

CHAPTER - 6

**PERCEPTION OF TAX MANAGERS
ON
IMPORTANCE AND APPLICATION
OF TAX INCENTIVES
FOR
CORPORATE TAX PLANNING**

6.1. INTRODUCTION:

The Government of India has been putting up efforts for rationalizing and simplifying tax structures and laws and redesigning tax procedures to reduce disparities with practices of other dynamic economies. Accordingly many Committees and Task forces have been set up after independence to rationalize and simplify tax structures with a view to improve tax payers' services, reduce compliance costs, impart transparency and facilitate voluntary compliance. Accordingly the Government has taken various steps – either by incorporating new clauses or by making reforms in the existing clauses or sometimes by fading out or deleting certain clauses. However, the debate remains as to whether these Committees have been totally successful in gearing up a tax system which perfectly fulfils the requisites of the canons of 'Convenience' and 'Certainty' as advocated by Adam Smith (1776). According to the "Principle of Convenience" tax payment should cause minimum inconvenience to the tax payer and according to the principle of certainty full information about the tax system should be given so that the tax payer should know beforehand how much tax he has to pay.

Whether our existing corporate tax system is in line with these two principles or not, whether such a huge number of fiscal incentives are making the system complex or not, whether all the incentives are important vis-à-vis effective or not are often questionable. Answers to these questions are best obtained from the users of the tax provisions and fiscal incentives as provided in these provisions. An attempt has therefore been made in this chapter to draw out the perceptions of tax managers regarding the fiscal incentives, additional tax systems and Effective Tax Rates. Importance – Performance analysis has been carried out

to weigh how fiscal incentives which are perceived to be important also perform well in reducing tax burdens.

6.1.1. METHODOLOGY AND SAMPLE:

Perceptions of tax managers are well drawn out through techniques like formal group interviews, panel discussions and administering questionnaires. In this study a questionnaire was used to collect the primary data as it was not feasible to reach tax managers of sample companies personally for interviews and discussions due to large aerographical distances and time constraints.

Most of the questions were designed on a five point or four point Likert Scale. The dimensions of corporate tax planning being extremely large and varied due to use of a large number of provisions, sections and clauses, make it extremely difficult to draw out opinions and perceptions exhaustively on all aspects of taxation. It was therefore decided that a prudent step would be - choosing sections or provisions that was considered to be more popular and frequent in corporate tax planning techniques. These set of sections were therefore chosen on the basis of discussions with a large number of tax practitioners, tax officials and overview of articles on the standard tax journals. Coverage of all sections that are provided for tax planning would have provided a comprehensive coverage of the Income Tax Act, but would have made the questionnaire heavy and cumbersome. This would probably result in a very low response rate as tax managers would have to spare a lot of time to deal with the questionnaire. The importance and performance of these sections were then further tested through IPA analysis.

For the purpose of the study a structured questionnaire was administered to all the sampled 1000 listed companies. But only 107 answers were received. But due to the incompleteness 19 answers were rejected. Finally the sample size stood at 88.

The distribution of the companies according to the size of the assets, average ETR and dividend pay-out ratio is given in the following tables.

Table 6.1
Distribution of Sample Companies according to Asset Size

Asset size	Nos. of companies
More than Rs.750 crores	12
Rs. 500 crores to Rs.750 crores	29
Rs. 250 crores to 500 crores	31
Less than Rs.250 crores	16
Total	88

Again distribution of these 88 companies according to their ETR level is as follows:

Table 6.2
Distribution of Sample Companies according to ETR Level

ETR Level	Nos. of companies
More than 30%	8
20% to 30%	26
10% to 20%	43
Less than 10%	11
Total	88

If these 88 companies were distributed according to their dividend pay-out ratio, then the distribution table would be as follows:

Table 6.3
Distribution of Sample Companies according to Dividend Pay-Out Ratio

Dividend Pay-out Ratio	Nos. of companies
More than 30%	13
20% to 30%	48
10% to 20%	21
Less than 10%	6
Total	88

The findings of the study are reported in the next section.

6.2. FINDINGS OF THE SURVEY:

This section can be divided into the following stages. In first stage the perception of respondents regarding fiscal incentives as a whole are measured and the significance of their opinions is tested. In the second stage, the effectiveness of different fiscal incentives in reducing ETR, generating investments, creating business opportunity, to keep up social responsibility i.e. the performance of fiscal incentives are measured through IPA model.

6.2.1. Measurement of Overall Perceptions of Tax Managers regarding Fiscal Incentives:

The first stage of the analysis is based on the responses of the tax managers or officials of different companies as included in the sample size. Their responses were recorded on a five point Likert Scale. The scale used for all the statements in this stage were Strongly Agree, Agree, Do not Know, Disagree and Strongly Disagree. Values of 2, 1, 0 -1 and -2 respectively were assigned to these points so as to have a quantitative measure of the perceptions of each of these statements. Scores of each statement were summated for all the respondents and the mean score was reported. A value higher than zero for the mean score would denote a positive attitude of the respondents towards the statement. To test the response it was hypothesized that the mean score for perception (MS_p) of each aspect related to the statements administered would exceed zero, the neutral value on the five point scale.

The hypothesis framed was as follows:

$$H_0: \text{Mean Score for Perception of Tax Managers } (MS_{ip}) \leq 0$$

$$H_1: \text{Mean Score for Perception of Tax Managers } (MS_{ip}) > 0$$

Where, (i = denotes the serial number of the statements)

The observations have been given in the table below. For the purpose of brevity, mainly the statistically significant results are reported.

Table 6.4
Perceptions of Respondents about Fiscal Incentives [N=88]

Statements	Mean Score	Standard Deviation	t-scores
1) Fiscal incentives encourage business activities.	0.63	1.40	4.2*
2) Fiscal Incentives diminish the corporate profit tax base and thus reduce tax burden.	1.24	1.23	9.53*
3) Fiscal incentives cause loss to the national exchequer and should be discouraged.	-0.31	1.41	-2.07#
4) Fiscal incentives help in increasing the asset base of the company.	1.25	1.2	9.61*
5) Fiscal incentives linked with profit base should be in form of tax holidays.	0.67	1.35	4.79*
6) Fiscal incentives in the form of backward or rural area reliefs are insufficient in India.	0.19	1.47	1.19
7) Fiscal incentives in the form of priority industry relief are insufficient in India.	0.28	1.46	1.87
8) A conglomeration of investment based, expenditure based and profit based fiscal incentives cause difficulties in tax planning and compliance.	0.25	1.44	1.67
9) Sunrise and sunset clauses to fiscal incentives cause difficulties in tax planning as the tax system loses consistency.	0.45	1.45	3.00*

*denotes significance at 1% significance level and # denotes no significance

The table reveals many interesting facts. First, the null hypothesis has been rejected at 1% significant level in all the above cases, except statement 3, showing

the positive attitude of the respondents towards the statements. According to them fiscal incentives help them to reduce their tax burden as well as to encourage their business activities. The respondents opined that fiscal incentives help them to increase the asset base of the company. But according to them fiscal incentives in the form of backward and rural area reliefs are not sufficient. They feel that frequent changes in the tax structure and different types of bases for calculation of fiscal incentives create difficulties in tax planning and thereby the tax system loses the consistency.

From this stage it can be noticed that according to the respondents too much of fiscal incentives and different bases and procedures for calculation of fiscal incentives create difficulties. So in the next stage the importance and the performance of different fiscal incentives have been measured and the “Importance Performance Analysis” (IPA) has been done.

6.2.2. Measurement of Effectiveness of Different Fiscal Incentives through IPA Model:

While evaluating the effectiveness of tax provisions in corporate tax planning, two dimensions need to be explored.

Dimension I – Importance: How important a deduction/allowance as given in different sections is perceived to be as a tool which address both the fiscal and social issues in tax and motivates tax managers to suggest activities, locations, products, composition of assets, scientific research expenses etc.

Dimension II – Performance: How these sections or provisions are actually useful in terms of reduction of tax liabilities, carry forward in cases of

amalgamation and demerger, consistency, i.e. these are not subject to frequent changes in the finance bills every year and the computational complexities are less.

These two dimensions i.e. “Importance” and “Performance” can be used to evaluate the effectiveness and satisfaction of tax managers while using provisions of tax to minimise tax liabilities.

The IPA, a simple evaluation tool, is used to understand tax managers’ satisfaction regarding tax provisions which are important for reducing Effective Tax Rates and at the same time have a good performance indication in terms of simplicity and consistency. It is a powerful evaluation tool for practitioners and policy makers to find out attributes of fiscal incentives that are doing well in terms of use, user-friendliness and consistency and attributes that need to be improved gradually and attributes which need to be changed immediately.

The concept of IPA was first introduced by Martilla & James (1977) to evaluate services based on the assumption that satisfaction is affected by the importance of an attribute and perceived performance of that attribute. This tool has been widely used by Hawes and Rao (1985) for measuring the performance regarding developing health care marketing strategies; by Ennew, Reed and James (1993) for measuring the service quality; by Go and Zhang (1997) for measuring the importance and performance of Beijing as an international meeting destination; by Nale, Rauch and Wathen (2000) for measuring the importance of curricular assessment tool in a business school; by Skok, Kophamel and Richardson (2001) to measure the success of diagnosing information system in the health club industry; by Yavas and Shemwell (2001) to evaluate the performance

of hospitals; by Wong, Fearon and Philip (2009) to evaluate the performance of E-Governance in Malaysia; by Wong, Hideki and George (2011) to evaluate the performance of E-Governance services in Japan.

IPA uses a three step process either to develop a new managerial process/procedure or evaluate an existing process/procedure. First a list of service attributes or features is identified through survey of literature, focus group interview or expert opinion. In this study the features of tax planning mechanism were the provisions as given in different sections of the Income Tax Act. As already mentioned in page 181, the set of sections were chosen on the basis of discussion with experts and review of articles. In the second stage users are asked to answer two questions usually on a four or five point Likert Scale format. How important is it? And how well does it perform? A mean or median value for each attribute is determined for each item or attribute. These scores are then plotted on a graph with importance as one axis [Y axis] and performance on the other [X axis]. By plotting the numerical results in this way the items are sorted into a 4 cell typology.

Four quadrants namely “Concentrate Here”, “Keep up the Good Work”, “Low Priority”, and “Possible Overkill” are created. The quadrants can be used to generate suggestions by differentiating between various fiscal incentives.

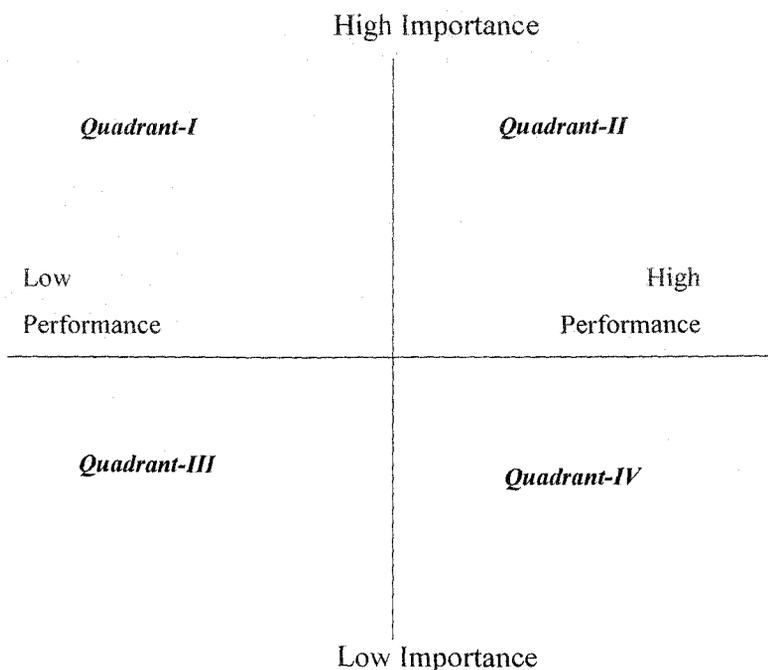
Quadrant I (High Importance/Low Performance) is labelled *Concentrate Here*. The fiscal incentive provisions which fall in this quadrant are important in terms of deciding on the locational nature of business etc. But the provisions seem to be complex and are not consistent over a time period. Therefore, it is implied that policy makers need to be concentrate here for reviewing the details of provisions.

Quadrant II (High Importance/High Performance) is labelled *Keep up the good work*. All provisions that fall into this quadrant are very strong in terms of importance and performance, and they should be treated as main mainstay.

Quadrant III (Low Importance/Low Performance) is labelled *Low Priority*. In this quadrant, the sections which rank low in terms of both importance and performance get identified and put a message to policy makers that these fiscal provisions may be phased out or removed immediately.

Quadrant IV (Low Importance/High Performance): This quadrant is often labelled as possible overkill is being redesignated here as “Step-Knees” – as these do not have much importance in tax planning, but have remained consistent over the years and are simple to use. Policy makers can redevise these sections to increase their importance in terms of their effect on tax liabilities. The following figure has shown the original IPA framework.

Figure 6.1
The Original IPA Framework



Source: J. Martilla and J. James [1977]

In this study the responses of tax managers were recorded on a four point scale (where 1 = not at all important, 4 = extremely important). Scores of each statement were summated for all the respondents and the mean score was reported. On the basis of the mean score of importance fiscal incentives were also ranked. The scale used for all the statements in measuring the performance of various fiscal incentives available was also five point (where 1= very poor performance, 4= very good performance). Scores of each statement were summated for all the respondents and the mean scores were reported. Again on the basis of mean scores of performance fiscal incentives were ranked.

The following table depicts the mean scores of importance and performance of different fiscal incentives available along with their ranks related to their importance and performance.

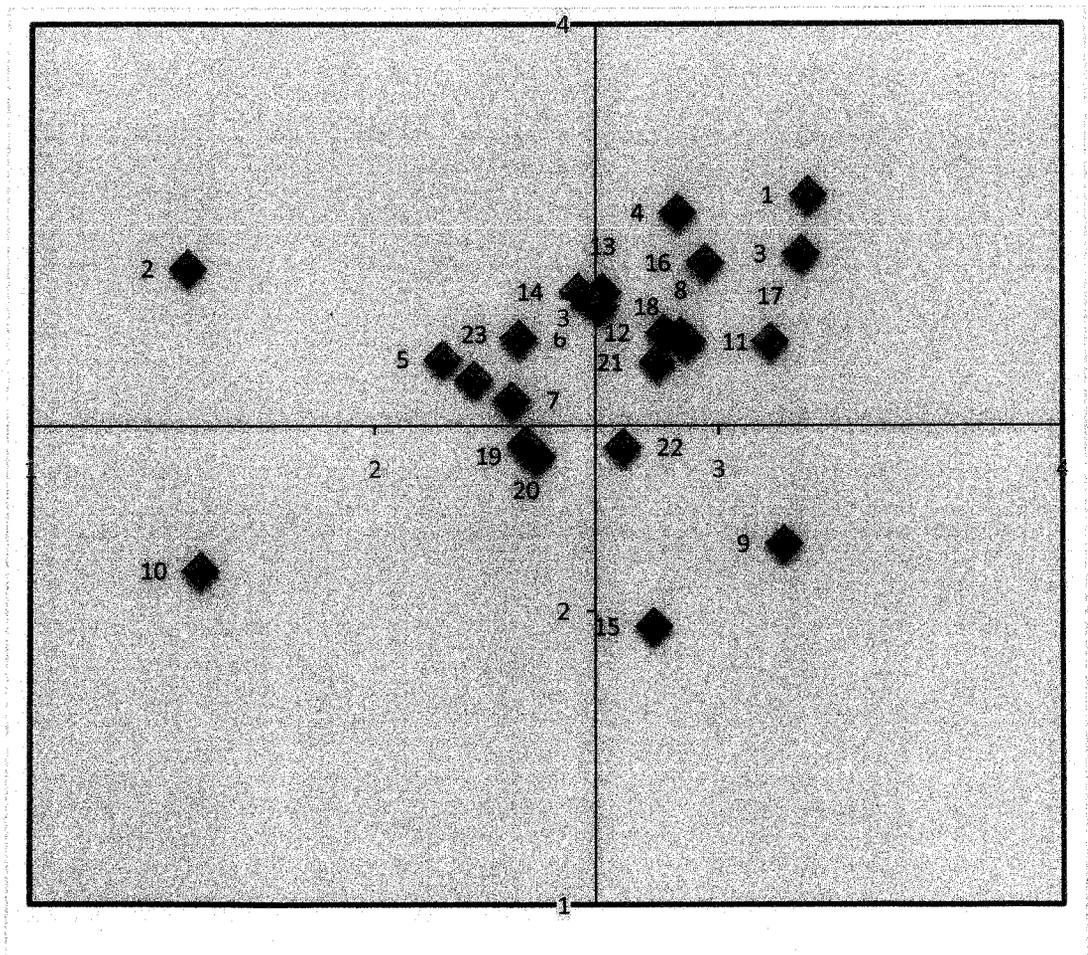
Table 6.5
Mean Scores and Ranks of Perceptions of Respondents regarding
Importance and Performance of Various Fiscal Incentives [N=88]

Lists of Fiscal Incentives or Tax Concessions	Importance		Performance	
	Mean score	Ranks	Mean Score	Ranks
1) Depreciation Allowance u/s 32	3.42	1	3.26	1
2) Tea/ Coffee/ Rubber Development allowance u/s 33AB	3.17	4	1.45	23
3) Allowance for Expenditure on Scientific Research u/s 35	3.22	3	3.24	2
4) Weighted deduction for contribution to National laboratories or universities u/s 35(2AA)	3.36	2	2.88	8
5) Expenditure on eligible project or scheme u/s 35AC	2.86	12	2.20	21
6) Payment on associations and institutions carrying out rural development programmes u/s 35CCA	2.93	10	2.42	18

7) Expenditure by way of payment to associations or institutes for carrying out programmes of conservation of natural resources u/s 35CCB	2.72	15	2.40	19
8) Amortization of preliminary expenses u/s 35D	2.94	9	2.89	7
9) Amortization of expenses in case of amalgamation/ demerger u/s 35DD	2.23	19	3.19	3
10) Deduction for expenditure on prospecting certain minerals u/s 35E	2.14	20	1.49	22
11) Deduction for insurance premium/ contribution to provident fund/ contribution to approved gratuity fund u/s 36(1)	2.92	11	2.91	6
12) Expenditure on advertisement to political parties u/s 37(2B)	2.95	8	2.84	9
13) Income of newly established industrial undertakings in Special Economic Zone u/s 10AA	3.09	6	2.59	15
14) Special provisions in respect of newly established 100% Export Oriented Zone u/s 10B	3.09	6	2.66	13
15) Special provisions in respect of export of eligible articles of things u/s 10BA	1.95	21	2.81	12
16) Deduction in respect of donations to certain funds, charitable institutions etc. u/s 80-G	3.19	5	2.96	5
17) Deduction in respect of contribution to political parties u/s 80-GGB	2.92	11	3.15	4
18) Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of Special Economic Zone u/s 80-IAB	3.04	7	2.65	14
19) Deduction in respect of profits and gains of certain industrial undertakings engaged in infrastructure development undertakings u/s 80-IA	2.53	18	2.47	16
20) Deduction in respect of profits and gains of certain industrial undertakings other than infrastructure development undertakings u/s 80-IB	2.57	17	2.44	17
21) Deduction in respect of profits and gains of certain undertaking in certain special category of states u/s 80-IC	2.85	13	2.82	10
22) Deduction in the case of hotels and convention centre u/s 80-ID	2.63	16	2.72	11
23) Deduction in respect of certain undertakings in North Eastern states u/s 80-IE	2.79	14	2.29	20

The above table is self explanatory. The mean importance for all the 23 fiscal incentives was rated at 2.63, whereas the mean performance was just an average of 2.64. Therefore, if we were to plot the importance and performance on the IPA grid, it would be possible to quickly identify incentives which are not so much effective and can be gradually phased off. This is reflected in the IPA Grid shown in Figure 6.2.

Figure 6.2
Importance-Performance Matrix of Various Fiscal Incentives



Source: Table-17

Note: X-axis denotes Performance of attributes and Y-axis denotes Importance of attributes with vertex 2.64, 2.63 [average score of performance and average score of importance]

1, 2, 3... 23 [black coloured digits] represent the no. of attributes as mentioned in Table 6.5 in respect of their position as indicated by red bullet.

Red - coloured digits represent distances in both axis

The plottings in the IPA grid reveal very interesting patterns. Out of 23 sections used for this analysis 11 (i.e. 50%) fall in second quadrant, i.e. in the high importance-high performance category. The highest position has been taken up by depreciation allowance under section 32, followed by deduction for making scientific research expenditures and donations to National Laboratories under section 35. The implications of these provisions are that considering their importance in reducing taxable income and their performance relating to comprehensibility and consistency, these incentives should be earmarked as doing “good work”. This therefore indicates that the provisions of these sections should continue to maintain the status-quo and no major changes or phasing out is necessary now. The same proposition applies to all the sections falling in this quadrant.

The sections plotted in the 1st quadrant draw attention to the fact that in spite of being important fiscal incentives for corporates, their comprehensibility and consistency are perceived to be low by the corporate tax managers. Attention need to be focussed on Tea/ Coffee/Rubber Development Allowance under section 33AB, payment to institutions or associations for carrying out rural development program (section 35CCA) or payment to institutions or associations for conservation of natural resources (section 35CCB). The importance of these sections lies in their fiscal edge as well as social edge because in addition to reduction of tax liabilities they promote green industries and conservation of resources. However as their performance is perceived to be low by tax managers, policy makers may think about redesigning the provisions so as to make them more comprehensible.

Three sections fall in the third quadrant seem to be low priority items. Based on these findings it can be suggested that these sections may slowly be phased out.

Three sections fall in quadrant IV and are perceived to be relatively unimportant. If these sections are also slowly phased out, the corporate tax system can be relieved of its unnecessary burden of multiplicity of fiscal incentives.

6.2.3. Measurement of Perceptions of Tax Managers regarding Various Strategies That Can Help Them in Availing the Maximum Extent of Fiscal Incentives as Provided in the Income Tax Provisions:

Most of the fiscal incentives, either in the form of full or partial tax holidays, deductions from the head “Profits and Gains of Business and Profession”, deduction from “Gross Total Income” etc. are optional and can be availed subject to fulfilment of certain conditions. Moreover the quantum of fiscal incentives can be decided either by change in the total assets, composition of assets or by deciding to set up an unit in Special Economic Zones, determining the amount to be spent on scientific research expenditures, deciding on quantum of dividend to be declared, other strategic financial decisions.

This section as evident from the heading tries to explore whether the tax managers agree to take up certain strategies for reduction of ETRs and whether this agreement levels are associated with the size of the companies and also their average ETRs. To assess the level of agreement or disagreement with taking up certain strategies five point Likert Scale having grids such as Strongly Agree, Agree, Do not Know, Disagree and Strongly Disagree with values of 2, 1, 0 -1

and -2 respectively anchored to these grids were used. The analysis has been used for various aspects of strategies that can be taken for reduction of ETRs. The first one deals with the decision on composition of assets and the others as follows.

6.2.3.1. Composition of Assets on the basis of Depreciation Rates:

Depreciation Allowance as a fiscal incentive under section 32 of the Income Tax Act was introduced so that companies could decide on the size and composition of their asset base and avail deduction from the head “Profits and Gains of Business and Profession” accordingly.

Depreciation rates as provided by the Income Tax Act are categorised according to block of assets. While on one extreme the blocks of buildings are eligible for depreciation rate of 5% to 10%, on the other extreme certain blocks of Plant and Machinery, i.e. waste and pollution control equipments, energy savings devices are subject to 100% depreciation [details about rates of depreciation on different blocks of assets are provided in Annexure-1].

For the purpose of measuring perceptions of tax managers regarding depreciation allowance the study makes an effort to provide some rates of depreciation on some selected blocks of assets. The blocks selected are only indicative to show multiplicity regarding rates of depreciation on different blocks and not the exhaustive. The following table shows in brief the different blocks of assets and their depreciation rates.

Table 6.6
Rates of Depreciation for Some Selected Blocks of Assets
[for the A.Y. 2013-14]

Blocks of Assets	Rates of Depreciation [in %]
1. Buildings	
i) Residential Buildings	5
ii) Buildings other than residential	10
iii) Temporary structure	100
2. Furniture and Fittings	10
3. Machinery and Plant	
i) Commercial vehicles acquired on or after 1.1.2009 and put to use before 1.10.2009	50
ii) Air Pollution Control Equipments	100
iii) Water Pollution Control Equipments	100
iv) Solid waste Control Equipments	100
v) Life saving medical Equipments	40
vi) Energy saving Devices	80
vii) Electrical Equipments	80
viii) Computers including software	60
ix) Flour Mills- Rollers	80
x) Motor buses, motor lorries and motor taxies used in business of running them on hire	30
4. Ships	20
5. Intangible assets	25

Source: Budget Document of 2012

Note: Rates for all Blocks of Assets are not shown in details. Details rates are shown in Annexure-1

It is therefore evident that if more assets with the higher depreciation rates are included in the asset mix, the quantum of depreciation allowance would be more. Further a condition specified for availing depreciation states that this allowance can be claimed if an asset is used or kept ready for use. Companies with larger asset bases can therefore afford to have more of the asset with higher depreciation rates kept ready for use. Therefore in this analysis, first the agreement / disagreement levels from the sample companies were found and later the association with the size of assets were examined.

Table 6.7
The Agreement / Disagreement Levels of Sample Companies about
Depreciation Allowance [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Inclusion of assets with higher depreciation rates reduce taxable income	22	23	12	18	13	88	0.26	1.42	1.73*

*significant at 5% level

The table shows that more than 50% of the respondents agree to the fact that inclusion of assets with higher depreciation rates reduces taxable income. As stated before larger companies would have more leeway in deciding the composition of assets as they can afford to have assets for passive use (kept ready for use). More over larger companies can have better abilities to finance assets for energy saving or pollution control. On this presumption the following hypothesis has been made and tested with χ^2 .

H_0 : There is no association between opinions related to inclusion of highly depreciable assets and the total asset size of companies.

H_1 : Opinions related to inclusion of highly depreciable assets and total asset size of companies are associated.

The contingency table is given below:

Table 6.8
Association between Opinions regarding Inclusion of Highly Depreciable Assets and Level of Asset Size of companies [N = 88]

Levels of Responses → Asset size	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	Agree				Disagree	
More than Rs. 750 crores	3	3	1	4	1	12
Rs. 500-750 crores	10	11	3	3	2	29
Rs. 250-500 crores	7	7	7	5	5	31
Less than Rs. 250 crores	2	2	1	6	5	16
Total	22	23	12	18	13	88

The calculated value of χ^2 is 12.28 at 3 degrees of freedom which is higher than the tabulated value at 1% level ($p < 0.01$).

For the purpose of calculating χ^2 , columns 1, 2 and 3 were coalesced and columns 4 and 5 were coalesced so that the cell frequencies would be 5 or more than 5. Therefore the null hypothesis is rejected, showing therefore that there is a strong association between the responses of tax managers regarding inclusion of highly depreciable assets and the total asset size of the company. Therefore, it can be said that tax managers of larger companies are in favour of adopting a strategy of including highly depreciable assets such as pollution control equipments, solid waste control equipments, recycling equipments, energy savings devices etc. in their asset mix to reduce their tax burden.

The opinion of managers regarding use of assets with higher depreciation rate may also be related to the ETRs. It is logical to assume that if companies using assets with higher depreciation rates will have lower tax burdens and

therefore lower ETRs. The next contingency table tries to examine the association between the opinions of tax managers in this regard and the ETR of the company.

Again, companies that would have more scope to decide on the composition of assets could have the ability to include assets with the higher depreciation rates in their asset mix and could manage to reduce their taxable income and thereby the tax burden as well as their ETRs. On this presumption the following hypothesis has been build up and tested with χ^2 .

H₀: There would be no association between opinions related to inclusion of highly depreciable assets and the ETRs of companies.

H₁: Opinions related to highly depreciable assets and ETRs of companies are associated.

The contingency table is given below.

Table 6.9
Association between Opinions regarding Inclusion of Highly Depreciable Assets and ETR Level of Companies [N=88]

Levels of Responses → ETR level	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	3	1	2	-	2
20 - 30%	2	7	4	9	4	26
10 - 20%	13	14	4	8	4	43
Less than 10%	4	1	2	1	3	11
Total	22	23	12	18	13	88

The calculated value of χ^2 is 8.39 at 4 degrees of freedom having $p > 0.05$. [For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced so that the cell frequencies would be 5 or more than 5.]

Thus the null hypothesis is rejected, showing therefore that there is a strong association between the responses of tax managers regarding inclusion of highly depreciable assets and the ETR of the company. This specifies that tax managers of companies having lower ETR have shown their agreement regarding inclusion of highly depreciable assets such as pollution control equipments, solid waste control equipments, recycling equipments, energy savings devices etc. in their asset mix to reduce their tax burden.

6.2.3.2. Amount of Donation to be made to Approved Research Associations or Universities / Colleges for Scientific Research for availing Weighted Deduction:

Discussions have been made in the previous chapters (Chapter- 3) regarding the incentives available for carrying out in-house research or/and sponsoring research of research associations and educational institutions. Weighted deduction of 150% or 200% can be availed in these cases, thus cutting down on the taxable income. In this subsection attempts have been made to test the opinion of the tax managers on donating more for research institutions.

The following table brings out the opinions.

Table 6.10
The Agreement / Disagreement Levels of Sample Companies about
Donations to Research Associations/Colleges/Universities [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Making larger donations to Research Associations/ Universities/ Colleges can be a good strategy as weighted deduction of 150% to 200% can be availed.	27	20	8	20	13	88	0.32	1.43	2.13*

*significant at 2.5% level

The results above are self explanatory and more importantly, it can be seen that about 60 % of the respondents agree to the statement.

In the second part we list the association between the size of companies (represented by total assets) and the agreement levels on the above statement. This is on the presumption that larger companies would have more capacity to donate for scientific research. The following hypothesis has been made.

H₀: Opinions related to contribution to approved research associations or universities or colleges are not associated with the asset size of companies.

H₁: Opinions related to contribution to approved research associations or universities or colleges and the asset size of companies are associated.

The hypothesis was tested using the Chi Square Test. The contingency table is given below.

Table 6.11
Association between Opinions regarding Contribution to Approved Research Associations or Universities or Colleges and Level of Asset Size of Companies[N=88]

Levels of Responses → Asset Size	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than Rs. 750 crores	5	4	1	-	2
Rs. 500-750 crores	12	10	1	3	3	29
Rs. 250-500 crores	8	5	3	10	5	31
Less than Rs. 250 crores	2	1	3	7	3	16
Total	27	20	8	20	13	88

The calculated value of χ^2 is 16.93 at 3 degrees of freedom with $p < 0.01$.

The null hypothesis is therefore rejected, showing therefore that there is a strong association between the responses of tax managers regarding contribution to approved research association or universities or colleges and the level of asset size. This indicates that tax managers of larger companies are in favour of adopting a strategy for lowering tax liabilities by donating more for scientific research. For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 and then columns 3 & 4 were coalesced so that cell frequencies would be 5 or more than 5.

As we see in Table 6.10 more than 60% of the respondents agree to the fact that lowering of taxable income can be possible by contributing more to approved research association or universities or colleges for scientific research. Companies that would sponsor the research activities done by approved scientific institutions/ Universities/ Colleges could manage to get weighted deduction up to

200% and could reduce their taxable income and thereby the tax burden as well as their ETRs. On this presumption the following hypothesis has been framed.

H₀: There is no association between opinions related to contribution to approved Research Association or Universities or Colleges and ETRs of companies.

H₁: Opinions related to contribution to Approved Research Association or Universities or Colleges and ETRs of companies are associated.

The hypothesis was tested using the Chi Square Test. The contingency table constructed for this purpose has been given below.

Table 6.12
Association between Opinions regarding Contribution to Approved Research Associations or Universities or Colleges and ETR of Companies [N=88]

Levels of Responses → ETR level	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	-	4	-	3	1
20 - 30%	6	11	2	6	1	26
10 - 20%	14	5	6	11	7	43
Less than 10%	7	-	-	-	4	11
Total	27	20	8	20	13	88

The calculated value of χ^2 is 9.2 at 2 degrees of freedom having $p < 0.01$.

The null hypothesis is rejected, showing therefore that there is a strong association between the responses of tax managers regarding contribution to approved research association or universities or colleges and ETR of companies. This indicates that corporate houses with lower ETR are in favour of adopting the

strategy of donating more for scientific research to approved research associations, colleges or universities to reduce their effective tax liabilities. For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 and then columns 2 & 3 and columns 4 & 5 were coalesced so that cell frequencies would be 5 or more than 5.

6.2.3.3. Purchase of Plant and Machinery Previously Used In Foreign Countries at Lower Costs so as to satisfy Conditions of Tax Holiday Schemes:

Tax holiday schemes under sections 80-IA, 80-IB, 80-IAB, 80-IC, 80-ID, 80-IE specify that the fiscal incentive is available subject to the condition that investment is made in new plant and machinery. However, these sections also provide for buying second hand machinery to the extent of 20% of total plant and machinery if these plant and machinery have been imported from a foreign country and no depreciation is charged before in India.

This is a unique option provided to companies as they can plan to buy second hand imported machinery at lower costs and avail tax holidays. The presumption of the manager was measured on a five point Likert Scale.

Table 6.13
The Agreement / Disagreement Levels of Sample Companies about Purchasing of Imported Second - Hand Plant and Machineries [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Purchase of imported second hand Plant and Machinery is a good strategy for availing tax holiday scheme.	24	17	15	17	15	88	0.20	1.4	1.37*

**significant at 10% level*

The table exhibits the fact that 46.5% of respondents agreed (as against disagreement of 36.4%) to the fact that purchase of imported second hand Plant

and Machinery was a good strategy for availing tax holiday scheme. Larger companies could invest lower in purchasing imported machineries (pre-used) and increase their asset pool as well as could enjoy tax holiday schemes. On this presumption the following hypothesis has been build up.

H₀: There is no association between opinions related to use of previously used plant and machineries in foreign countries and the total asset size of companies.

H₁: Opinions related to use of previously used plant and machineries are associated with total asset size of companies.

The hypothesis was tested using the Chi Square Test. The contingency table is given below.

Table 6.14
Association between Opinions regarding Contribution for the Use of Previously Used Plant and Machineries in Foreign Countries and Level of Asset Size of Companies [N=88]

Levels of Responses Asset size →	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than Rs. 750 crores	5	3	3	1	-
Rs. 500-750 crores	8	8	1	9	3	29
Rs. 250-500 crores	8	5	9	3	6	31
Less than Rs. 250 crores	3	1	2	4	6	16
Total	24	17	15	17	15	88

The calculated value of χ^2 is 5.39 at 3 degrees of freedom which is lower than the tabulated value at 5% ($p > 0.05$) [For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 and then columns 4 & 5 were coalesced so that cell frequencies would be 5 or more than 5].

The null hypothesis is rejected, showing therefore an association between the responses of tax managers regarding use of previously used plant and machineries in foreign countries and the total asset size. The analysis shows that the large companies use second hand imported assets for availing of tax benefits. Smaller companies too also try to adopt this strategy with their limited financial capacities.

As we have seen previously in Table 6.13, 43% of respondents agreed (as against disagreement of 37.5%) to the fact that purchase of imported second hand Plant and Machinery was a good strategy for availing tax holiday scheme. Larger companies could invest lower in purchasing imported machineries (pre-used) and could enjoy tax holiday schemes which ultimately reduce the taxable income as well as the tax burden of companies. On this presumption the following hypothesis has been made.

H₀: There is no association between opinion related to use of previously used plant and machineries in foreign countries and ETRs of companies.
H₁: Opinion related to use of previously used plant and machineries are associated with ETRs of companies.

The hypothesis was tested using the Chi Square Test. The contingency table is given below

Table 6.15
Association between Opinions regarding Contribution for the Use of Previously
Used Plant and Machineries in Foreign Countries and ETRs of Companies [N=88]

Levels of Responses → ETR Level	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	-	1	2	4	1
20 – 30%	7	7	4	5	3	26
10 – 20%	12	8	9	8	6	43
Less than 10%	5	1	-	-	5	11
Total	24	17	15	17	15	88

The calculated value of χ^2 is 3.83 at 4 degrees of freedom having $p > 0.05$.

The null hypothesis is rejected, showing therefore that there is an association between responses of tax managers regarding use of previously used plant and machineries in foreign countries and ETR of companies. From this analysis it could be said that to reduce the ETR the use of second hand imported assets are the choice of tax managers of sample companies. For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced so that cell frequencies would be 5 or more than 5.

6.2.3.4. Deciding on Locational Strategies – Choosing SEZ for Setting Up

New Industrial Units :

Tax holiday scheme under section 80-IAB specify that the fiscal incentive is available if as a location of business SEZ has been chosen. As previously stated (in Chapter-3), according to section 80-IAB if a new industrial undertaking is established in SEZ it can be entitled for a tax holiday scheme. 100% tax holiday can be availed of for ten years in these cases. Thus in this subsection an attempt

has been made to test opinions of tax managers on deciding the locational strategies i.e. choosing SEZ to establish new industrial undertakings. The following table brings out the responses:

Table 6.16
The Agreement / Disagreement Levels of Sample Companies about
Locational Strategies [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Deciding on locational strategies i.e. choosing SEZ for setting up new industrial undertakings to avail tax holiday.	23	35	7	14	9	88	0.56	1.30	4.00*

**significant at 1% level*

The table is self explanatory. The table reveals that 66% of the respondents agree [as 26% respondents show their disagreement] to the fact that deciding on proper locational strategies and choosing SEZ for setting up new industrial undertakings is the better option for them to avail tax holiday.

Larger business houses can have more scope to decide on locational strategy and to invest their capital cost effectively for setting up of new industrial undertakings in SEZ to enjoy 100% tax holiday scheme for a long span of ten years and to cut down their tax burden for such a long period. On this presumption that large companies can have more flexibility to decide on the locational strategy, the association between the size of companies (represented by total assets) and the agreement level on the above statement has been measured and the following hypothesis has been made and tested with χ^2 .

H_0 : There would be no association between opinions related to locational strategy i.e. setting up of new industrial units under SEZ and total asset of companies.

H_1 : Opinions related to locational strategy i.e. setting up of new industrial units under SEZ is associated with total asset of companies.

The contingency table is given below.

Table 6.17
Association between Opinions regarding Contribution for Setting Up of New Industrial Units under SEZ and Level of Asset Size of Companies [N=88]

Levels of Responses → Asset size	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than Rs. 750 crores	6	5	-	-	1
Rs. 500-750 crores	9	15	3	2	-	29
Rs. 250-500 crores	6	10	3	8	4	31
Less than Rs. 250 crores	2	5	1	4	4	16
Total	23	35	7	14	9	88

The calculated value of χ^2 is 13.27 at 2 degrees of freedom with $p < 0.01$.

For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 3, 4 & 5 were coalesced so that cell frequencies would be 5 or more than 5.

The null hypothesis is rejected, showing therefore that there is a very strong association between the responses of tax managers regarding setting up of new industrial units under SEZ and the level of asset size. Large corporate houses have shown their agreement regarding setting up of new industrial units under SEZ than

in other areas to get more tax benefits. It would be also beneficial for the small companies to set up their new units in SEZ as it would provide them with more tax benefits.

Previously (in Table 6.16) we have seen that 66% of the respondents agree to the fact that deciding on proper locational strategies and choosing SEZ for setting up new industrial undertakings is the better option for them to avail tax holiday. At the time of setting up of new industrial undertakings if the corporate houses select SEZ as its location then the corporate house can claim 100% tax holiday and can reduce its ultimate tax burden. Selecting the ideal location to establish new undertakings can reduce the effective tax rates of a company. On this presumption the following hypothesis has been crafted.

H₀: There would be no association between opinions related to locational strategy i.e. setting up of new industrial units under SEZ and ETRs of companies.

H₁: Opinions related to locational strategy i.e. setting up of new industrial units under SEZ is associated with ETRs of companies.

The hypothesis can be tested by using chi- square test and contingency table is given below:

Table 6.18
Association between Opinions regarding Contribution for Setting Up
of New Industrial Units under SEZ and Level of ETR of Companies [N=88]

Levels of Responses → ETR level	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	1	1	1	3	2
20 – 30%	12	7	-	6	1	26
10 – 20 %	8	19	6	4	6	43
Less than 10%	2	8	-	1	-	11
Total	23	35	7	14	9	88

Note: For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 2 & 3 and columns 4 & 5 were coalesced so that cell frequencies would be 5 or more than 5

χ^2 is 10.19 (d.f.=2), $p < 0.01$. The null hypothesis is therefore rejected, showing therefore that there is a very strong association between the responses of tax managers regarding setting up of new industrial units under SEZ and the ETRs of companies. Thus it can be said that companies with lower ETR have prefer SEZ as the location for setting up of new industrial units to get more tax benefits and to trim down their effective tax liabilities. It would also be the wish of corporate houses with higher ETRs to set up their new units in SEZ to earn more tax benefits so that they could lower down their tax burden.

6.2.3.5. Deciding on The Strategy of Choosing Product Lines or Activities

Under Schedule XIII & XIV of The Income Tax Act :

At the time of diversification if a corporate house decides accurately on the strategy of choosing product lines or activities under schedule XIII and XIV of the Income Tax Act it can enjoy tax benefits and can reduce its tax burden by

availing those tax benefits. Thus in this subsection an attempt has been made to test the opinions of tax managers on deciding the strategy of choosing product lines or activities under schedule XIII and XIV

Table 6.19
The Agreement / Disagreement Levels of Sample Companies about
Choosing Product Lines or Activities under Schedule XIII and XIV [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Deciding on the strategy of choosing product lines or activities under schedule XIII and XIV of the Income Tax Act to avail tax benefit.	21	25	13	17	14	88	0.25	1.41	1.67*

**significant at 5% level*

The table is self explanatory and it can be inferred from the above table that 51% of the respondents show their agreement to the above statement as against 35% (14% was not sure about the statement).

Larger corporate house can diversify its business with more liberty and can avail more freedom to decide on the product lines or activities at the time of diversification. On this presumption that large companies can have more flexibility to decide on the strategy of choosing product lines, the association between the size of companies (represented by total assets) and the agreement level on the above statement has been measured and the following hypothesis has been build up and tested with chi-square. The obtained are shown in the next contingency table (Table- 6.20).

H₀: There is no association between opinions related to decide on the strategy of choosing activities or product lines for which tax benefits are available under schedule XIII and XIV of the Income Tax Act and the total assets of the company.

H₁: Opinions related to decide on strategy of choosing activities or product lines for which tax benefits are available under schedule XIII and XIV are associated with the total asset size of companies.

Table 6.20
Association between Opinions regarding Choosing Activities or Product Lines for which Tax Holidays available under Schedule XIII and XIV and Level of Asset Size of Companies [N=88]

Levels of Responses → Asset size	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than Rs. 750 crores	3	5	1	3	-
Rs. 500-750 crores	7	9	2	6	5	29
Rs. 250-500 crores	8	7	4	4	8	31
Less than Rs. 250 crores	3	4	4	4	1	16
Total	21	25	13	17	14	88

Note: For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 3 & 4 were coalesced so that cell frequencies would be 5 or more than 5

The calculated value of χ^2 is 2.94 at 3 degrees of freedom ($p > 0.05$).

The null hypothesis is rejected, showing therefore that there is an association between the responses of tax managers regarding choosing activities or product lines for which tax holidays are available under schedule XIII and XIV and asset

size of companies. Therefore, according to the tax managers of large companies as well as small companies are quite sure about the strategy to diversify their business by choosing activities or product lines for availing tax holidays under schedule XIII and XIV and for getting more tax benefits and to reduce their effective tax burden.

Opinions of tax managers regarding deciding on the strategy of choosing product lines or activities under schedule XIII and XIV at the time of diversification of business may also be related to ETRs. It is logical to assume that if companies decide properly on choosing product lines or activities at the time of diversification it may have lower tax burdens and therefore lower ETRs. Therefore the next contingency table tries to examine the association between the opinion of tax managers in this regard and the ETRs of companies on the basis of the following hypothesis:

H₀: There would be no association between opinions related to decide on strategy of choosing activities or product lines for which benefits are available under schedule XIII and XIV and ETRs of companies.

H₁: Opinions related to decide on choosing activities or product lines for which tax benefits are available under schedule XIII and XIV and ETRs of companies are associated.

The hypothesis was tested using the Chi Square Test. The contingency table is given below:

Table 6.21
Association between Opinions regarding Choosing Activities or Product Lines for
which Tax Holidays available under Schedule XIII and XIV
and Level of ETR of Companies [N=88]

Levels of Responses → ETR level	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	1	2	1	3	1
20 – 30%	4	9	2	6	5	26
10 – 20%	13	11	7	7	5	43
Less than 10%	3	2	2	1	3	11
Total	21	24	12	17	14	88

The calculated value of χ^2 is 2.65 at 3 degrees of freedom, $p > 0.05$. For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 3 & 4 were coalesced so that cell frequencies would be 5 or more than 5.

The null hypothesis is rejected, showing therefore that there is an association between the responses of tax managers regarding choosing activities or product lines for which tax holidays are available under schedule XIII and XIV and ETRs of companies. Therefore, tax managers of different companies opine in favour of diversifying their business by choosing activities or product lines for which tax holidays are available under schedule XIII and XIV to get more tax benefits.

6.3. Perceptions of Tax Managers regarding Additional Taxes:

Additional taxes in the form of dividend taxes and fringe benefit taxes have been an issue on the arrival. While FBT has been removed from the previews of Income Taxes in India, taxation on dividend declared and distributed

continues to prevail with the feature of rising rates every year. Since payment of dividend to shareholders puts in more tax liability on the company, the effective tax rate has the probability of rising. There are other opinions which state that since issue of bonus shares to equity shares (instead of paying cash dividend) is not deemed to be dividend under section 2(22), therefore taxation on dividend does not have any effect on ETR. Others opine that since other tax incentives can reduce tax liability, tax on dividend does not affect ETR substantially. Moreover calculation of dividend tax entails more computational complexities. In these contexts it was deemed rational to assess the perception of tax managers on a five point Likert Scale. The scale used for all the statements in this stage were Strongly Agree, Agree, Do not Know, Disagree and Strongly Disagree. Values of 2, 1, 0 -1 and -2 respectively were assigned to these points so as to have a quantitative measure of the perceptions of each of these statements. Scores of each statement were summated for all the respondents and the mean score was reported. A value higher than zero for the mean score would denote a positive attitude of the respondents towards the statements. To test the response it was hypothesized that the mean score for perception (MS_p) of each aspect related to the statements administered would exceed zero, the neutral value on the five point scale. The hypothesis framed was as follows:

H_0 : Mean Score for Perception of Tax Managers (MS_{ip}) ≤ 0

H_1 : Mean Score for Perception of Tax Managers (MS_{ip}) > 0

Where, (i = denotes the serial number of the statements)

The observations have been given in the table below. For the purpose of brevity, mainly the statistically significant results are reported.

Table 6.22
Perceptions of Respondents about Additional Taxes [N=88]

Statements	Mean scores	Standard deviation	t-scores
1) Additional Taxes raise the ETR of companies	0.26	1.45	1.73
2) Calculation of Additional Taxes increase computational and Tax return complexities	0.39	1.42	2.6*
3) Removal of Fringe Benefit Tax from the ambit of additional taxes has reduced ETRs.	0.17	1.44	1.13
4) Removal of FBT has decreased computational and tax return complexities.	0.57	1.50	3.56*
5) Change in Dividend Tax rates creates difficulties in making provisions for such tax.	0.28	1.48	1.75
6) Dividend Tax rates should remain unchanged.	0.27	1.51	1.69
7) Dividend Taxes should be phased out in three years.	0.16	1.50	1.00
8) Dividend Taxes should be extinguished immediately.	0.60	1.47	3.75*
9) More revenue can be generated by the Government if Dividend Tax is extinguished and MAT rates increased.	0.47	1.54	2.94*
10) More revenue can be generated by the Government if Dividend Tax rates are increased and MAT extinguished.	0.07	1.41	0.47#
11) Computational and return complexities will reduce if Dividend Tax is extinguished and MAT rates raised.	0.32	1.44	2.13
12) Computational and return complexities will reduce if dividend tax rates are increased and MAT abolished.	0.03	1.46	0.19#
13) Taxes on dividend should be paid by shareholders and not by companies.	0.51	1.46	3.19*
14) Dividend should not be taxed at all both in the hands of the shareholders or the company.	0.29	1.40	1.93

**denotes significance at 1% significance level and # denotes no significance*

The table reveals many interesting facts. First the null hypothesis has been rejected in all the above cases except statement 10 and 12, showing the positive attitudes towards the statements. According to them though additional taxes raise the ETR of companies but at the same time they increase the computational and

tax return complexities. They opined that removal of FBT may have a negative impact on ETR but it reduces the computational and tax return complexities to a great extent. According to them Dividend Distribution Tax should be phased out quickly or extinguished totally if possible. If DDT has to be continued in future the rate of DDT must be unchanged to avoid difficulties in making provision for such tax. They also show their preserve to increase the rate of MAT to trade off the effect of extinguishing DDT, because as per their opinions by doing that they can reduce the computational and return complexities as well as the Government has not to be suffered by the revenue loss. According to those tax managers dividend should not be taxed at all both in the hands of the shareholders or the company if possible. But if it is not possible then taxes on dividend should be paid by shareholders and not by companies.

Tax on payment of dividend as an additional tax has also been introduced with a hope to augment the ETR. As dividend is exempt or excluded fully or partially from tax net in the hands of share holders and taxable in the hands of the distributing company, Dividend Distribution Tax can increase ETR of a company through increased Corporate Tax. It has been already explained numerically in Chapter – 5 that as an additional tax Dividend Distribution Tax influences its ETR in a positive fashion. As FBT now has been removed, DDT becomes the main ingredient of additional tax; here is an attempt to measure the perception of tax managers regarding some aspects of additional taxes.

6.3.1. Deciding on whether Additional Taxes raise the ETR of companies :

As stated earlier (in Chapter - 4) Additional Taxes means “an addition to main tax”. By its very name it suggests an extra tax besides the normal tax

burden. Actually, when any tax base of an assessee is unlike than that of his main tax base and for those two tax base two different tax rates is applicable, then this tax is called additional tax. Therefore, a significant and common objective of Additional taxes is to move up the Effective Tax Rate. Thus in this subsection an attempt has been made to test the opinions of tax managers on deciding whether Additional Taxes raise the ETR of companies.

Table 6.23
The Agreement / Disagreement Levels of the Sample Companies about
Deciding on whether Additional Taxes raise ETR of Companies [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Deciding on whether Additional Taxes raise the ETR of companies.	25	18	14	17	14	88	0.26	1.45	1.73

**significant at 5% level*

The table is self explanatory. 49% of the total respondents agree to the fact that Additional Taxes raise the ETR of companies. As we have known that distribution of dividend has a close relation to the goodwill of a company to retain its goodwill to the shareholders, generally, it is the practice of large companies to declare and distribute dividend to its shareholders though it has to pay a great amount of Dividend Distribution Tax for that. Again when FBT was in existence the large companies have to maintain a large amount of endorsement and others fringe benefits to retain its goodwill. For those fringe benefits companies also carried huge burden of FBT. These extra burden of taxes also increase the tax burden and thereby ETRs of those companies. It is logical to assume that if companies have to pay additional taxes; these will increase the effective tax

liabilities. Therefore the next contingency table tries to examine the association between the opinion of tax managers in this regard and the ETR of companies on the basis of the following hypothesis:

On this presumption the following hypothesis has been build up and tested for χ^2 .

H₀: There would be no association between opinions related to decide on whether Additional Taxes raise the ETR of companies and ETRs of companies.
H₁: Opinions related to decide on whether Additional Taxes raise the ETR of companies and ETRs of companies are associated.

The contingency table is given below.

Table 6.24
Association between Opinions regarding Deciding on whether Additional Taxes raise ETR of Companies and ETRs of Companies [N=88]

Levels of Responses → ETR level	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	3	2	1	-	
20 – 30%	13	7	3	2	1	26
10 – 20%	8	7	8	12	8	43
Less than 10%	1	2	2	3	3	11
Total	25	18	14	17	14	88

The calculated value of χ^2 is 14.36 at 2 degrees of freedom, $p < 0.01$

The null hypothesis is therefore rejected at 1% level, showing therefore that there is an association between the responses of tax managers regarding the fact that whether additional taxes raise the ETR of companies and company ETRs. Therefore, it is the belief of corporate houses with higher ETR that additional taxes augment their effective tax liabilities. For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 3, 4 & 5 were coalesced so that cell frequencies would be 5 or more than 5.

6.3.2. Deciding on whether Calculation of Additional Taxes increase Computational and Tax Return Complexities :

Additional tax means an extra tax. Extra tax entails extra computation, extra calculation and extra formalities for return filing i.e. increased complexities. Thus in this subsection an attempt has been made to test the opinions of tax managers on deciding whether calculation of Additional Taxes increase computational and tax return complexities.

Table 6.25
The Agreement / Disagreement Levels of Sample Companies regarding whether Calculation of Additional Taxes increase Computational and Tax Return Complexities [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Whether calculation of Additional Taxes increase computational and tax return complexities	30	17	13	13	15	88	0.39	1.42	2.6*

*significant at 1% level

From the above table it can be said that 53.4% of the total respondents have shown their agreement to the above statement. Companies that pay larger amount of dividend to its shareholders have to pay larger Dividend Distribution Tax. Larger amount of Dividend Distribution Tax means increased burden of computational complexities and return filing. When FBT had its existence companies that disbursed large amount of fringe benefits and thereby huge FBT entailed huge burden of computation and filing return. And as previously tested that higher Additional Tax raise the ETR of companies, thus higher Additional Tax involves higher ETR and also higher computational and tax return complexities. On this presumption that companies paying higher amount of tax entail higher computational and tax return complexities, an attempt has been made to test the association between the opinion of tax managers on the above statement as in Table 6.25 and ETR of companies and the following hypothesis has been build up.

H₀: There would be no association between opinions related to decide on whether calculations of Additional Taxes increase computational and tax return complexities and ETRs of companies.

H₁: Opinions related to decide on whether calculations of Additional Taxes increase computational and tax return complexities of companies and ETRs of companies are associated.

The hypothesis has been tested by using chi- square and the following contingency table has been obtained.

Table 6.26
Association between Opinions related to decide whether Calculations of Additional Taxes increase Computational and Tax Return Complexities and ETRs of Companies [N=88]

Levels of Responses → ETR level	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
More than 30%	3	2	1	2	-	8
20 – 30%	12	3	4	2	5	26
10 – 20%	9	12	7	7	8	43
Less than 10%	6	-	1	2	2	11
Total	30	17	13	13	15	88

Note: For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 4 & 5 were coalesced so that cell frequencies would be 5 or more than 5

The calculated value of χ^2 is 21.58 at 3 degrees of freedom, $p < 0.01$. The null hypothesis is rejected, showing therefore that there is a very strong association between the responses of tax managers regarding the fact that whether calculations of additional taxes increase computational and tax return complexities and company ETRs. Therefore, companies with higher ETR consider that their additional burden of taxes increase complexities in tax computation and return filing procedures. Companies whose Effective Tax Rates are lower also believe that payment of additional taxes increase their computational and tax return load.

The above discussion is related to Additional Taxes in general. But if we go through an in depth discussion related to specific component of Additional Taxes then we can understand the perception of tax managers regarding those in

specific. But as the existence of FBT was no more, the discussion in this section has been confined to DDT only.

6.3.3. Deciding on the Nature of Rates of DDT:

Under section 115-O of the Income Tax Act dividend declared and distributed is subject to DDT and the rate of DDT is continuously increasing (detailed discussion in Chapter-4). Consistent tax rates help to chalk out the planning of dividend distribution and also help in making provisions for dividend distribution. But continuous changes in dividend tax rates create hindrances to the policymakers of the company to provide for dividend. Increase in the rates of DDT and simultaneously higher rates of dividend distribution lead to higher taxes and thereby higher provision for DDT. Thus in this section there is an attempt to decide on whether change in Dividend Tax rates create difficulties in making provision for such tax.

**Table 6.27
The Agreement / Disagreement Levels of Sample Companies regarding Impact of Changes in the Rates of Dividend Distribution Tax for Creating Difficulties in Making Provision for DDT [N=88]**

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
change in Dividend Tax rates create difficulties in making provision for such	27	18	10	19	14	88	0.28	1.48	1.75*

**significant at 5% level*

The table is self explanatory. 51% of the respondents have made an agreement to the given statement. Changes in tax rates of DDT entail more tax for higher dividend disbursement and thereby affect the dividend pay-out which ultimately distort the policy formulation and create confusion in deciding what

amount of dividend payment will be cost-effective. It is logical to assume that companies distributing more dividends will experience more difficulties to create provision for such tax due to changes in rates of dividend tax. On the basis of this presumption the following hypothesis has been made.

H₀: There would be no association between opinions related to decide on whether change in Dividend Distribution Tax Rates creates difficulties in making provision for DDT and Dividend Pay-Out Ratio of companies.

H₁: There would be an association between opinions related to decide on whether change in Dividend Distribution Tax Rates creates difficulties in making provision for DDT and Dividend Pay-Out Ratio of companies.

The hypothesis has been tested by using chi- square and the following contingency table has been obtained.

Table 6.28
Association between Opinions related to decide on whether Changes in the Rates of Dividend Distribution Tax create Difficulties in Making Provision for DDT and Dividend Pay-Out Ratio of Companies [N=88]

Levels of Responses →	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
Dividend Pay-Out Ratio						
More than 30%	4	5	2	1	1	13
20 – 30%	19	9	7	5	8	48
10 – 20%	4	3	1	8	5	21
Less than 10%	-	1	-	5	-	6
Total	27	18	10	19	14	88

Note: For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 1 & 2 and Columns 3 & 4 were coalesced so that cell frequencies would be 5 or more than 5

The calculated value of χ^2 is 7.79 at 2 degrees of freedom with $p > 0.05$.

The null hypothesis is rejected, showing therefore that there is a strong association between the responses of tax managers regarding the fact that whether change in Dividend Tax rates creates difficulties in making provision for such tax and Dividend Pay-Out of companies. Therefore, corporate houses having higher “Dividend Pay-Out Ratio” consider that changes in the rates of DDT cause difficulties in creating the provision for the same.

Thus it can be said that consistent nature of rates of DDT helps to chalk out the planning of dividend distribution and also help in making provisions for dividend distribution. So, in this section there is an attempt to decide on whether Dividend Tax rates remain unchanged or not.

Table 6.29
The Agreement / Disagreement Levels of Sample Companies on the Statement
“Rates of DDT should remain unchanged” [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Dividend Tax rates should remain unchanged	29	14	12	18	15	88	0.27	1.51	1.69*

**significant at 5% level*

From the Table 6.29 it can be said that almost 49% respondents show their agreement [as against 37.5% of disagreement] to the given statement. On the basis of the Table 6.29 it is logical to assume that consistent nature of DDT help to chalk out the planning of dividend distribution and also help in making provisions for that. On the presumption that companies having higher Dividend Pay-Out

Ratio prefer the consistent nature of rates of DDT. On the basis of this presumption the following hypothesis has been build up.

H₀: There would be no association between opinions on “Dividend Tax rates should remain unchanged” and Dividend Pay-Out Ratio of companies.

H₁: Opinions on “Dividend Tax rates should remain unchanged” and Dividend Pay-Out Ratio of companies are associated.

The hypothesis has been tested by using chi- square and the following contingency table has been obtained.

Table 6.30
Association between Opinions on “Dividend Tax Rates should remain unchanged” and Dividend Pay-Out Ratio of Companies [N=88]

Levels of Responses → Dividend Pay-Out Ratio	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	3	5	2	2	1
20 – 30%	23	8	4	6	7	48
10 – 20%	2	1	5	8	5	21
Less than 10%	1	-	1	2	2	6
Total	29	14	12	18	15	88

Note: For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 1 & 2 were coalesced so that cell frequencies would be 5 or more than 5

The calculated value of χ^2 is 18.39 at 3 degrees of freedom with $p < 0.01$. The null hypothesis is rejected, showing therefore that there is a very strong association between the responses of tax managers regarding the statement

“Dividend Tax rates should remain unchanged” and Dividend Pay-Out Ratio of companies. Therefore, corporate houses having higher “Dividend Pay-Out Ratio” consider that rates of DDT should remain unchanged.

6.3.4. Deciding on the Abolition of DDT:

The above section of the study has disclosed the fact that DDT as an additional tax has created computational and return complexities and also the changing nature of rates of DDT has brought down difficulties for policy makers in making provision for the same. According to them the rate of DDT should be unchanged to avoid such difficulties. It would be better option for them to abolish DDT to get a hassle free dividend distribution system. Already in section 6.3 of Chapter-6 it has been observed that tax managers of corporate houses opine in favour of abolition of DDT either in phased manner or totally. So in this section an attempt has been made to decide on whether DDT should be phased out in three years or not.

Table 6.31
The Agreement / Disagreement Levels of Sample Companies on Phasing Out of Dividend Tax in Three Years [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Dividend Taxes should be phased out in three years	24	16	17	12	19	88	0.16	1.50	1.00*

**significant at 20% level*

The table is self explanatory. Almost 45% of the total respondents agree to the fact that DDT should be phased out in three years. Companies that distribute larger amount of dividend face the complexities to a large extent. So they might

opt for phasing out of Dividend Tax. Though changes in rates of DDT due to stepwise phasing out would lead to more complexities but ultimately after three years the corporate houses would be free from all complexities regarding Dividend Tax and Dividend Pay-out. On this presumption an attempt has been made to measure the association between the opinions related to the given statement and dividend pay-out ratio of companies. For the same the following hypothesis has been crafted and tested with χ^2 .

H₀: There would be no association between opinions on phasing out of Dividend Tax in three years and Dividend Pay-Out Ratio of companies.

H₁: Opinions on phasing out of Dividend Tax in three years and Dividend Pay-Out Ratio of companies are associated.

The contingency table is as follows:

Table 6.32
Association between Opinions on Phasing Out of Dividend Tax in Three Years and Dividend Pay-Out Ratio of Companies [N=88]

Levels of Responses → Dividend Pay-Out Ratio	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	2	5	3	1	2
20 – 30%	19	9	9	4	7	48
10 – 20%	2	1	5	6	7	21
Less than 10%	1	1	-	1	3	6
Total	24	16	17	12	19	88

Note: For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 1 & 2

were coalesced so that cell frequencies would be 5 or more than 5

The calculated value of χ^2 is 19.46 at 3 degrees of freedom with $p < 0.01$. The null hypothesis is rejected, showing therefore that there is a very strong association between the responses of tax managers on the phasing out of Dividend Tax in three years and Dividend Pay-Out Ratio of companies. Therefore, corporate houses having higher "Dividend Pay-Out Ratio" consider that Dividend Tax should be phased out quickly so that the total procedures of distribution and disbursement of dividend would become less complex and less difficult.

Phasing out of Dividend Tax also leads to changes in tax rates in the span of phasing out and in that span these changes also bring some complexities in computation and tax return. Though these complexities can be traded off with the benefits derived from such changes but it will be better for them if Dividend Tax will be extinguished immediately. So here is an attempt to decide on whether DDT should be extinguished immediately or not.

Table 6.33
The Agreement / Disagreement Levels of Sample Companies on Extinguishing Dividend Tax Immediately [N=88]

Statements	Strongly Agree	Agree	Do not Know	Disagree	Strongly Disagree	Total	Mean Response	Standard Deviation	t-score
Dividend Taxes should be extinguished immediately	36	18	8	15	11	88	0.60	1.47	3.75*

**significant at 1% level*

The table is self explanatory. Almost 61% of the total respondents agree to the fact that DDT should be extinguished immediately. Companies that distribute larger amount of dividend face the complexities to a large extent. So they might

opt for extinguishing the Dividend Tax. On this presumption an attempt has been made to measure the association between the opinions related to the given statement and dividend pay-out ratio of companies. For the same the following hypothesis has been crafted and tested with χ^2

H₀: There would be no association between opinions on extinguishing Dividend Tax immediately and Dividend Pay-Out Ratio of companies.

H₁: Opinions on extinguishing Dividend Tax immediately and Dividend Pay-Out Ratio of companies are associated.

The contingency table is given below:

Table 6.34
Association between Opinions on Extinguishing Dividend Tax Immediately and Dividend Pay-Out Ratio of Companies [N=88]

Levels of Responses → Dividend Pay-Out Ratio	Strongly Agree	Agree	Do not know	Disagree	Strongly Disagree	Total
	More than 30%	7	3	2	-	1
20 – 30%	24	13	1	5	5	48
10 – 20%	5	1	4	6	5	21
Less than 10%	-	1	1	4	-	6
Total	36	18	8	15	11	88

The calculated value of χ^2 is 15.77 at 3 degrees of freedom, $p < 0.01$.

For the purpose of calculating χ^2 , rows 1 & 2 and rows 3 & 4 were coalesced and also columns 2 & 3 were coalesced so that cell frequencies would be 5 or more than 5.

Hence, the null hypothesis is rejected at 1% level, showing therefore a strong association between the responses of tax managers on extinguishing Dividend Tax immediately and Dividend Pay-Out Ratio of companies. Therefore, corporate houses having higher "Dividend Pay-Out Ratio" consider that Dividend Tax should be extinguished immediately so that the total procedures of distribution and disbursement of dividend would become less complex and less difficult.

In those above sections it was repeatedly responded that so much fiscal incentives and different additional taxes create lots of computational problems and tax management problems. To reduce the complexities and to make the tax system flexible Direct Taxes Code was proposed to introduce.

Being crafted in 2009 and again restructured in 2010 Direct Taxes Code is still pending in totality. Some of the salient features of proposed Direct Tax Code regarding Corporate Tax will be discussed in the next section.

6.4 SOME SPECIAL FEATURES OF DIRECT TAX CODE REGARDING CORPORATE TAX :

Direct Taxes Code Bill was proposed by the Finance Minister of the then UPA Government in 2009 for open discussion and proposed to introduce immediately. But still the introduction of DTC is in hanging situation due to some

unknown circumstances. Some selected special features of DTC regarding Corporate Tax will be described in brief as follows:

- The rates of Corporate Tax will be reduced to 25%.
- Minimum Alternate Tax (MAT) on companies will be calculated on the basis of “value of gross assets”. The rationale behind that is to provide incentive for efficiency. Rate of MAT will be 2% of the value of gross assets.
- The DTC proposes “investment linked” incentives to specified sectors for investment.
- The DTC proposes area based exemption based on the consideration of balanced regional development.
- The DTC proposes protection for deduction for the unexpired in the case of SEZ developers.
- Rates of Dividend Tax will be 15%.
- The numbers and specification of Blocks of Assets for allowing depreciation allowance will be restructured. The total numbers of blocks will be 12 with some sub blocks inside it. Main blocks are titled as Buildings, Furniture and Fittings, Vehicles, Aeroplanes, Rails, Ships, Books, Machinery and Plant, Scientific Research Assets, Family planning assets, Animals, Intangible assets having some specific rates of depreciation [details in Annexure- 2].

How tax managers perceive this Direct Tax Code has been studied in the next section.

6.4.1. Measurement of Overall Perceptions of Tax Managers regarding Direct Taxes Code Bill (2009):

This stage of the analysis is based on the responses of the tax managers or officials of different companies as included in the sample size. Their responses were recorded on a five point Likert Scale. The scale used for all the statements in this stage were Strongly Agree, Agree, Do not Know, Disagree and Strongly Disagree. Values of 2, 1, 0 -1 and -2 respectively were assigned to these points so as to have a quantitative measure of the perceptions of each of these statements. Scores of each statement were summated for all the respondents and the mean score was reported. A value higher than zero for the mean score would denote a positive attitude of the respondents towards the statements. To test the response it was hypothesized that the mean score for perception (MS_p) of each aspect related to the statements administered would exceed zero, the neutral value on the five point scale. The hypothesis framed was as follows:

$$H_0: \text{Mean Score for Perception of Tax Managers } (MS_{ip}) \leq 0$$

$$H_1: \text{Mean Score for Perception of Tax Managers } (MS_{ip}) > 0$$

Where, (i = denotes the serial number of the statements)

The observations have been given in the table below. For the purpose of brevity, mainly the statistically significant results are reported.

According to the tax managers Direct Tax Code is an essential scenario. After implementing the same corporate tax rate will be reduced. It helps in reducing the gap between STR and ETR. According to them the withdrawal of tax holiday scheme will discourage new business activities. Moreover they expect their hope that establishing industries in backward areas will bring good news for them as well for the nation. They also preserve to work as SEZ developers as this will fetch profit linked incentives for them. New structure of block of assets will also be beneficial to them regarding in house research work. According to them if there are multiple tiers of subsidiaries for handling separate businesses or investments there will be a cascading effect of the asset based MAT in such cases. But they do not sure whether the Direct Tax Code will reduce the computational complexities and tax management problems. They also not quite sure about whether the reduced rate of Dividend Distribution Tax will increase the dividend pay-out or not.

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