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Effective Corporate Tax Rates and Role of Accelerated Depreciation Allowance in India

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Abstract

Wide gaps between Statutory Tax Rates and Effective Tax Rates of companies in India have been observed for more than a decade and the tax base has been eroded through a steadily escalating range of exemptions. The study observes that due to these gaps there has been a substantial loss of tax revenue for the government from corporate taxes. The study examines various variables which influence Effective Tax Rates and bring to focus the role of accelerated depreciation allowance in reducing tax liabilities. Perceptions of corporate tax mangers various aspects of depreciation allowance for tax planning have also been explored in this context.

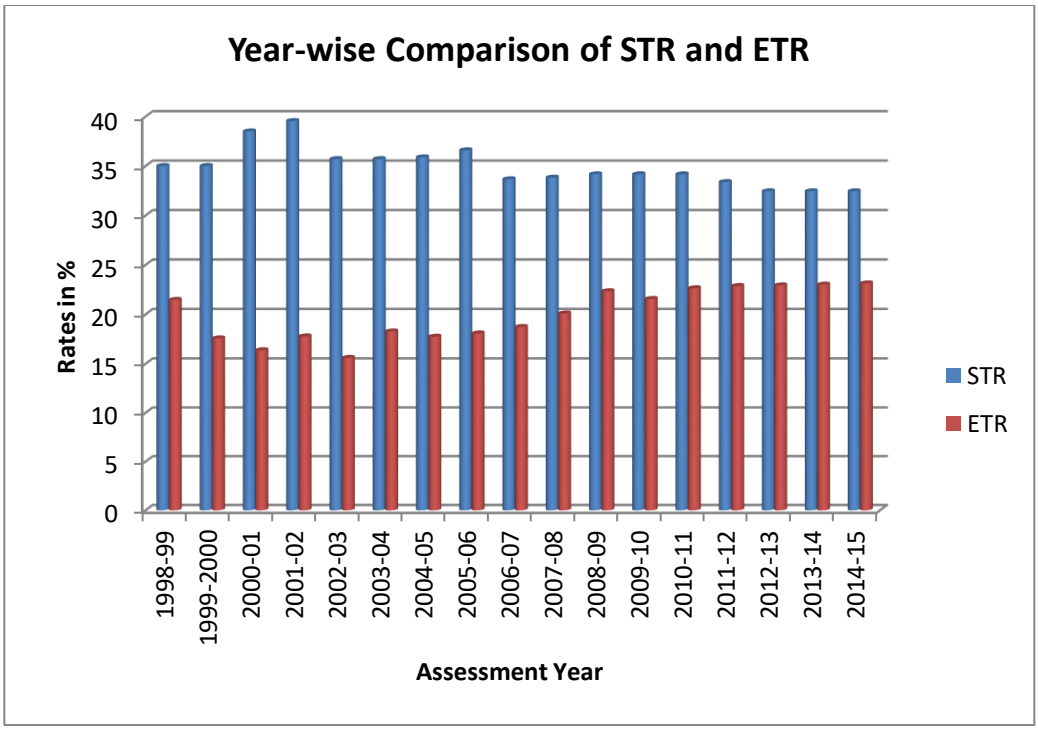
Key Words: Effective Tax Rates, Statutory Tax Rates, Tax Revenue, Depreciation Allowance

JEL Classification H20, H21, H25, H29

I. INTRODUCTION:

Fiscal policies in India have always aimed at raising substantial revenues for the public exchequer by taxing companies, as identification of companies as assesses has been always easier than other forms of assesses. In India the corporate statutory tax rates have been hovering between 33% and 36% (inclusive of surcharge and education cess) since the last decade. This means that ordinarily corporate assesses are supposed to sacrifice one third of their income for contribution to the country's public finance coffers. However, in practice this does not happen in most of the cases as companies in India manage to create a substantial gap within what they are supposed to pay according to statutory tax rates and what they actually pay through effective tax planning techniques. Therefore in the Indian corporate sector substantial differences have been observed between the Statutory Tax Rates (STR) and Effective Tax Rates (ETR) in the post globalisation period. This situation can be assessed from the figure given below.

Figure 1



Notes: Statutory Tax for Rates for different years have been compiled from Budget documents of different years and is inclusive of Surcharge, Education Cess and Higher Education Cess as applicable for different Assessment Years. Effective Tax Rates have been calculated from Annual Reports of different companies for different years, Capitaline Database and Company websites for 1000 companies in which the public are substantially interested according to section 2(18) of the Income Tax.

Effective Tax Rate is the proportion of actual taxes paid or payable by a company in relation to its Profit Before Taxes. The method of calculating Effective Tax Rate is:

ETR = [{(Total Taxes on taxable income) + Surcharge +Education and Higher Education Cess)} / Profit Before Taxes] X 100

The actual tax payable can be substantially reduced by effective use of fiscal incentives provided in the form of deductions, allowances, rebates and reliefs in the Indian Income Tax Act. Bernardi and Fraschini [2005] observed that despite a prominent diminution in corporate tax rates in India in the nineties, widening of corporate tax base was not working well because of a line of tax holidays and lofty depreciation offered to corporate entities engaged in diverse business activities. In fact, companies opt for using a fiscal incentive with an intention of minimising the taxes they are required to pay. At the outset it has to be mentioned that tax planning techniques are intrinsically imbedded in the tax laws and it is upon the company to plan their operational and financial activities in such a manner that the benefits of the fiscal incentives can be lawfully used by them for tax planning. However, not all companies have the

same motive to carry out tax planning. Some companies are involved to a great extent in tax management via proper tax planning while others are involved in tax avoidance by utilising the loopholes of law or by circumventing tax laws. Both are possible due to the capabilities of the companies to employ various fiscal incentive schemes as each of these schemes have a labyrinth of terms and conditions which can be used with clever interpretations of provisions and case decisions. The array of fiscal incentives, if wisely and legally used can make substantial differences in tax actually paid and tax calculated at the marginal rates on pre-tax profits. These exercises create a difference between Statutory Tax Rates (STRs) and Effective Tax Rates (ETRs). The Government of India observed that "for many decades, the tax base has been eroded through a steadily escalating range of exemptions" (Direct Taxes Code Bill, 2009). The high magnitudes of tax revenue foregone over the past few years due to a vast array of fiscal incentives in India have perturbed different committees on taxation, though the volume of tax revenue lost has been rising over the years. The following table depicts the situation for the last decade.

Financial Year	Revenue Forgone (Rupees in crores)	Revenue Forgone as % of GDP
2005-06	34618	0.9
2006-07	50075	1.2
2007-08	62199	1.2
2008-09	66901	1.2
2009-10	72881	1.1
2010-11	84263	0.8
2011-12	81214	0.7

TABLE I

Revenue Foregone by the Central Government Due to Various Corporate Tax Exemptions

2012-13	92636	0.7
2013-14	91144	0.8
2014-15	98407*	0.9

*Note : Revenue foregone figures are before adjustment of MAT receipts. * denotes projected*

Source: Compiled from Statement of Revenue Foregone, Central budget 2006-7 to 2015-16

The table shows that there has been a threefold rise in the revenue foregone due to various tax exemptions over a period of ten years. Similar experiences have been observed in other countries. Kcieniewski (2011) has revealed that by taking the advantages of myriad loopholes American corporates can manage far less tax than scheduled. The paradox of the United States tax code can be written as high rates with a bounty of subsidies, shelters and special breaks. The study of Izadinia and Foroghi (2013) has shown that the size of a company and size of fixed assets affect the amount of payable tax. On the basis of Tunisian experience Teraoui, Kaddour, Chichti, & Rejeb (2011) explained that different tax incentives appear to be an essential component for reducing tax liabilities and thereby the art of apt tax planning act as a source of motivation for high level of performances. That is why the tax planning gives birth to large chasms between the amounts of taxes ought to be paid and amounts of taxes actually paid. It is actually, the expertise with which the tax planners focus on fiscal incentives and plan activities accordingly that the amount of tax payable varies.

In the Indian context, tax planners in the corporate sector have used the allowance available such as accelerated depreciation as a major tool to reduce taxes. As a matter of fact corporate tax revenue foregone due to depreciation allowance is nearly 40% of the corporate tax revenue foregone. The following table depicts the situation.

TABLE II

Corporate Tax Revenue foregone on Account of Deprecation Allowance

Financial Year	**Tax Revenue foregone due Accelerated Depreciation Allowance (Rs.crore) (A)**	**Total Corporate Tax Revenue foregone (Rs.crore) (B)**	**(A) as a % of (B)**
2008-09	21175	66901	31.65
2009-10	29308	72881	40.21
2010-11	35494	84263	42.12
2011-12	34320	81214	42.25
2012-13	38122	92636	41.11
2013-14	34278	91144	37.61
2014-15	37010*	98407*	37.61

Source: Compiled from Statements of Revenue Foregone, Central Budget 2008-09 to 2014-15.

*Note: Revenue foregone figures are before adjustment of MAT receipts. * denotes projected*

As discussed before the phenomenon of having ETRs of the companies far below the STRs is interesting and has been explained by researchers as a consequence of a vast array of fiscal incentives. However, as evidenced it is also the power of the size of the companies or liability to Minimum Alternate Taxes or Dividend Distribution taxes which can affect the tax liability of a company and consequently its Effective Tax rates. Hence, it would be worthwhile to investigate whether the size of the companies, their capital intensity, leverage, the level of statutory tax rates, minimum alternate systems etc in any way affect the Effective Tax Rates of companies.

II. REVIEW OF LITERATURE :

A substantial amount of literature has been produced, to identify the attributes which influence the Effective Tax Rate of companies. Earlier research studies provide light to the present study to recognize diverse variables and to construct hypotheses for the present study.

(a) Statutory Tax Rates : According to Chandra (1971) escalating tax rates can result in higher tax burdens. Rise in the Statutory Tax Rates increase the collection of tax revenues and thereby increase the amount of taxes paid by the company. Bisht (1984) established that high Statutory Tax Rates gear up the tax burden. If scheduled tax rates are increased companies have to pay higher taxes which increase the effective tax liability of the company and thereby enrich the Government's exchequer. Guha (2007) used scheduled tax rate as a proxy for time specific effects and had found a positive association between ETRs and STRs. Though STR does not vary company wise but it changes over time as a result of change made in Finance Acts every year. As per the earlier studies, the present study anticipates a positive relation between Statutory Tax Rates and Effective Tax Rates.

(b) Size of The Company : Stickney and McGee (1982) empirically demonstrated that company size has no effect on its ETR. The study of Porcano (1986) revealed that company size and its Effective Tax Rates are negatively related. Zimmerman (1983) suggested that larger companies will, because of their larger political visibility, have fewer tax preferences available to them than smaller firms. He expected a positive effect of company size on ETRs. An interesting alternative rationale for such an effect is that suggested by Scholes and Wolfson (1992). They expect that large mature firms may find it difficult to aggressively pursue tax planning, because that may interfere with other tax impacted contracts. However, his findings were opposed by Porcano (1986) who found a negative effect on ETRs of company size. Wilkie and Limberg (1990) subsequently reconciled these different findings by pointing out relevant differences in the research designs of Zimmerman (1983) and Porcano (1986). Differences were found in the definitions of ETRs as given by them. Omer, Molloy and Ziebart (1990) made a similar methodological contribution. In a later paper, Shevlin and Porter (1992), after taking into account Wilkie and Limberg's (1990) remarks, reported the findings of progressive company income taxes, albeit in a univariate framework. Holland (1998) found a positive effect of asset size on company ETRs for the UK for a number of years in his twenty six year period. However, he also found a few years with negative size effects. According to Gupta and Newberry (1997) in the period 1982-85 ETR was positively related with

company size and for the period of 1987-90 the relationship was negative. The study of Holland (1998) has also determined a negative effect between company size and ETRs for a few years in the span of research. The study of Guha (2007) has disclosed that a negative relationship exists between the company size and the effective tax rate. Larger companies have more assets and more assets cater larger exemption for depreciation allowance and thereby reduce the total tax liabilities and influence the ETR. An increase or decrease in the tax is proportionate to asset size. Automotive, pharmaceutical, chemical, machinery, cement, food, metal and tile industries have more fixed assets will affect the taxes from the company (Izadinia and Foroghi (2013)). As all the previous research studies have revealed some relationship between company size and ETR but opinions relating to the effect of company size on its ETR are not unidirectional, so we set the hypothesis without defining any direction. Asset size is measured by net assets i.e. total assets reduced by depreciation.

(c) Profitability : Most of the earlier studies argue on the association between ETRs and different company characteristics but not specifically with profitability. Derashid and Zhang (2003), Adhikari, Derashid and Zhang (2006) and Rohaya, Nor'Azam and Bardai (2008) found a negative relationship between ETR and ROA. It indicated that highly profitable companies bear lower income tax burdens since they utilise tax incentives and other tax provisions to reduce their taxable income which would result in a lower ETR. As profits before taxes act as the main factor for determining the taxable income, there must be some relationship between ETRs and profit before taxes (PBT), but the direction of association has not been defined due to lack of earlier literature.

(d) Capital Structure or Leverage : According to the study of Stickney and McGee (1982) capital structure of the company or leverage influences the Effective Tax Rate in an inverse way. Researchers generally found a negative relationship between ETR and leverage (Gupta & Newberry, 1997; Buijink & Janssen, 2000; Adhikari, Derashid and Zhang, 2006; and Richardson & Lanis, 2007). This means that companies with higher leverage, i.e. with more debts, have lower ETR because interest expenditure is tax-deductible which results lower taxable income. Regarding the association between ETR and capital structure, most studies found that the ETR is negatively associated with capital intensity. Guha (2007) has revealed a negative association between leverage and ETRs. According to the direction of the earlier studies we expect an inverse association between Debt Equity Ratio and ETRs.

(e) Depreciation Allowance : According to the study of Lall (1983) large corporate house having larger asset size can reduce its Effective Tax Rate by availing more tax incentives in terms of depreciation allowance. Depreciation allowance under the Indian Income Tax is characterized by accelerated depreciation systems, high rates of depreciation on certain plant and machinery (80% to 100%), provision for 50% of the normal depreciation if the asset is used for only 180 days, provision of full depreciation based on the block of assets even if the asset is not actually used, but kept ready for use. In fact a series of case decisions supported use of depreciation allowance even if the asset was kept for passive use. The Bombay High Court in *CIT v. Vishwanath Bhaskar Sathe,* (1937) 5 ITR 621 (Bom.) held that the word 'used' should be understood in a wider sense so as to give a wider meaning and embrace passive as well as active user. The said decision was followed by the Patna High Court in *CIT v. Dalmia Cement Ltd.,* (1945) 13 ITR 415 (Pat.) wherein it was held that depreciation should be allowed even though machinery was not in use or was kept idle. Further in the case of *Whittle Anderson Ltd. v. CIT,* (1971) 79 ITR 613 (Bom.), the Bombay High Court held that when the machinery is kept ready for use it will be said to be used for the purpose of business even though the machinery had not actually worked. Again

in *Capital Bus Service (P) Ltd. v CIT,* (1980) 123 ITR 404 (Del.), the Delhi High Court held that the allowance for depreciation does not depend on the actual working of the machinery, it is sufficient if the machinery in question is employed by the assessee for the purpose of the business and for no other business and it is kept ready by him for actual use.

To top the menu list is the benefit of carrying forward unabsorbed depreciation allowance for an indefinite period for set off against available profits. These characteristics have provided avenues to the corporate sector to lower tax liabilities substantially. Jha and Mittal (1990), pointed out that among other allowances, depreciation allowance resulted in large tax benefits and pushed down ETRs significantly. . Bernardi and Fraschini (2005), in their study, revealed an inverse relationship between depreciation and ETRs. With the drawings of the earlier studies the present study expects an inverse relationship between depreciation allowance and ETRs.

(f) Capital Intensity : Stickney and McGee (1982) demonstrated that capital intensity influenced the Effective Tax Rate in an inverse way. Capital intensity measures the share of fixed assets in total assets or the fixed asset intensity. According to the study of Lall (1983) there has been an inverse association between capital intensity and ETRs as corporate house with high capital intensity can reduce its effective tax rate by availing various tax incentives. The study of Gupta and Newberry (1997) revealed a negative association between capital intensity and ETR. According to them, companies with larger proportion of fixed assets have tended to have lower ETR because of provisions of depreciation allowance. Due to this depreciation allowance a tax preference can be noticed for investments in fixed assets and as a result a negative association can be expected between capital intensity and ETR.

(g) Dividend Distribution Tax : Tax on payment of dividend as an additional tax has also been introduced with a hope to increase the ETR. As dividend is exempted 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. So, it is expected that as an additional tax Dividend Distribution Tax should influence the ETR of a company in a positive manner.

(h) Minimum Alternate Tax (MAT) : In the present study, MAT has been treated as dummy variable to measure the effect of this particular provision on company ETR. In a particular year if company is under MAT then it is denoted by 1 otherwise 0. As not much earlier studies are consulted we build the hypothesis without any sign. But the study of Guha (2007) found a positive relation between ETR and MAT. As MAT converts zero tax companies to taxable one, the study has presumed a positive relation between these two.

III. OBJECTIVES OF THE STUDY AND METHODOLOGY :

Considering the facets which has been brought out by previous researchers, it was thought to be prudent to explore into the fact as to whether Effective Tax Rates for widely held Domestic Companies in India were determined by size of the companies, their capital intensity, leverage, the level of statutory tax rates, minimum alternate tax, Dividend Distribution tax and depreciation allowance amounts.

Further, as discussed above, a large amount of tax revenue is foregone due to use of depreciation allowance by companies. Therefore the study would also explore certain aspects of how tax managers

actually used the provisions of section 32 of the Indian Income Tax Act for determining the amounts deductible by way of planning the mix of depreciable assets and use of those assets.

For the purpose of the study both primary and secondary data was collected. The primary data was collected through a structured questionnaire administered to a sample of 1000 companies included in the Capitaline Database. The primary criteria for these companies were that they were incorporated before 1998 and that they were widely held industrial companies as defined in sections 2(18) and 2(8)(c) of the Income Tax Act. The response rate from the questionnaires sent was only 10.7 % i.e. 107 responses as filled in questionnaires were received. Due to incompleteness 19 responses were rejected and the final sample having complete responses was 88 companies.

As regards to the secondary data related to these companies, the data were obtained for a time span of 12 years, i.e. from the A.Y. 2001-02 to the A.Y. 2012-13 from the annual report of the companies and the Capitaline database. The year 1998 was chosen as the introductory year for the study because it was the year from which MAT came into existence. Effective Tax Rates for these companies , size of the companies, their capital intensity, leverage, the level of Statutory Tax Rates, Minimum Alternate Tax, Dividend Distribution Tax and depreciation allowance amounts were computed for each company as average of 15 years figures.

On the basis of the literature reviewed showing relationships between Effective Tax Rates and different variables a regression equation was formulated with the ETR as independent variable.

ETR = B1 + B2AS + B3CI + B4DDTR + B5DEP + B6DE + B7PBT + B8STR + B9MAT

Where, ETR = Effective Tax Rates DEP = Total depreciation

AS = Asset Size DE = Debt- Equity Ratio or leverage

CI = Capital Intensity PBT = Net Profit Before Tax

DDTR = Dividend Distribution Tax Rates STR = Statutory Tax Rates

MAT = Minimum Alternate tax

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.

IV. FINDINGS OF THE STUDY :

The results of the regression analysis is given below

TABLE III

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787[(a)]	.619	.482	.5578

Predictors: (constant), AS = Asset Size , CI = Capital Intensity , DDTR = Dividend Distribution Tax Rates, DEP= Depreciation, DE = Debt- Equity Ratio or leverage, PBT = Net Profit Before Tax, STR = S

TABLE IV

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
11	Regression	20.733	8	2.592	8.333	.010(a)
	Residual	24.569	79	.311		
	Total	45.302	84			

a. Dependent variable ETR

TABLE V

COEFFICIENTS

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity statistics	
	B	Standard Error	Beta			Tolerance	VIF
Constant	23.566	8.876		2.655	.057		
AS	-.527	. 659	-.047	-.799	.425	.508	1.967

CI	-1.03	.315	-.786	-.3.268	.000	.832	1.202
DDTR	0.552	.265	.029	2.086	.037	.555	1.803
DEP	-1.482	.239	-.881	-6.193	.000	.846	1.182
DE	-0.930	.201	-.406	-4.634	.000	.748	1.337
PBT	0.558	. 281	.845	1.980	.048	.688	1.453
STR	.424	.098	.419	4.317	.000	.677	1.477
MAT	.679	.221	.129	3.069	.003	.712	1.404

Dependent variable: ETR

The tables given above are self- explanatory. The independent variables can explain 62% variance in the Effective Tax rates at 1% level of significance. The co-linearity statistics show that the results are affected by the problems of multi co-linearity. No significant relationship between ETR and asset size has been found. The relationship between depreciation and ETR is significant and indicates a drop in the tax liability due to increase in depreciation allowance. These two observations when viewed together ordinarily leads to a dilemma in coinciding of the facts, because higher volume of assets would result in more depreciation. A reading between the lines suggests that the relationship between the size of assets and amount of depreciation is not linear as depreciation allowance rates as prescribed in the Income Tax Act varies from a mere 5% per annum to 100% per annum depending on the class of assets. The probable explanation lies mainly in two dimensions. The first one is the capital intensity, which measures the ratio of fixed assets to total assets. As fixed assets, mainly plant and machinery have much higher rates of depreciation than intangibles or other assets, higher the proportion of plant and machinery in an organisation, higher is the depreciation allowance. The figures in the above table corroborate this fact and shows ETR and capital intensity of a company are negatively related, indicating the fact that company with high capital intensity can reduce its Effective Tax Rate. The second factor is the asset mix within the fixed assets. If more assets with higher depreciation rates are included in the fixed assets the quantum of depreciation allowance would be more. Therefore decisions of acquiring air and water pollution control equipments with 100% depreciation rates , energy saving devices, renewal energy devices and co-generation systems with 80% depreciation and putting them to use or even keeping them ready for use can substantially increase the deduction available under section 32.

Significant relationships exist between Effective Tax Rates, Dividend Distribution Tax, MAT, Statutory Tax Rates and Debt-Equity Ratio. Companies with higher leverage, i.e. with more debts, are able to reduce their ETR because interest expenditure is tax-deductible and results in a lower taxable income.

In the second part of the analysis, focus has been made on the use of depreciation allowance as a tool of reducing tax liabilities. The explicit focus on depreciation stems from the facts presented in table II, where it is shown that depreciation allowance accounts for nearly 40% of corporate tax revenue foregone and also the relationships between depreciation and ETRs found from the regression analysis.

The analysis in this case has been made by using primary data generated through a structured questionnaire administered to corporate tax mangers. Initially views of officers dealing with tax planning in companies were found out by techniques like personal interviews, panel discussions. On the basis of which statements were designed on a five point Likert Scale having anchors such as Strongly Agree, Agree, Do not Know, Disagree and Strongly Disagree with values of 2, 1, 0 -1 and -2 respectively . All the statements are based on the various aspects of depreciation with the intention of finding out what these managers perceive about the various provisions related to accelerated depreciation and whether they opine for continuity or discontinuity of certain provisions. The findings of the study are reported in the following table.

TABLE VI

Perceptions of Corporate Managers regarding various facets of Depreciation Allowance for Corporate Tax Planning

Statements	**Mean Score**	**Standard Deviation**	**t values**
(a) Depreciation Allowance under section 32 accounts for the largest fiscal incentive for corporate tax planning	1.34	0.92	13.66*
(b) Substantial effort is put for tax planning for depreciation allowance by designing a suitable asset mix.	0.94	1.21	7.28*
(c) Inclusion of block of assets with higher depreciation rates reduces taxable income	0.66	1.42	4.35*
(d) Highest depreciation allowance for pollution control equipments acts as a motivator both for planet protection and tax reduction	1.24	0.84	13.84*
(e) Depreciation allowance at half the prescribed rates for assets used for less than 180 days is rational and should be continued.	0.64	1.44	4.29*
(f)) Depreciation allowance on assets not actually used during the previous year, but kept ready for use is rational and should continue	0.96	0.98	9.19*
(g) The provisions under (e) and (f) are used by companies to claim high amounts of depreciation even by purchasing assets in March.	0.22	1.48	1.39
(h) Withdrawal of provisions stated in (e) and in (f) would adversely affect tax planning by using section 32	0.68	1.32	4.83*
(i) Care is always taken on the time of purchase or sale of assets so that any block of assets are not reduced to zero.	0.42	1.52	2.59**
(j) Provisions of carry-forward and set-off of unabsorbed depreciation allowance for an indefinite period is beneficial for companies and should be continued	1.28	0.96	12.51*
(k) Provisions for additional depreciation allowance on new	0.28	1.42	1.85

plant and machinery gives extra benefits to companies and can be discontinued			
(l) The use of provisions of section 32 reduces tax revenue of the Government substantially	1.38	0.88	14.71*
(m) Reduction of rates of depreciation on tangible assets should be made to increase tax revenues	-0.22	1.36	1.51

*Note: ** denotes significance at 5% level and * denotes significance at 1% level.*

The figures in the table indicate that corporate tax managers do perceive that allowance given on the basis of accelerated depreciation do account for the most important fiscal incentive and a substantial effort designing the asset mix in an effort to reduce taxes through depreciation allowance. Managers perceive the importance of keeping assets with higher depreciation in their asset portfolio and support the provisions of allowing full depreciation even if the asset is kept ready only for use and not actually used during the previous year. Responses to the statement (g) were lukewarm as many managers did not keep information about what other companies were doing in other companies, but they felt that probably this was a clever step to claim more depreciation allowance. The managers actively supported the provisions of additional depreciation allowance and carry forward of unabsorbed depreciation allowance though they also felt that use of section 32 by the corporate sector reduces Government revenue substantially. However, in spite of this realization they were not in favour of reduction of depreciation allowance rates. On the whole, it can be inferred from the perceptions of the managers that they have a very comfortable space for reduction of tax liabilities through accelerated depreciation allowance and do not feel that any changes are needed to increase revenues for the central exchequer.

V. CONCLUSION:

The state of affairs of the large chasms between what the Government statutorily mandates as corporate tax rates and what the companies effectively payout has been in vogue for decades and will continue to remain so for a long time to come. Budgeting exercises during the last decade in fact have not attempted to make dent making changes in the provisions of allowances and deductions and increase the coffers of the Government in spite of the fact that, important reports have pointed out serious aberrations in tax management practices. The CAG report no 20 (2014) observed from a compilation of 986 cases that assesses made additions of various assets worth 1,41,725.41 crore in the month of March in different financial years and claimed depreciation of Rs 2602.61 crore . This implies full depreciation for the whole year was claimed even if the assets were purchased and put to use only in the last month of the previous year. The report also observed that asset additions worth 31,621 crore was made in the month of September in different financial years on which depreciation allowance was allowed for the whole year.

The observations of these bodies need to be heeded while continuing with the plethora of tax allowances and deductions or devising new deductions for boosting certain priority activities or services. The provisions of depreciation allowance with the basic conditions of claiming depreciation can continue, but the provisions of allowance depreciation for complete passive use and partial use during the previous year needs to be meticulously scanned by policy makers .There is no questioning the maxim that a

taxation system should provide the incentives for corporate growth through the allowances, but the practice of trading off tax revenues or allowing the corporate sector to reduce effective tax rates through use of loopholes of law should be restricted.

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