CHAPTER - 7

CONCLUSIONS
AND
SUGGESTIONS

7.1. EPILOGUE :

Corporate tax planners have the most complex task of guiding the planning activities of companies with the basic objective of reducing tax liabilities within the framework of law. The task of corporate tax planning and management deals with an intricate and labyrinthine bundle of tax provisions which needs to be applied at appropriate situations and times. The perception of complexities and importance of these provisions vary across tax planners of different companies. The effective use of these provisions makes a difference between statutory tax rates and effective tax rates for corporate assessees.

This dissertation has therefore made an attempt to analyze the nature of various fiscal incentives and additional taxes and investigate through empirical evidences how tax managers perceive and use these provisions to reduce effective tax rates. The major findings are presented in the next section followed by few suggestions and policy implications.

7.2. MAJOR FINDINGS :

- It has been observed in our dissertation that statutory tax rates have steadily fallen from a high of 54% in 1990-91 to 33.83% (including surcharge and education cess) in 2012-13 automatically easing the tax burden of companies. However, due to this reduction, there has been no negative effect on the collection of revenue from corporate tax. Rather revenues from corporate tax have been growing at an annual average growth rate of 15 to 16 %.

- The study has found that statutory tax rates have been raised to a certain percentage after the marginal tax rates because of the implementation of surcharge. Starting with 8% in Assessment Year 1989-90 surcharges became almost double (15%) in the Assessment Year 1990-91 and remained same up to the Assessment Year 1996-97 and became exact half of the prior years in A.Y. 1997-98. In the A.Y. 1998-99 and 1999-2000 there was no surcharge but it was raised sharply to 10% in the A. Y. 2000-01 and 13% in A.Y. 2001-02 But the surcharge was reduced sharply to 2% in A.Y. 2002-03 and increased slightly to 2.5% in 2004-05. From the Assessment Year 2006-07 the surcharge was moved to 10%. This rate was kept static up to Assessment Year 2010-11. This increased rate moved the marginal tax rates to 33% (30% + 10% of 30%) excluding education cess. In the year 2011-12, surcharge was reduced to 7.5% which was further reduced to 5% in the Assessment Year 2012-13. Such frequent changes in surcharge, change the overall marginal tax rates and makes it difficult for tax planners to estimate their tax liability on a long term basis.
- Companies can be said to be successful in tax planning if they can reduce their Effective Tax Rates (ETRs) well below the Statutory Tax Rates (STRs). This study finds that over the years this success story is replicated in India as the ETRs have been always lower than the STRs. When STRs were around 35%, a noticeable gap of 14 to 20% was noticed with the ETRs during the years 1998-99 to 2005-06. The scenario changed a little from 2006-07, when STRs fell below 35% and the gap between STRs and ETRs reduced to around 10 to 11%. From the regression analysis having

the gap between ETRs and STRs as independent variable and revenue collection from corporate tax as dependent variable, the study has found that when the gap between Effective Tax Rates (ETRs) and Statutory Tax Rates (STRs) are higher, revenue collection from corporate tax will be lower.

- The study has shown that in order to make the tax system more elastic, equitable and vibrant, to reduce the number of zero tax companies to nil, to collect a minimum amount from corporate houses towards corporate tax and thereby to reduce the gap between STRs and ETRs, the Government introduced the system of Minimum Alternate Tax [MAT] under section 115JA w.e.f the A.Y. 1997-98. In this system Minimum Alternate Tax, if total taxable income was less than 30% of "Book Profit", the latter i.e. the book profit was treated as taxable base and statutory tax rate was applicable on that. From the assessment year 2001-02, in place of section 115JA, companies could compute Minimum Alternate Tax under sec. 115JB. Under this section if tax liability under normal provisions was lower than 7.5% [+SC+EC+SHEC] of book profit then MAT was applicable @ 7.5% [+SC+EC+SHEC] of book profit. To make the system of MAT smooth and vibrant "tax credit" was introduced under sec.115JAA w.e.f the A.Y 1997-98 for the extra amount of tax paid by the company as a result of Minimum Alternate Tax. The tax rate under MAT under section 115JB has gone through a course of change and it has up climbed to 18.5% in the Assessment Year 2012-13. Despite such a change

in MAT, a gap around 10-11% between Effective Tax rate and Marginal Tax Rate still remains.

- It can be found from the dissertation that effective tax rates (ETRs) vary across industries and time. The reasons extend beyond the array of fiscal incentives applicable to specific industries introduced and withdrawn from time to time. Certain factors like capital intensity of company, company's capital structure, profitability of company, payment of dividend tax influence ETRs to a substantial extent. The system of Minimum Alternate Tax (MAT) has a bearing on company ETRs. Moreover when there is a change in the marginal tax rates and/or surcharge and education cess, the ETRs of companies change accordingly.
- Test of variability of ETR among companies with different sizes via ANOVA has pointed towards the fact that ETRs do not vary according to the size of companies.
- It has been observed from multiple regression analysis in aggregate or industry-wise that depreciation allowance, capital intensity, debt equity ratio, statutory tax rates, dividend tax, Minimum Alternate Tax and profitability act as the main attributes that influence the effective tax rates (ETRs) of a company.
- From both the regression analysis in a multivariate context with Statutory Tax Rates, Asset Size, Capital Intensity, Debt Equity Ratio, Depreciation Allowance, Dividend Tax, Profitability and Minimum Alternate Tax as independent variables and Effective Tax Rate as dependent variable, it has been observed that there exists no significant relationship between ETR

and asset size. ETR is negatively related with amount of depreciation. It indicates that larger companies reduce their income tax burdens by utilizing more tax incentives in terms of depreciation. As asset size of companies not significantly associated to ETRs, larger companies build up their asset mix in such a way that they can enjoy more depreciation allowance and can reduce their effective tax liabilities. ETR and capital intensity of a company is negatively related indicating the fact that corporate house with high capital intensity can reduce its effective tax rate by availing various tax incentives.

- It is also revealed from the analysis that ETR and Dividend Distribution Tax is positively related and therefore it is clear that as an additional tax Dividend Distribution Tax increases ETR of a company.
- There exists negative relationship between ETR and Debt-Equity Ratio. Being tax deductible, interest expenditure help a company to reduce its taxable income and companies with more debts or higher leverage enjoy more tax deductible interest expenditure. Thus, companies with higher leverage are able to reduce their ETRs.
- It has been observed that profitability of a company and its statutory tax rate is positively related to the company ETR. This indicates that if profits of a company increase the taxable income increases and it increases corporate ETRs. If scheduled tax rates are increased corporate houses pay higher taxes which ultimately increase the effective tax liability of companies.

- The study has also found that Minimum Alternate Tax positively affects the ETR of a company. This relationship exhibits the fact that as a consequence of MAT the tendency of corporates to trim down the tax liability to zero through judicious tax planning has been reduced.
- The study has shown that in India a huge number of fiscal incentives are offered to corporate houses. These fiscal incentives help those corporate houses to trim down their tax burden. The Income Tax provisions in India consist of a plethora of sections which deal with a conglomeration of investment based, expenditure based and profit based fiscal incentives that are used by tax planners in the corporate sector to reduce tax burdens. Tax managers of different corporate houses perceived fiscal incentives as an instrument to encourage their business activities and to reduce the ultimate tax burden of their companies. According to them though fiscal incentives diminish the corporate profit tax base fiscal incentives help in increasing the asset base of companies. Though various fiscal incentives are offered in India, however according to tax managers of different companies fiscal incentives in form of backward or rural area relief and priority industry relief are insufficient in India. But according to them the conglomeration of investment based, expenditure based and profit based fiscal incentives cause difficulties in tax planning exercises.
- Fiscal incentives, in whatever form, are found to be restructured, withdrawn and reintroduced in a new form through the years. Tax holidays, deductions from various heads of income etc. have undergone numerous changes during the last fifty years after the institution of the

Income Tax Act. These changes make the task of long term tax planning difficult as the tax planners have to bench on tax provisions which are consistent over a period of at least five years. As an outcome of continuous changes in Income Tax Laws new provisions or the sunrise clauses come into existence with the passing of the Finance Bill. A number of provisions last for few years and then either are reformed or faded out and turned to be a sunset clause. In this way we can observe a continuous cycle of sunrise clauses and sunset clauses. This cycle give birth to certain difficulties regarding tax planning, computation and compliance. Corporate tax managers are found to perceive that due to frequent changes in various provisions in the Income Tax Act the tax system looses consistency and these sunrise and sunset clauses related to different fiscal incentives cause difficulties in tax planning and compliance.

- It has been observed that tax managers are found to opine that fiscal incentives linked with profit base should be in form tax holidays.
- The study has found that a company can use depreciation allowance as a prime tool to plan its tax liability. Differential rates of depreciation is to ensure social impulsion of a business house and to become a part of clean and green world by way of controlling pollution, encouraging energy savings, promoting scientific research, sports, cultural and social welfare of any organization. "Importance-Performance Analysis" carried out in this study regarding various fiscal incentives has revealed that "Depreciation Allowance" has been ranked "1" as regards to its importance and its performance too, indicating the fact that the same has

been the strongest among all the fiscal incentives in reducing tax burden and has kept good work in lowering the effective tax rates of corporate houses. So more assets with higher depreciation rates are included in the asset mix to increase the quantum of depreciation allowance. It has been observed in the study that more than 50% of the tax managers agree to the fact that inclusion of assets with higher depreciation rates reduces taxable income. When association between opinion of tax managers related to inclusion of assts with high depreciation rates and the total asset size of companies have been measured a strong association has been viewed and it can be inferred 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. Again a strong association has been found between the responses of tax managers of companies having lower ETRs regarding inclusion of highly depreciable assets in their asset mix to reduce their tax liabilities.

- It has also been found that 46.5% of respondents agreed to the fact that purchase of imported second hand Plant and Machinery was a good strategy for availing tax holiday scheme under those provisions discussed earlier. Tax managers in general agree to the fact that use of second hand imported machinery help in availing those above mentioned tax holiday schemes. Though there are certain disagreements in this matter, no association has been found between this opinion and the size of companies.

- Companies have been found to use scientific and research allowance to encourage research work in different lines and to encourage new innovation. The Important Performance Matrix of various fiscal incentives revealed that allowance for expenditure on scientific research has been very strong in trimming down the tax burden and have performed well in lowering the effective tax rates of corporate houses. 60% of the tax managers agree to the fact that making larger donations to Research Associations/Universities/Colleges can be a good strategy to reduce the tax burden as by doing this weighted deduction of 150% to 200% can be availed of. A strong association has been found between opinions related to contribution to approved research association or universities or colleges and the asset size of companies. This indicates the fact that tax managers of larger companies are in favour of adopting a strategy for lowering tax liabilities by donating more for scientific research. It has been also found 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.
- From the perceptions of tax managers when importance and performance of various fiscal incentives are analyzed on IPA grid it has been observed that incentives for establishing new undertakings in SEZ (under section 80-IAB), special category states (under section 80-IC), hotel and convention centre (under section 80-ID) have been very strong in reducing tax burden and have kept good work to lowering the effective tax rates of corporate houses. Regarding locational strategy corporate tax managers

have agreed that setting up of new industrial units under SEZ help to reduce tax liabilities by availing tax holiday schemes. Association has been found between companies with lower ETR and opinion to set up units in SEZs. Tax incentives for establishing new industrial undertakings in North Eastern states under section 80-IE have low performance in spite of having great importance. Fiscal incentives for establishing new industrial undertakings engaged in works other than infrastructural development under section 80-IB would have lower performance along with lower importance.

- When importance and performance of various fiscal incentives are analyzed on IPA grid on the basis of perceptions of tax managers of different corporate house it has also been observed that preliminary expenses acts very strongly in reducing tax liabilities and thereby lowering the effective tax rates of corporate houses. Tax incentives for development of Tea/Coffee/Rubber, promoting eligible project or scheme, for payment to associations or institutions for carrying out rural development programmes, for carrying out programmes for conservation of natural resources have low performance in spite of having great importance. Fiscal incentives under section 35DD, 10BA were possibly over used by corporate houses. Beside expenditure on prospecting certain minerals, fiscal incentives under section 80-IB have also lower performance along with lower importance.
- Regarding diversification, tax managers in general agreed to the fact that the strategy of choosing product lines or activities under schedule XIII and

XIV can reduce their tax burden. But as a result of some differences in this issue no association has been found 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.

- The study has found that in India different additional taxes like Dividend Distribution Tax, Fringe Benefit Tax have been introduced from time to time to augment the collection of revenues. Additional taxes, in whatever form, are found to be restructured, withdrawn and reintroduced in a new form through the years. Additional taxes in various heads have undergone numerous changes during last fifteen years since its inception in the form of Dividend Distribution Tax. Dividend taxes as an additional tax burden was put on companies from the F.Y. 1997-98 @10% on dividend distributed. This system continued for three years after which (in the F.Y. 2000-01) the tax rate was doubled to 20% (22.6% including surcharge and education cess). With strong opposition from the corporate sector, the dividend tax system was withdrawn in 2002-03, only to be reintroduced from the next financial year. Till then the DDT rates have hovered up from 12.5% to 15%. These changes in rates contradict with the principle of consistency and make tax planning exercises difficult for the managers.
- Cross country analysis regarding Dividend Tax reveals the fact that in spite of following classical system of taxation most of the countries have avoided the issue of double taxation by incorporating shareholders relief system. Of this shareholder relief system dividend exemption or dividend

exclusion method has been preferred enormously by most of the countries. A small number has followed the imputation or tax credit system. After the decision of European Court of Justice (ECJ) on 7th September 2004 many countries has switched over to dividend exemption or dividend exclusion system from the imputation or tax credit system. But where India deviates from other countries is that it is among a few who has favored corporate relief system to pass up double taxation effect. In India a distinction has been made among the retained profits and distributed profits. Retained earnings and distributed income are taxed at different rates. Only the other country who follows the same system as in India is South Africa.

- Regarding Fringe Benefit Tax, the system of additional tax was primarily inspired by the system of FBT prevailed in Australia and New Zealand and introduced in 2005-06. After going through a course of changes in tax rates and scope of FBT, the Government rolled back FBT ultimately in 2010.
- Regarding additional taxes in the form of Dividend Tax and FBT, managers opine that these taxes raise the ETR of their companies. Managers of companies with higher ETR agree more to this view as found by tests of association. According to them calculations of additional taxes increase computational and tax return complexities.
- So far as the Dividend Distribution Tax is concerned, corporate houses having higher "Dividend Pay-Out Ratio" consider that rates of DDT should remain unchanged. They consider that Dividend Tax should be

phased out quickly or Dividend Tax should be extinguished immediately so that the total procedures of distribution and disbursement of dividend would become less complex and less difficult.

- The corporate tax managers have agreed to the fact that removal of fringe benefit tax reduced the effective tax rates of companies as well as it reduced the computational and tax return complexities.
- Describing Direct Tax Code (DTC) as an essential step to restructure tax system, tax managers expect that the gap between STR and ETR will be reduced by implementing the tax code. They were not sure about whether DTC will reduce complexities regarding computation or not. According to them withdrawal of tax holiday scheme in the proposed Direct Tax Code will discourage new business activities.
- The corporate tax managers are found to be worried regarding the fact that the asset based MAT as proposed in DTC does not cover situations where there are multiple tiers of subsidiaries for handling separate businesses or investments. There would be a cascading effect of the asset based MAT in such cases.
- About DTC the tax managers have been found to express their hope that area based exemptions help corporate houses who has a wish to develop their business in rural areas. But according to them profit linked deductions for SEZ developers encourage corporate houses as they create an incentive to inflate profit.

- Tax managers have been found to expect that 100% depreciation for scientific research assets, as proposed in Direct Tax Code, will encourage in-house research.

7.3. SUGGESTIONS :

On the basis of the findings and analysis of this study, recommendations of different committees and the Direct Taxes Code some suggestions are being put up which may help to resolve some of the problems which are present in our corporate tax system. They are as follows:

- Various committees and commissions on direct taxation in India have recommended a simple and consistent tax structure. From the viewpoint of the corporates 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 looses the consistency. Tax managers of different companies also express their desire for a simple and consistent tax structure so to make the task of tax computation and compliance easy and to avoid problems regarding long term fiscal policy formulation. It therefore seems desirable to have a tax system where changes and revisions of tax provisions will be minimum and infrequent so as to avoid all the problems regarding computation and compliance of tax. When tax managers find a user friendly system of tax planning and management which is devoid of complexities, the tendencies of tax avoidance and evasion get restrained to a large extent. This ultimately leads to larger collections for the exchequer.

- It can be stated that the introduction of various tax incentives restrain the central exchequer so far as the tax revenue collection is concerned which in turn adversely affects the funds available to the Government for making expenditure. But the business sector becomes enriched with the savings and surplus fund created through different incentive schemes which ultimately help them to grow up and flourish. If there is no such incentive schemes the Government can pull more revenues, exploit it and cheer the overall development of the economy. By providing various tax incentive schemes the Government has shifted some of its power and responsibility to business sector for the development of the economy. So a proper tradeoff between the cost and benefit relating to an incentive scheme is needed either before introduction or withdrawal of the same and the economic justification of various tax incentives and their significance is very much looked-for. The Government should carry on those fiscal incentives which have been perceived to have high importance by the tax managers. Fiscal incentives which are perceived to be highly important but have perceived to have low performance like Tea/ Coffee/ Rubber Development allowance u/s 33AB, allowance for payment to associations or institutes for carrying out programmes of conservation of natural resources u/s 35CCB, allowance for payment on associations and institutions carrying out rural development programmes u/s 35CCA etc. should be modified and simplified. To reduce the number of fiscal incentives the Government may phase out or extinguish, those tax incentives which have been perceived to be less important or unimportant

such as deduction for expenditure on prospecting certain minerals u/s 35E, provisions in respect of export of eligible articles of things u/s 10BA, amortization of expenses in case of amalgamation/ demerger u/s 35DD, etc.

- The study has found that allowances for development of tea coffee or rubber are important by the tax mangers for tax reduction. Moreover treatment of total income for these activities as partly agricultural and partly business income helps in reducing taxable income and therefore encourages promotion of these industries. The periphery of this allowance should be extended to floriculture, horticulture activities which are coupled with processing of flowers and fruits for making fast moving consumer goods.
- The information about the gap between Effective Tax Rates and Statutory Tax Rates are a very important indicator about the extent to which corporates can manage to use tax incentives to pay lower amount of taxes. Lower taxes paid means lower revenue generation for the Government. It is interesting to note that no efforts have been made by the Government to calculate this gap on the basis of large sample. It is suggested that the Government take initiatives to make such investigations on a census basis and find the extent to which companies divert from the Statutory Tax Rates.
- The concept and operation of MAT has now been well established in India and has helped in generation of revenue from companies which can manage to drag down their tax liabilities to even zero. However frequent

changes in the rates and the bases (as shown in Table- 5.2) creates difficulty in computation and planning on a long term basis, specially when tax credit has to be availed under section 115JAA. The Direct Taxes Code indicates an intention to shift from the profit (specifically book profit) base to gross asset base. Accordingly, the Code provides for Minimum Alternate Tax calculated with reference to the value of "gross assets". The shift in the MAT base from book profits to gross assets will encourage optimal utilization of the assets and thereby increase efficiency. The rate of MAT will be 0.25% of the value of gross assets in the case of banking companies and 2% of the value of gross assets in the case of all other companies. This system provides an incentive for efficiency because the rationale for the asset base tax is that investors can expect *ex ante* a specified average rate of return on their assets. Moreover charging minimum tax on value of gross assets aims at efficient use of the assets. "If a company is not in a position to use the resources at a certain benchmark laid down, it should be penalized in the form of levying taxes and transferring such idle resources to the exchequer." (Shah 2009). However if ex-chairman of Central Board of Direct Taxes Mr. T.N.Pandey's (2009) views are taken into consideration, a single method of imposing tax on gross assets need to be rethought. According to him under this system "Companies with heavy capital investments would be hit the most.... In many instances, capital intensive projects have long gestation period, leading to a situation where a company have to pay huge taxes even before the project commences and income starts". In these

cases, such capital intensive companies mainly producing goods as per schedule thirteen of the Income Tax Act (see Annexure-4) can be given an exemption from imposition of MAT for a period of ten years. However, these discussions can only find fruition if the Direct Taxes Code is implemented in its present form or in a revised form as expeditiously as possible.

- Regarding strategy of tax planning corporate houses should include highly depreciable assets such as pollution control equipments, solid waste control equipments, recycling equipments, energy saving devices etc. in their asset mix to reduce their tax burden. Choice of assets for building up the proper asset mix from such huge number of blocks with different rates of depreciation make the task difficult. Number of blocks is proposed to be reduced to 12 in the Direct Taxes Code (DTC). However a large number of depreciation rates still remain. Such differential rates pose computational complexities for tax managers. It is therefore suggested that at the time of implementation this differentiation in the rates of depreciation should be reduced to make the task of building up the asset mix easier and rational.
- Regarding scientific and research expenditure companies should donate more for scientific research to approved research associations, colleges or universities, approved laboratories to get more tax concessions. There is a diversified option for companies for making contribution to outsiders for research work and getting more tax concessions. As because this diversified alternatives the choice of proper option becomes difficult. If

the research and scientific allowance can be brought under two windows – (i) allowance for in house research and (ii) allowance for contribution to outsiders, the task of choosing proper option relating to scientific research work will be easier. No more sub option will be there to make the structure for scientific research allowance simple and rational. Moreover what will be implemented must be consistent in nature.

- New industries have been established in SEZ for getting the benefits relating to tax matter under section 80-IAB and 10AA. There was no Minimum Alternate Tax and Dividend Tax. But Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) on SEZ units have been reintroduced. Though Minimum Alternate Tax and Dividend Tax are necessary to reduce the tendency of tax avoidance and tax evasion and should stay but should not nullify the effects of section 80-IAB and 10AA otherwise motivation for corporate to establish new units in SEZ will be lost.
- So far as the company dividend tax is concerned The DTC states that taxing shareholders is cumbersome and therefore it is easier to tax dividends in the hands of corporates. Though administrative simplicity has the weightage but cannot be traded off for computational complexity. Therefore, Indian tax system can switch over to Dividend Credit System or Tax Credit System or the Imputation System under shareholder's relief approach or switch over to Dividend Credit Approach under corporate relief approach from dividend exemption system under corporate relief approach likewise most of the countries in the world.

On the whole the thrust of making proper tax statutes is to improve the equity, efficiency and simplicity of the tax system by eliminating provisions which are complex in understanding and operation. Continuous efforts are necessary to simplify the language so as to foster easier comprehension and "remove ambiguity to foster voluntary compliance" (Direct Taxes Code Bill, 2009). Fiscal incentives should be framed on the basis of best international practices, sound principles of taxation and opinions of the end users, i.e. the tax managers who plan and manage corporate taxes. These will ensure stability in the corporate tax system and make the task of tax planning easier on a long term basis. Moreover it is important that the tax base is broadened to enhance revenue productivity. "The strategy for broadening the base essentially comprises of three elements. The first is to minimize exemptions. For many decades, the tax base has been eroded through a steadily escalating range of exemptions" (Direct Taxes Code Bill, 2009). In his study Rao [2000] has pointed out that "in the case of corporate income taxes, too, it is necessary to broaden the tax base by minimizing tax concessions and preferences. Rather than minimizing them, the recent coalition governments have gone about proliferating tax incentives to complicate the tax system and to create a wide wedge between the nominal and effective corporate tax rates." The study of Rao [2000] also pointed out that "as the companies started using the provisions, for revenue reasons, the government started levying the minimum alternative tax (MAT). Thus one imperfection was sought to be remedied through another. This has complicated the tax system further."

The problem has been recognized and efforts have been made by the Direct Taxes Code to use simple language, reduce scope of litigation, consolidation of provisions and remove uncertainty and instability in the prevailing tax system. Direct Taxes Code Bill (2009) has recognized that "profit-linked incentives are inherently inefficient. Essentially, a profit-linked incentive is regressive in nature." Direct Taxes Code Bill (2009) has also entailed that "there is an inbuilt incentive for laundering and shifting of profits to the exempted activity." It has also been said in Direct Taxes Code Bill (2009) that "since profit is the basis for exemption, there is no incentive for investment and upgradation during the period of tax holiday. Such profit-linked incentives also lead to significant loss of revenue and encourage rent-seeking behaviour. Hence, the Code substitutes profit-linked incentives by a new scheme." According to DTC Bill (2009) "under the new scheme, a person would be allowed to recover all capital and revenue expenditure (except expenditure on land, goodwill and financial instrument) and he would be liable to income tax on profits made thereafter." However, though drafted in 2009 as a bill and again introduced as a bill in 2010 (Bill no 110 of 2010) the implementation of the code in totality is still pending.

The debates on introduction and withdrawal of fiscal incentives and additional taxes are neither new nor permanently conclusive. Various tax reforms committees in India have suggested variegated measures to simplify rationalise and make the tax system equitable and efficient. Experimentations with the suggestions and recommendations have been made to reform the tax structure. However, in spite of these companies in India have strategically managed to keep

their effective tax payouts below the marginal tax rates, despite confronting an uncertain legal environment where fiscal incentives and additional taxes keep altering frequently. Reform processes need to be to be tested to see whether they serve the desired purpose relating to the country in question and being relevant to the policy objectives of the state in a longer perspective of time with certainty. Prof. Bird (1999) proposed a 'Rule of Robustness' in this context and suggested "to propose only those policies which do not depend to a significant degree on uncertain factors". When a fiscal incentive is introduced for companies after analysing meticulously the need for it, the tax provisions should provide that it would continue at least for five years during the period in which the efficacy of the incentive would be empirically tested. If the fiscal incentive is found productive and justified on the basis of these studies, such findings should be forwarded to the governing authorities to decide whether it should continue beyond the period of five years or be considered for withdrawal.

The success of corporate tax reforms greatly depend on studies to be made in regard to see whether changes , introduction and repeal of tax incentives are as per the conceived perspectives of the state and also the perception of people handling the tax affairs of companies. The study has made a modest attempt in this regard and tried to sieve fiscal incentives on their basis of importance and performance. However, a vast scope for further research in this area remains as many more fiscal incentives in the context of national and international operations need to be assessed as they exist or as they are introduced. Such research can help the academia to translate what they know technically to what can be convincingly used for policy formation. The search for a stable and consistent tax system where

incentives and additional taxes can be operated efficiently is a continuous endeavour and needs to be persistently pursued.

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