse
but also introduced a “limited partnership” approach whereby the tax paid by the company was deemed to have been paid on behalf of its shareholders.

A Bill was introduced on October 26, 1917 30 With a view to amending the Indian Income-tax Act, 1886 so as to improve its administrative Machinery and to provide for the allowance of depreciation on a rational basis.

Thus, the Indian Income-tax Act, 1918 31 Which replaced the Act of 1886, changed the basis of assessment from previous year to the current year. The next change was in respect of depreciation allowance. The Act stipulated that in respect of depreciation a sum not exceeding a fixed percentage of the original cost should be allowed provided that it had actually been debited to the accounts and the aggregate of such allowances did not exceed the original cost. It was also provided that unabsorbed depreciation could be carried forward and adjusted in subsequent Years.

The Indian Income-tax Act 1922 32, as finally passed by the legislature, provided that income-tax and super-tax Would be charged “in respect of all income, profits and gains of the previous year”. In computing such profits and gains, certain expenditures were allowed to be specifically deducted from gross revenue, such as rents, rates etc. on business premises repairs & depreciation an buildings plant and machinery, and furniture, terminal allowances on plant and

30. The Gazette of India, Part v, October 27, 1917
31. The Gazette of India, Part iv, March 23, 1918
machinery, insurance premium, interest on borrowed funds and any other expenditure incurred solely for the purposes of the business.

The Indian Income-tax Act, 1922 was further amended in the year 1927.\textsuperscript{33} The Indian Income-tax (Amendment) Act 1927 made provision to segregate the incomes of tea companies for income-tax purposes.

Section 23 A of the Indian Income-tax Act, 1922, as introduced by the Indian Income-tax (Amendment) Act, 1930\textsuperscript{34} provided that if the Income-tax officer was satisfied that the profits and gains of a company were allowed to accumulate beyond its reasonable needs, existing and contingent, having regard to the maintenance and development of its business, without being distributed to the members with a view to preventing the imposition of tax upon any of the members in respect of their shares in such profits and gains, then the Income-tax officer, with the previous approval of the Assistant Commissioner, might pass an order that the company as such should not be assessed to tax but the proportionate share of profit of each shareholder would be deemed to be distributed to the shareholders and taxed in their hands. The Indian Income-tax (Third Amendment) Act, 1930\textsuperscript{35} authorises payment of bonus to employees up to a reasonable limit.

\textsuperscript{32} The Gazette of India, Part iv, March 11,1921
\textsuperscript{33} Income Tax manual, 1935.
\textsuperscript{34} The Gazette of India, Part IV, April 5, 1930
\textsuperscript{35} The Gazette of India, Part IV, April 5, 1930.
A Bill to further amend the Indian Income-tax Act, 1922, was introduced in the Legislative Assembly on April 4, 1938\textsuperscript{36}. The Bill was passed by the Legislative Assembly and became Act VII of 1939\textsuperscript{37}. The Act VII of 1939 expanded the definition of 'dividend' primarily in order to ensure that no distribution falling under this head would be taxed unless there was release of assets by the company. Thus, bonus shares were not taxable under this head. The definition further intended to secure that accumulated profits distributed on the liquidation of the company should be taxable only if they arose within six years of the liquidation. Further section 23 A were made applicable not merely to companies which were under the control of not more than five persons but to any company except in which public were substantially interested.

\textbf{Tax Legislation during the Second World War and Post War Reconstruction Period.}

The hostilities, which broke out in Europe in mid-1939 and culminated into the Second World War, had its shadow on Indian finances too. India was made a party to the War efforts of the United Kingdom, being a part of the British Empire. This naturally called for the mopping up of resources on a massive scale.

\textsuperscript{36} The Gazette of India, Part V, April 9, 1938.
\textsuperscript{37} The Gazette of India, Part IV, February 25, 1939.
It is only in the period after 1938 that the Indian tax structure, with special reference to Joint stock companies, has undergone considerable growth. Beginning with the 1939 amendment to the Indian Income-tax Act, there has been spate of amendments to the Act, resulting in major and far-reaching changes. The Excess Profits Tax Bill, 38 1940, which was published in the Gazette of India on January 27, 1940, sought to secure for the Government a considerable portion of the additional business profits which accrued as a result of the conditions prevailing during the War. The Bill was passed by the Legislative Assembly and became Act No XV of 1940. 39

The Second World War came to an end with the surrender of the Japanese troops on August 15, 1945. The Indian Income-tax (Amendment) Act, 1946 40 provided that the allowance for expenditure on scientific research incurred during the accounting year 1944-45, would also be allowed during the assessment year 1946-47.

The budget for 1947-48, presented by the first Indian Finance Member, Liaquat Ali Khan of the coalition Ministry, was unprecedented in many respects and would be veer remembered for the novelties in taxation measures it contained and the all out criticism which it had to face. In his introductory speech the Finance Member, inter alia, said: "The deflationary tendencies which at one time were

---

38. The Gazette of India, Part V, January 27, 1940.
expected to manifest themselves soon after the end of the war have not materialized; inflationary trends continue to persist and prices are still running high. The wartime shortage of consumer goods has not yet been materially alleviated. Production has been hampered by the inevitable delay in obtaining Capital goods, by labour unrest and transport difficulties.\textsuperscript{41}

Against this background a special tax was proposed on business profits. Thus, the Business profits Tax Act, 1947 \textsuperscript{42} came into being. The Act provided that any income, calculated in accordance with the provisions of Indian Income-tax Act, 1922, arising out of business activities would be liable to a tax at the rate of $16 \frac{2}{3}$ percent per annum.

In the budget session, another Bill was introduced to amend the Indian Income-tax Act, 1922 for the purpose of capital gains, which were not taxable hitherto. Accordingly, the Bill was duly passed into law and became Act No XXII of 1947. \textsuperscript{43} The Act provided that income-tax would be payable by an assessee in respect of any profits or gains arising from the sale, exchange or transfer of capital asset exceeding Rs.15, 000. (Fifteen thousand) in any accounting year of the transactions taking place after March 31, 1946.

\textsuperscript{40} The Gazette of India, Part IV, April 27, 1946.
\textsuperscript{41} The Statesman, March 1, 1947.
\textsuperscript{42} The Gazette of India, Part IV, April 12, 1947.
\textsuperscript{43} The Gazette of India, Part IV, April 19, 1947.
The First full – fledged and regular budget of free India for 1948-49 was introduced by the Finance Minister, Shanmukham Chetty on February 28, 1948. While introducing the budget proposals he, *inter alia*, said: "The aim of our policy should be to secure that while the level of taxation is reasonably high ... a genuine margin is left for savings which could flow back into investment and thereby add to the wealth of the Community, which the state itself could ultimately tap. It is also necessary so to adjust our taxation as to provide a real incentive to the ploughing back the profits into fresh business." The Finance Act, 1948 provided that smaller Indian companies with total income exceeding Rs.25,000 per annum would pay the tax at a concessional rate. Certain Concessions to industry were also provided for in the same year by the Government of India. The details of the scheme, which were embodied in the press communiqué dated October 22, 1948, included allowance of depreciation on new buildings, plant and machinery set up on or after April 1, 1948. It was further provided that for new industrial undertakings of specified categories, exemption of income-tax would be allowed for a period of five years on the profits up to a limit of 6 per cent per annum on the capital employed in the undertaking.

The first budget of the Republic of India for 1950-51, introduced by the Finance Minister Dr. John Mathai, was hailed by business Community with

---

44. The statesman, March 1, 1948.
45. The statesman, October 23, 1948.
cheers. In the first place the Business profits Tax was abolished thus ending the legacy of crushing tax introduced by Liaquat Ali Khan in 1947.

**Tax Legislation during the first two plan periods – 1951 – 1961:**

In the budget session of 1952, a Bill was introduced to continue in operation Certain concessions already granted to industry. Thus the Indian Income-tax (Amendment) Act, 1953 come into being. The Act, in the first place provided that new buildings erected and new plant and machinery installed in a period relevant to the assessment years 1949-50 to 1958-59 would qualify for additional depreciation at the normal rate for the first five successive assessment years. It may be mentioned here that earlier such depreciation was available for five assessment years only VIZ; 1949-50 to 1953-54. Secondly the tax holiday provisions were extended by another three years.

The Finance Bill introduced in the budget session of 1955-56 contained a series of amendments to the Indian Income-tax Act, 1922, based on principally on the recommendations of the Taxation Enquiry commission, 1953-54. In the first place, the initial depreciation allowance was withdrawn in respect of new plant and machinery installed after March 31, 1954 and in its place more liberal allowance

---

46. The statesman, March 1, 1950.
47. The Gazette of India, part II, Section 2, Extraordinary, June 16, 1951.
called 'Development Rebate' was introduced. The rate proposed was 25 percent of the actual loss of plant and machinery and it was an additional allowance over and above the normal depreciation. Further the regulation regarding the allowance of expenditure incurred on scientific research was further relaxed by providing that any sum contributed to a scientific research association or to an approved University, college or other institution would also qualify for deduction in computing the profits of any business carried on by a company. The Act also enlarged the list of companies eligible for exemption of super-tax in respect of dividends paid by it to any other company by the inclusion of certain other new items.

The other notable tax legislation in India from 1957 – 58 to 1960 – 61 were i) taxation of inter corporate dividend ii) levy of wealth tax in the year 1957 – 58 iii) the taxation Laws (Amendment) Act, 1960 provided that no development rebate would be allowed, with effect from the assessment year 1960 – 61, in respect of office appliances and road transport vehicles.50

The Legislation From 1961 onwards:

The Income-tax Act of 1961 which replaces the Indian Income-tax Act, 1922, which has remained in operation for forty years is based on the

recommendations of the Law commission and the Direct Taxes Administration Inquiry Committee.

In the budget session of Parliament in 1961, a Bill \(^{51}\) was introduced to enact a new Income-tax Act in replacement of the Indian Income-tax Act, 1922. The Bill, as amended by the Select Committee, was passed into law in September 1961 and came into effect from April 1, 1962\(^{52}\).

When the Income-tax Act, 1961 was framed, all felt that now there will be an end to the spate of amendment, which used to have in every Finance Act. But to the surprise of all, this Act of 1961 had to be amended several times through out the period of the study. Apart from the income tax, new taxes like Super profits tax, sur-tax were (or are) being levied on companies.

Various tax incentives to the corporate sector provided under the Income Tax Act, have been discussed in greater detail under chapter 4.

---

\(^{51}\) The Gazette of India, Part II, Section 2, Extraordinary, No. 28 A, August 10, 1961.

\(^{52}\) The Gazette of India, Part II, Section I, Extraordinary, No. 47, September 14, 1961.