CHAPTER - VIII

TAX RELIEF AND CORPORATE SECTOR SUGAR INDUSTRY IN KARNATAKA

INTRODUCTION

We have analysed in Chapter IV the various tax reliefs given to the industries in general and the sugar industry in particular. There are various reliefs and 'concessions' in tax levies available to sugar industries, depending upon each case. The importance of tax relief is felt all the more when a unit is running at a loss due to circumstances under control and beyond control, by the management. In case of sugar industry, which is exposed to the semi-price control at the production level and complete control of raw material at the supply level, the relief is a 'must' as it acts as a 'cushion' to absorb the shocks of the Government policy.

Relief and concessions, however, are all temporary. In fact there is a need for permanent arrangement of tax which gives enough breathing space for the industry to enable a decent return on the capital employed. The Corporate sector sugar industry in Karnataka has undergone a great spell of losses and it is imperative to analyse how far the tax 'reliefs' have given a 'life saving drug'
The relief in taxation in respect of the sugar industry is mainly by way of:

i) Tax holiday, if it is a new unit,
ii) Set off of losses,
iii) Depreciation allowed,
iv) Expenditure on new machinery, development, travel, research, etc.,
v) Rebate in Excise duty,
vi) Waiver and/or concession in Purchase tax.

1. TAX HOLIDAY

New units in backward areas and identified districts are given a tax holiday for five years. One of the respondents of the corporate sector has a very relevant say on the matter. The reply says "the new units enjoy a tax holiday benefit for five years. This is admissible even to the new sub-units of the existing mother-industry (this unit is a case in point). But outright grants and subsidies are the right answer, as the immediate financial needs are thereby met". This unit is not satisfied with the negative role of tax holiday. There is a need for a...
positive assistance financially by way of subsidies or grants, on top of the tax holiday. Another respondent is in favour of "increase in free sale sugar for new units (when it goes into production) depending upon the cost of plant and machinery for five years". This concession is announced by the Government to all those units established after 1980.

The idea behind it is that the new plant and machinery which costs heavily, will have to bear an extra burden on the 'borrowings' for its purchase, hence the relief sought by the new units.

The other units are all old and are, therefore, not entitled for this concession. Licence in the private sector for sugar units is not looked upon with favour by the Government. Hence, this 'incentive' or 'relief' is confined to only two units which have started their subsidiary units to the mother unit.

2. SET OFF OF LOSSES

The Income Tax Act 1961, Section 70 to 79 allow the industrial units of Corporate sector in sugar
industry in Karnataka to carry forward the losses for seven years and then set it off against the subsequent profits. This is a good relief to the industry as the seven units surveyed by us excepting one, all are in red, more or less. The following table gives an estimation of the losses suffered by these units during the year 1975-76 to 1979-80.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Mysore Sugar Co. Ltd.</td>
<td>1,08,60,220</td>
<td>73,95,123</td>
<td>75,23,575</td>
<td>96,34,278</td>
<td>43,27,899</td>
<td>3,96,81,675</td>
</tr>
<tr>
<td>2. The Indian Sugar &amp; Refineries Ltd.</td>
<td>26,86,803</td>
<td>64,68,267</td>
<td>1,10,59,347</td>
<td>61,68,668</td>
<td>20,23,505</td>
<td>3,04,09,891</td>
</tr>
<tr>
<td>3. Dwaragiri Sugars Ltd.</td>
<td>1,46,94,775</td>
<td>42,47,652</td>
<td>21,32,367</td>
<td>1,10,22,965</td>
<td>1,03,67,377</td>
<td>4,24,64,914</td>
</tr>
<tr>
<td>4. Gangadhar Bulla</td>
<td>NA</td>
<td>2,96,67,942</td>
<td>1,73,67,866</td>
<td>2,62,55,852</td>
<td>NA</td>
<td>5,52,91,370</td>
</tr>
<tr>
<td>5. Kothari Sugars &amp; Chemicals Ltd.</td>
<td>73,72,649</td>
<td>51,16,995</td>
<td>33,37,999</td>
<td>74,69,420</td>
<td>5,23,219</td>
<td>1,61,27,486</td>
</tr>
<tr>
<td>6. Sri Channabasava Sugars Ltd.</td>
<td>45,37,100</td>
<td>24,50,630</td>
<td>40,97,238</td>
<td>40,97,238</td>
<td>40,97,238</td>
<td>137,79,996</td>
</tr>
</tbody>
</table>

**Note:**
1. The data for the years 1975-76 to 1979-80 is included in the Balance Sheet and Profit and Loss Account of the Companies.
2. + indicates the profit earned by the Company. It is not included in the above table.
3. The unit, Lg. Sugar Works Ltd., has earned profit throughout the period of 1975-76 to 1979-80. Hence, it is not included in the above table.
The above Table No. VIII. 1 shows the loss carried forward by the companies during the five year period. Gangavati Sugars Ltd. has a staggering figure of ₹552.91 lakhs loss which is being carried forward. This figure of loss is followed by Davangere Sugars Ltd. The Mysore Sugars Co. Ltd. clearly follows the Davangere Co. Ltd. with the total loss carried forward standing at ₹396.81 lakhs. The Indian Sugar and Refineries Ltd. is a shade better than the above companies since its loss stands at ₹3,04,08 lakhs. All these companies have continuously increased losses for the five years, which indicates that there is something fundamentally wrong with the companies and only drastic measurements alone could cover the mounting losses. The Kothari Sugars and Chemicals Ltd. has incurred losses for three years and marginally made profits during 1977-78 and 1979-80. Thus, carrying forward the total losses of ₹1,61,26 lakhs, Shri Chamundeswari Sugars Ltd. is sailing in the same boat at the Kothari Sugars and Chemicals Ltd. This Company has made marginal profits during 1976-77 and 1977-78 and the loss as incurred during the other three years is within the recoverable limits. On the whole, the company has carried forward a loss of ₹66.73 lakhs which is a moderate figure compared to the losses incurred by other
units described above. We have not mentioned the Ugar Sugar Works Ltd. as it has continuously made profits. In fact, that is the only unit which has stood the test of various problems faced by the sugar industry in the State in the corporate sector. Thus, set off is a great boon to the mills running into losses.

3. DEPRECIATION ALLOWANCE

Depreciation is a real relief when the amount set aside is adequate to replace the worn out capital on which depreciation is allowed. Income Tax Act, 1961, allows depreciation on the historical cost of the asset. This is not realistic since the depreciated allowance kept aside for the asset used is inadequate for replacement at the prevailing rate. The effect is felt all the more during the inflation. India is under the grip of inflation since World War II and more so, since the planned economic era from 1951. The sugar industries are experiencing this galloping prices in plant, and machinery since 1975 onwards. The total amount of the depreciation provided during the last five years beginning from 1975-76 to 1979-80 by the Corporate sector sugar industry in Karnataka is given below in Table No. VIII.2, (see next page).
### TABLE NO. VIII. 2

**STATEMENT SHOWING THE AMOUNT OF DEPRECIATION CHARGED BY VARIOUS SUGAR FACTORIES IN KARNATAKA STATE DURING 1975-76 TO 1979-80**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Mysore Sugar Co.</td>
<td>38,66,021</td>
<td>38,45,224</td>
<td>73,16,002</td>
<td>63,45,834</td>
<td>49,97,501</td>
<td>2,63,70,582</td>
</tr>
<tr>
<td>2. The India Sugars &amp; Refineries Ltd.</td>
<td>33,40,030</td>
<td>29,44,674</td>
<td>28,32,790</td>
<td>18,71,398</td>
<td>17,88,678</td>
<td>1,31,11,573</td>
</tr>
<tr>
<td>3. Kothari Sugars &amp; Chemicals Ltd.</td>
<td>48,43,239</td>
<td>48,29,730</td>
<td>40,72,453</td>
<td>36,86,330</td>
<td>41,37,387</td>
<td>2,15,69,239</td>
</tr>
<tr>
<td>4. Gangavathi Sugars Ltd.</td>
<td>1,18,956</td>
<td>68,16,628</td>
<td>46,66,503</td>
<td>36,69,206</td>
<td>N.A.</td>
<td>1,52,71,493</td>
</tr>
<tr>
<td>5. The Ugar Sugar Works Ltd.</td>
<td>29,46,300</td>
<td>46,65,573</td>
<td>41,71,277</td>
<td>34,12,018</td>
<td>28,76,903</td>
<td>1,80,72,071</td>
</tr>
<tr>
<td>7. Devangere Sugars Ltd.</td>
<td>53,73,771</td>
<td>31,58,645</td>
<td>28,92,312</td>
<td>28,18,093</td>
<td>25,54,504</td>
<td>1,67,97,325</td>
</tr>
</tbody>
</table>

 balances of the Companies.
The Mysore Sugar Co. Ltd. has an accumulated depreciation fund of ₹263.70 lakhs spread over the last five years, whereas the Indian Sugars and Refineries Ltd. has only ₹131.11 lakhs. Compared to the loss incurred by the above two companies which amounts ₹396.81 and ₹304.08 lakhs respectively, the depreciation is pretty low.

The Davangere Sugars Ltd. had a depreciation fund of ₹167.97 lakhs compared to the loss of ₹424.64 lakhs, whereas Kothari Sugars and Chemicals Ltd. set aside a depreciation fund of ₹215.69 lakhs. The loss suffered by this company during this period was ₹161.27 lakhs. Ugar Sugar Works Ltd. set aside a depreciation of ₹180.72 lakhs when the company had no loss at all during this period. The Chanaundeswari Sugars Ltd. provided for ₹135.86 lakhs as depreciation when the loss accumulated during the period was ₹66.73 lakhs only.

Thus, we find that provision for depreciation varied from Company to Company depending upon the age of the plant and machinery and, therefore, the depreciation allowance allowed by the Income Tax Officer of the region.
There are some very interesting and important
decisions on depreciation which we have come across
in our practice, and which we intend to put forth here
for the benefit of the companies.

DEPRECIATION NOT ONLY A PROVISION
BUT AN INCENTIVE

Depreciation under the Income Tax Act, 1961, is
not merely a provision for charging against the profits
of an industrial unit, but it is also a tax incentive.
Depreciation allowance is not an unmixed benefit. It is
coupled with burden, as it attracts recapture tax on
excess recovery over written down value. Therefore,
the principle factors involved in the depreciation
allowance are:

i) Ordinary wear and tear,
ii) Unusual damage to the plant and machinery,
iii) Inadequacy of the funds provided for
replacement,
iv) Obsolescence.

Depreciation allowance, therefore, relates not
only to the physical deterioration of the plant and
machinery and other capital works, but also to economic
productivity, with which the plant and machinery are primarily concerned.

Therefore, the following points have emerged from the case of Shri Someshwar Sakakari Sakhar (Sugar) Karkhane (Mill) Ltd., ITA No. 276 and 277 (P.M. 76-77 decided on 22nd August, 1978). The points emerging out of this case are as under:

DEPRECIATION - WHETHER CLAIM VOLUNTARY

i) If the assessee does not furnish the prescribed particulars the Income Tax Officer is not bound to grant depreciation allowance and the intention of the assessee not to ask for depreciation allowance will be obvious.

ii) If the assessee wants the benefit of depreciation allowance then the assessee is bound to furnish the prescribed particulars duly verified in the return and the annexure attached therewith as per rules. In that case, the Income Tax Officer cannot refuse to grant depreciation allowance as it is mandatory on the Income Tax Officer to grant the necessary relief.
iii) If the assessee has furnished the prescribed particulars as per rules at the time of filing the original returns but subsequently files a revised return without furnishing the prescribed particulars, has specially withdrawn his claim for depreciation, then it is not open to the I.T.O. to thrust relief upon the assessee even though uncalled for, merely because the prescribed particulars are available on the records in the form of the original return and then annexure thereto as the original return does not exist for the purposes of completing the assessments.

iv) As the benefit of depreciation allowance is coupled with a burden, the assessee has an option to decide whether he should acquire the benefit or not and it is not something which he can thrust upon the assessee. In short, the tax payer has the option not to claim the depreciation at all in respect of the plant and machinery in a given year.

There is another relevant decision on the depreciation allowance which needs to be narrated here.

Shadilal Sugar and General Mills Ltd., V CIT (1976) 103 ITR 748 (Allahabad)
Where during the years relevant to the assessment years 1960-61 to 1963-64, the assessee's sugar factory being a seasonal factory, worked for less than 300 days it was held that as the factory had worked 'its normal and extra shift' only during that part of the year, when sugarcane was available, and had not worked for the full year, the assessee was not entitled to the full amount of '50% of the normal depreciation' as 'extra depreciation'. In such a case, the depreciation had to be allowed proportionately. These two cases quoted above on the provision of the depreciation allowance, give a wide scope to the companies on it to claim the benefit to the company in a manner they think beneficial.

However, it is very relevant here to examine the considered opinion of the captains of industry on this subject which was conveyed through the questionnaire. The relevant question asked in this connection was: Is the present system of depreciation allowed adequate? If not what is your suggestion?

All the ten, excepting one, are of the opinion that the present system of depreciation allowed by the Income Tax Authorities under the Act is defective. One
of the respondents is of the opinion that 'the present system of depreciation on historical cost basis is unsuitable under conditions of inflation resulting in high replacement cost. It is, therefore, necessary that depreciation in sugar industry should be allowed on the basis of Current Cost. In order to enable the sugar industry to maintain in tact its production capacity, depreciation must be provided as a 'Component of cost' on current cost basis'.

Another important suggestion on the provision of the depreciation by the respondent was that the present system of depreciation "should be restructured in such a way that the written down value of plant/machinery should be nil at the end of five years, taking into consideration the fact that sugar juice is a corrosive element having its effect over the entire plant, barring a few sections of the plant".

Another respondent while admitting that depreciation, Development rebate is inadequate if replacement cost of the machinery is taken into account, has a complaint against the tax officials. He says "for sometimes bureaucratic tax officials deny genuine reliefs."
Clear instructions from the Central Board of Revenue on Direct Taxes is necessary in this connection and codification of law and judgements may be helpful for the industry. The rates prescribed under the Income Tax Act, 1961 are unrealistic. There is a need for considerable and radical changes.

Yet another respondent who holds almost the same opinion as the one above pleads that the sugar industry being peculiar in that the plant and machinery is exposed to corrosiveness, the present 10% depreciation be raised to 15 percent.

The other 5/6 respondents have merely stated that the present depreciation is inadequate and have pleaded for higher depreciation, insisting on the replacement cost to the historical cost for calculation.

However, there is one respondent who considers the depreciation allowed now to be adequate. He rightly pleads that the "percentage of allowance should be determined with reference to the estimated life of the plant, rather than at flat rate".
There is no two opinion that depreciation allowance under the present Indian Income Tax Act, 1961 is inadequate, unrealistic and harsh. Besides the interpretation of the depreciation allowance by the Tax authorities need to be liberal and codified, taking into account, the various judgments of the law courts and the tax tribunals. With the peculiar nature of the sugar industry, there is a strong case for higher depreciation, than it is normally allowed. The general consensus is that this calculation of depreciation on the historical cost basis be changed to the replacement cost basis to avoid the ill effects of inflation and to maintain the present productive capacity of the units.

EXPENDITURE ON NEW MACHINERY, DEVELOPMENT, TRAVEL, RESEARCH, ETC.

The Company is entitled to additional depreciation under Section 32 (i) (iia) of the Income Tax Act, 1961 in the year of installation equal to 50% of the normal depreciation allowance, in respect of new plant and machinery installed before 1st April, 1985. Gangavati Sugar Mills Ltd., and the Davangere Sugar Mills Ltd., are entitled for this additional depreciation allowance on the new machinery.
The company is also entitled to claim as a deduction under Section 35(1) (iv) of the Income Tax Act, 1961 the entire capital expenditure incurred on scientific research relating to the business of the company. Almost all the companies have provided for research on cane development. The laboratory and other equipment installed for the purpose is exempt from the taxes. It is possible to undertake more research on the development and use of the by-products of the sugar industry but unfortunately excepting Ugar Sugar Works Ltd., the other units have not ventured in this line of thinking. By-products development would go a long way in adding its quota to the profits of the unit, but the units surveyed by us, have not shown much enthusiasm over this important problem.

INVESTMENT ALLOWANCE

Under Section 32-A of the Income Tax Act, 1961, investment allowance is claimed by one of the respondents in addition to the agricultural development allowance under Section 35.C of the Income Tax Act, as weightage deduction of 1-1/5th.
One of the respondents has claimed relief under Sampath Committee recommendation which sugar factories fulfilling the stipulated standards/norms are entitled to incentives (A Government of India scheme). But this unit which has preferred a claim for incentives under this scheme, is yet to get the relief as the matter is pending with the Government.

Yet another respondent has pointed out that 'reliefs under Section 80J is inadequate and the amendment of 80J giving retrospective effect will put the clock back as far as industrialisation is concerned. The controversial rule 19(b) that is in respect of the depreciation of liabilities should be settled and relief should be given to the capital employed. Even the restriction of allowance at 15% for borrowed funds towards interest is restrictive in nature which will go against the working capital augmentation'. Therefore, he pleads that "reliefs and rebates, in the nature of concessions, should act as a philip for industrialisation and hence should be simple and straight."

The company is entitled to a deduction of 25 percent under Section 80 I of the Income Tax Act, 1961 on its profit and gains derived for a period of
eight years commencing with the year in which the company commences production. Accordingly, the Gangavati Sugars Ltd. and the Davangere Sugars Mills Ltd. were entitled for this benefit. But unfortunately these units are in the red ever since they have gone into production.

There are number of litigations pending disposal in the matter of 80J relief, including that of the respondent. The amendment of 1980 incorporated in the Finance Act 1980, gave powers to the Department with retrospective effect, with a view to denying the benefit to the companies. This was a great blow to the private sector industrial units, including the sugar industry. This decision has affected the companies in the private sector who have declared dividend on the assumption that the capital base includes reserves plus the borrowed capital. But the retrospective amendment excludes borrowed capital for the purpose of calculation of profits under 80J relief. This will affect the liquidity and/or the cash position of the companies. Therefore, it is challenged in the Supreme Court and the stay has been granted.
Expenditure incurred wholly and exclusively for the purpose of furthering the business of the sugar unit is also exempt for payment of tax. These expenditures may have been incurred for travelling, for sending samples, sending personnel outside the country for canvassing the business or for construction of roads even in and around the mill to facilitate the movement of raw materials from the interior which had no good roads. One of the respondents has aptly referred to the question of construction of roads. Thus he says that "the concessions should further be in the form of more amenities for good and fast transportation by laying proper roads, etc. making the units easily accessible to the nearest markets. At present with a view to enjoying the tax benefits, the units are started in backward areas, which increase the burden of transport of the end products and by-products. Mostly the units are served by the farms around - either belonging to the unit itself or belonging to the farmers of small holdings. So, Government assistance is required for the layout of roads to facilitate easy movement of the cane from the fields". It seems this particular respondent and others may not be aware of the expenditure approved under the Income Tax Act for the purpose. This was decided
positively in the following cases:

1. **CIT. v. H.R. SUGAR FACTORY (1972) 83 ITR 858 (ALLAHABAD)**

   The expenses incurred by the assessee on the construction of Kacha Roads and a culvert on public land in order to expedite the supply of sugarcane to the factory would be revenue expenditure deductible in computing the business income of the assessee.

2. **L.H. SUGAR FACTORY AND OIL MILLS (P) LTD. v. CIT (1972) 84 ITR 575 (ALLAHABAD)**

   Where the assessee contributed certain sums to the district authorities and the State Government for construction of roads and claimed deduction under Section 19 (2) (xv) of the 1922 Act on the ground of commercial expediency;

   **HELD** that it is only an expenditure which is laid out or extended wholly and exclusively, for the purpose of a business that can be allowed as a deduction under Section 10 (2) (xv).

3. Similarly it was decided in the case of **Vijayalaxmi Mills Ltd. v CIT (1974) 94 ITR 173 Madras** as under in respect of the expenditure incurred by the assessee.
The ITO's jurisdiction to disallow an expenditure will arise only when the payment is not real or is not incurred by the assessee in the course of the business or if it is not laid out wholly or exclusively for the purpose of the business. Once it is established that an expenditure has really been incurred wholly and exclusively for the purpose of business, it is not for the revenue to go into the question of reasonableness while construing the question of allowance under Section 10 (2) (xv) of the 1922 Act.

It may be noted here that even the expenditure incurred on litigations to reduce its tax liabilities is admitted. This was decided in respect of the Modi Sugar Mills Ltd. V CIT (1973) 90 ITR 201 (Allahabad) where the assessee incurred expenditure to reduce its tax liability and thereby to raise its profits and claimed the expenditure as admissible deduction.

HELD that such an expenditure is an admissible deduction in computing the assessee's income under Section 10 (2) (xv) of the 1922 Act.

II. If the object of the proceeding is to reduce the tax liability of the assessee, the case falls within
the rule laid down by the Supreme Court in CIT VS Birla Cotton Spinning and Weaving Mills Ltd. (1971) 82 ITR 166. When the Supreme Court spoke of an expenditure reasonable and honestly incurred in taking legal proceeding, it referred to proceedings which were bonafide and not with ulterior motive. The consideration that the case relates to income alleged to have been concealed is not at all relevant.

Any 'expenditure' spent reasonably and wholly for furthering the business is allowed under Income Tax Act 1922, and sugar industries should take advantage of it. The Ugar Sugar Works Ltd. involved in litigation with the ITO for reduction of total assessable revenue can claim the expenditure incurred on this. Similarly, two other respondents are involved in disputable claims in respect of certain expenditure held inadmissible. We have merely quoted the rules and case laws in order to avoid the identification of the units involved in the disputes of the assessment. Besides, it is neither possible nor expedient to put in concrete terms the total amount held under dispute in respect of each respondent as the matter is confidential in nature and no sugar unit is inclined to enlighten the public in this respect.
REBATE IN EXCISE DUTY

Rebate in excise duty is given for various reasons by the Central Government. This rebate is announced well in advance for the sugar mills to take advantage of. The rebate is given either for early starting of the crushing season by the mills or for the late continuation of it since both during the early period and during the late period, the recovery of sugar is low. The Government of India thus, announces an excise duty rebate on the production achieved early start of the crushing. The excise duty rebate period usually is in the months of October and November. It is an additional production compared to the production in the corresponding period of the previous season, that is entitled for excise duty rebate. In times, when there is bumper sugar cane crop, the crushing operations in the factory will have to be carried on beyond March/April, when it is not economical to continue crushing on account of the fall in recovery. Now rebate in excise is given only for early crushing. One of the respondents has pleaded that excise rebate be also given on production achieved during late crushing also. But this respondent is of the opinion that "the grant of excise duty rebate for early crushing is not a regular feature but depends upon the Government
making an announcement in the beginning of the season every year. It is desirable that a grant of such rebate is made a permanent feature so that sugar units know beforehand and programme accordingly their planning and crushing". Another respondent has suggested complete exemption from payment of excise duty for a period of five years as an incentive to the existing units.

It is not known in clear financial terms the total amount of the rebate claimed by the corporate sector units in Karnataka State during the five year period as no separate figures are given by the units in this respect. Excepting the year 1977-78, when there was a bumper crop of sugar cane, for all the remaining period under review, the sugar mills did not crush cane in the early period. Hence, this incentive offered by the Government of India was not utilised to the maximum by the units under our survey excepting one or two that too for one or two seasons only.

PURCHASE/SALES TAX/CESS

The State Government has announced certain concessions in the levy of sales tax, which we have already examined earlier in Chapter IV. In the State
of Karnataka, there is only a purchase tax on sugarcane. It is levied at the rate of Rs.18.80 per tonne of cane. As an incentive to the sugar cane growers, the State Government makes a refund of Rs.6.80 out of this tax for being passed on by the factories to their cane suppliers, as an additional sugar cane price. Another Rs.2.00 per tonne (out of the purchase tax of Rs.18.80) of cane is earmarked for carrying out road works in the factory areas to facilitate sugar cane transport. In actual practice, the amount spent on road works in factory areas is much less than the collection. According to one of the respondents, "There is need for Government spending larger amount on road works out of the proceeds of the cane purchase tax".

One of the respondents has said that "for new units the purchase tax is treated as interest free loan for the first five years. Besides he suggests that the entry tax as per Government order may be refunded and discontinued." Yet another respondent has a suggestion that the sugar cane purchase tax be abolished as was recently done in Andhra Pradesh. There is considerable force in this suggestion as sales/purchase tax is not
uniform throughout the country. Besides, if only one State levies this tax and that too at a rate pretty high enough it will tell on the competitiveness of the unit in the market as it is distinctly an addition to the cost of production. Another respondent has reported that the Government of Karnataka has granted a tax relief in respect of the purchase tax, in that the accumulated purchase tax has been treated by the Government as an interest free loan to the company. Thus, the Government of Karnataka has temporarily solved the problem of purchase tax by treating it as a loan thereby postponing its payment during the period under our review, as most of the sugar units were running at a loss. This is only a temporary relief. It is time that serious thought is conferred on this issue which has really crippled the competitive power of the corporate sector units. The very respondents have, therefore, suggested as in respect of the excise duty, the sugar units in Karnataka be also exempted from the payment of purchase tax for at least ten years.

In addition to the purchase tax, one of the units which is exposed to the entry tax, which is subject
to rising trends every year, suggested that the entry
tax be abolished altogether.

CONCLUSION

Tax concessions under Income Tax Act, 1922 and
1961 are many to read but a few which could be availed
themselves of in reality. The reason as to why it is
not availed of, may be due to the faulty interpretation
of the tax authorities who are always treating the
assessee as cheats. Secondly, the tax authorities
are keen to collect more revenue every year, no matter
what happens to the "goose that lays the golden egg".
As Shri Nani Palkhiwala, an eminent jurist ably put it
"in the entire tax revenue collection, the grandioso
scheme of exemption amount to only 3% and that they are
spread amongst a few and far in between". Even this is
not fully availed of, by the assessee for the reasons
stated above.

The corporate sector sugar units in Karnataka
were limping during the period 1975-76 to 1979-80 due
to various reasons which we have examined in the
earlier chapters. The tax concessions and reliefs
would, therefore, go a long way in carrying forward the losses, to be paid off in subsequent good years of better production and more profits.

The Central Government as well as the State Government must realize this position and extend all concessions possible to pass over the period of unproductiveness which are within their control, then only the above reliefs and concessions will have the real meaning.