P R E F A C E

Any tax policy should be based on certain clear major objectives and should also be accompanied by other consequential objectives which are not of lesser importance from the national point of view. The major objectives behind any tax policy are three-fold : (i) to collect increasing amount of revenue; (ii) to promote equity in distribution of income and wealth and (iii) to achieve higher economic growth by maintaining higher rate of savings and investment in the desired channels. The other accompanying objectives may be mentioned as generation of employment, regional development, curbing of inflation, utilisation of factors - capacity etc. The subsidiary objectives may be ever changing and be remodelled to meet specific purposes at a particular point of time. As for example, tax-free allowances may be given for absorbing more and more number of unemployed persons, but that may not fulfil the objectives of higher investment in fixed assets. On the contrary, capital -- intensive tax free-allowances may help in increasing productivity of capital and labour but may not serve to achieve the desired level of employment. In the same way, rebates and reliefs in taxation may be allowed to develop a particular region but that may lead to the diminution in the amount of revenue to the exchequer.

In the face of so many interrelated objectives it is very difficult to come into a conclusive decision as to the effectiveness of corporate taxation to achieve such objectives. As there are many socio-economic constraints and governments' regulatory influences, which may sometimes be guided by contradictory objectives, the Government will try to make balance of all the objectives and formulate its fiscal policies, specially the corporate taxation policies in such a way as to render the optimum amount of socio-economic benefits to its subjects. A number of Committees had been appointed by the Government to study the structure and rationale of different types of tax measures since it was recognised as one of the regulatory fiscal policies but none of the Committees are able to prescribe the "ideal" profilectic which can fulfil all the objectives taken together. Therefore we can precisely say that corporate taxation may act as 'catalytic agent' to pursue for fulfilment of any of the objectives.

Our present exercise is mainly concerned with studying the extent of impact of corporate taxation as a policy instrument in achieving the above objectives and to regulate the corporate behaviour as such. In particular we shall try to show the impact of corporate-taxation on corporate sectors in stimulating investment, savings, expansion and growth, scope of employment, methods of financing, availability of resources, cost of capital, position of liquidity and profitability, etc. in general and with reference to selected firms in particular. In accomplishing the work, the history and evolution of corporate taxation in India has been used as a background. The present structure regarding classification of companies and different rates of taxation on the basis of companies' operational behaviour and management pattern, has been analysed. Over and above showing the impact of changes in corporate tax structure on corporate behaviour in general, we have also tried to analyse the impact on a selected firms' behaviour in chemical industry specially in the perspective of their 'profitability', 'liquidity' and 'solvency' position, in the form of case studies. 'Ratio analysis' of published financial data relating to such firms has been resorted to as the primary tool of analysing such behaviour. Our observations, comments and tentative suggestions as to the corporate tax structure and its impact on corporate behaviour, both on macro and micro level, have been shown in details in different chapters.

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