

## CHAPTER VII

### DEDUCTIONS AND CONCESSIONS

The total tax burden on a company is arrived at by finding out the rate of tax and the taxable income. The first component (i.e. the rate of income tax and super tax) has been dealt with in the preceding chapter. This component will also be discussed in separate chapters on "Taxation of the controlled companies" and "Some Special corporate Taxes in India". In this chapter, all those factors -- deductions and concessions in the form of tax reliefs and holidays -- which influence the computation of taxable income will be discussed.

In order to assess the real burden of income tax and super tax (and also of other corporate taxes), it is necessary to take into account the deductions and concessions permissible under the Indian Income tax Act. Deductions and concessions certainly reduce the burden of tax by either reducing the profits assessable for tax purposes or by exempting companies from paying tax on their profits. The deductions are generally governed by certain principles. In India, the principles governing the deductions are as follows:-

- (1) The allowances and deductions are enumerative and not exhaustive.
- (2) There is no allowance for exhaustion of wasting assets such as mines etc.
- (3) Expenditure must be incurred wholly and solely for the purpose of business whose profits are taxed. Expenses

in relation to profits which are not assessable fall outside the scope of this provision.

- (4) Expenses cannot be claimed, in respect of business which is yet not set up, nor in respect of business that is "dead", since in either case, there is no carrying on of business.
- (5) Expenses, to be admissible, if other conditions are fulfilled, need point out no resulting profit on the credit side. Expenditure, which does not effectuate into income, may yet be an expenditure wholly and exclusively for the purpose of business.
- (6) Expenses which are admissible must be revenue expenditure and not capital expenditure.

These principles, though applicable to all businesses in general, are significant in the calculation of the deductions and exemptions available to companies. There may be a few other principles which will have to be referred to whenever necessary. But, the above are the most important.

It should be remembered that deductible expenditure is an important factor in the computation of net taxable income. In the Indian law, each head of income is listed separately along with the deductions allowable in respect of it. The law relating to deductions in respect of business incomes of companies is contained in section 10(2)

of the Income tax Act. Clauses (I) to (XIV) enumerate specific types of admissible expenditure. The scheme of each clause is that it is self sufficient as regards the nature of deductions, the purpose or purposes for which they are allowed, and the extent of and the conditions under which the expenditure is admissible. Clause (XV) is of the nature of a residuary clause and is applicable to all types of expenses other than those covered by Clauses (I) to (XIV). The expenses referred to in the Clauses (I) to (XV) are allowed in the year in which they are actually incurred.

Deductible items comprise mostly items of current expenditure such as cost of income, promotional costs, expenditure on scientific research etc. In regard to the expenditure on research, it may be pointed out that Clause (XIV) of section 10 enables a company to write off the entire cost of the capital expenditure incurred by him on scientific research related to the business of the company in one or more years. If the business runs for five years, the cost is written off over these five years. If, however, the assets used in scientific research ceased to be used for such purposes at any time before the end of five years from the commencement of the business, although the business continues and the assets remain the property of the company, the entire depreciation of the asset is allowed over the period the assets have been in use. If at a later

period, the assets are sold at a price lower than the price on the basis of which the depreciation was allowed, a further sum equal to the difference between the value of the asset and the sale price is allowed in the year of sale. Thus, ultimately, a company is able to recover its entire cost of the capital expenditure on research.

Ofcourse, it should be pointed out that most of the items of current expenditure differ in amount and nature, from company to company. So, it can only be said that companies are given reasonable chance to justify the deductible items from their total taxable income.

While commenting on the system of allowing deductions, Mr.Kaldor in "Indian Tax Reform" has compared the British and Indian systems in this regard and has ably pointed out that in the British Income Tax Act, the items which are not deductible for tax purposes are enumerated. Whereas, the Indian Income Tax Act gives a list of items which are allowed with a general sweeping up clause which asserts positively that any expenditure laid out or expended wholly or exclusively for the purposes of such business etc, qualifies as a permissible deduction. Mr.Kaldor points out that, "It shows that the definition was originally intended to strengthen the hands of Revenue in disallowing deductions. By the time the law was applied in India, it has come to serve the opposite

purpose of ensuring that no type of expenditure which comes (1) within the scope of this definition should fail to qualify! So, the system of deductions in India is worth reconsidering, though ofcourse, the Taxation Enquiry Commission of 1953-54 (Vol.II, para 18, page 58) suggests that the status quo should be maintained.

Over and above the deductible items mentioned above, depreciation allowances also are a sort of deduction allowed from gross profits for the calculation of taxable profits. This and other tax concessions will be discussed in detail in the pages to follow.

DEPRECIATION ALLOWANCES:- Historically speaking, there was no specific provision for deduction on account of the depreciation in the Income Tax Act of 1886. However, depreciation was permissible under the executive orders issued by the Government of India. Depreciation was allowed in the following manner:-

- (1) A deduction of 5 percent of the cost in respect of depreciation in the case of machinery. No separate charges for repairs and renewals of machinery were allowed.
- (2) A deduction of 2½ percent in respect of depreciation of buildings which housed heavy machinery, instead of the actual cost of repairs and maintenance.

---

(1) "Indian Tax Reform", 1956, by Nicholas Kaldor, footnote on page 63.

The allowance was permissible in respect of the actual premises of the company and not bungalows, chawls and other subsidiary premises. In the case of the latter class of buildings, the actual amount of expenditure on repairs, upto a maximum of 10 percent of the annual rental valuation was to be allowed.

The orders for depreciation allowance issued by the Government were neither uniform nor comprehensive. For the first time, the Income tax Act of 1928 took stock of the precarious situation and introduced a provision for depreciation allowances on the basis of the straight line method. Under this provision, the rate of depreciation for any year was not to be allowed to exceed a percentage of the original cost of the asset concerned. Again, the rate of depreciation was to be fixed for different assets having regard to the estimated life thereof. The cost of current repairs was separately allowed.

Under the Income tax Act of 1922, the rates of depreciation were laid down statutorily. They were revised in 1939 when the written down value method was substituted for the straight line method of charging depreciation.

During the period of the Second World War, the provisions regarding depreciation allowances had to be

amplified from time to time, taking into account the special problems facing the corporate sector of the economy. For instance, from 1940-41, special depreciation was allowed for plant and machinery which were used for double and triple shifts.

After the end of the second World War, depreciation allowances were further liberalised. An initial allowance of 20 percent in respect of new plant and machinery installed after 31st March, 1945, and an additional allowance equal to the normal allowance available for a period of 5 years in respect of new plant and machinery installed after 31st March, 1948, were introduced in order to encourage investment in fixed assets in the post-war period. However, the aggregate of all these different types of depreciation allowances was not to exceed 100 percent of the original cost of the asset.

Regarding the method of computing the depreciation allowances, it should be pointed out that, in India, these allowances are computed on the basis of the "written down" value of an asset or a group of assets. This is analogous to the "declining balance" method now in practice in the United States. The percentage rate of depreciation allowed for the asset is taken against the original cost less depreciation allowed in previous years. This method of computation

accelerates total depreciation allowable into early years, as compared to the "straight line" method which allows the same amount of depreciation each year, usually calculated as a percentage of the original cost.

Initial depreciation allowance which was replaced by development rebate in 1955 was given on the following assets:

- (a) In the case of building the erection of which had begun and been completed between the period 1.4.1946 and 31.3.1956 at 15 percent of the cost.
- (b) In the case of other buildings i.e. the construction of which had begun and been completed between 1.4.1945 to 31.3.1946 at 10 percent of the cost.
- (c) In the case of machinery or plant at 20 percent of the cost thereof.

The initial depreciation allowance as admissible on the above assets was not to be deducted while calculating the "written down value" of the assets. However, it was to be taken into account for measuring the total depreciation allowances that were admissible to a company during the whole life of the assets. The total amount of initial depreciation allowance and other depreciation allowances that would be allowed over the whole life period of the asset were not to exceed the original cost.

Normal depreciation was and is allowed at percentage rates based on the useful life of an asset. It has been claimed that the rates of depreciation so established are in fact higher than those revealed by actual experience, and also higher than those used by many companies in their account books. Ofcourse, the rates vary from asset to asset. In some cases, the companies are allowed to avail themselves of the "group rate" for the entire company.

An extra shift allowance comes to one half of normal depreciation for plant and machinery worked for two eight-hour shifts per day and is pro-rated for the total days during the year for which this condition obtains.

Also, an additional depreciation allowance was available upto 1959-60 in respect of all kinds of assets except furniture. In respect of new buildings or machinery or plant which had been erected or installed after 31.3.1948, additional depreciation allowance was admissible for five consecutive years of assessments, commencing from the year in which the building was erected or the plant or machinery was installed. The amount of the additional depreciation allowance in every accounting year was equal to the normal depreciation allowance. However, no extra allowance under this category of allowance was available in respect of double or multiple working of the

machinery or plant as was admissible while calculating the amount of normal depreciation allowance. Ofcourse, the additional depreciation was deductible in determining the written down value as the normal depreciation allowance.

The above mentioned depreciation allowances are cumulative. But, as it is already pointed out, they are not to exceed the original cost of the asset. There is no time limit for which the unused depreciation allowances can be carried forward. Therefore, there can be no loss of benefit if the operating profits of a company are not adequate in the early years to absorb the accelerated depreciation permissible.

Since the aggregate depreciation allowances are not to exceed the original cost of the asset, when the asset is sold or discarded or demolished or destroyed, a sum equal to the difference between the written down value and its sale or scrap value is further allowed as a deduction from the computation of income. This is known as a balancing allowance. If, however, the sale proceeds exceed the "written down value", such excess as equals the difference between the original cost and the written down value is charged as profits and gains and the balance by which the sale proceeds exceed the original cost is treated as income under the head "capital gains". It must be clearly pointed out that the deduction for depreciation from assessable income of any year is not dependent on the increase or decrease in the earning capacity of the asset used in the business.

Some important changes were made in the provisions of the Act relating to the depreciation allowances by the Finance Act of 1955. The most important of them was the substitution of the "development rebate" in place of the initial depreciation allowance for certain kinds of new fixed assets. Under Clause (VI b) which was inserted by section 8 of the Finance Act of 1955, a sum by way of "development rebate" in respect of plant or machinery, being new and installed after 31.3.1954, became allowable as a deduction from the computation of the income under the head "business".

○ To sum up, the current position in regard to depreciation allowances is that normal depreciation allowance and shift allowance are admissible in respect of all kinds of assets, namely, buildings, machinery, plant and furniture. Additional depreciation allowance is now not available. So also, the initial depreciation allowance is not now admissible. So, there is at present no acceleration of the depreciation allowances available to companies.

THE DEVELOPMENT REBATE:- The Taxation Enquiry Commission (Vol. II, 1953-54, page 99) recommended an allowance of

○ development rebate for selected industries of national importance, as an incentive to development of productive enterprise in India. The Commission suggested an outright  
○ allowance of 25 percent of the cost of plant and machinery

newly added in the nationally important industries. This allowance was recommended with a view to affording a direct stimulus to expansion and quicker replacement so as to increase the efficiency and competitive power of the industries. Since the allowance is directly linked to the act of fixed investment, it provides a surer way of encouraging such investment by all companies, new and old. Further, in course of time, to the extent that expansion would be stimulated by this allowance, there would be a larger flow of taxable profits and greater receipts. In the words of the National Council of Applied Economic Research, "development rebate acts as a powerful stimulus to new industrial capital formation. It also constitutes in part a provision against the effects of inflation on replacement costs and the depreciation reserves accumulated to finance them."<sup>(2)</sup>

The important advantage of the development rebate is that it is neither to be taken into account in determining the written down value of the asset in later years, nor in determining the sum total of all depreciation allowances that will be admissible in the computation of income under the heading "business" over the period the asset has been used in the

---

(2) Taxation and Foreign Investment, 1958, by N.C.A.E.R., page 36.

business. The result is that a company was and is able to write off the entire cost of the asset over a number of years by claiming depreciation allowance, and over and above that the company is able to claim a further relief in the computation of business income which was equal to 25 percent of the cost of the asset upto 1960 and is 20 percent since 1961. This means that upto 1960 actually a company was allowed to write off 125 percent and now 120 percent of the cost of a new plant or machinery brought into use in the business over the entire period of the life of the asset used in the business.

There are two important aspects of the development rebate. Firstly, the rebate is admissible only for those items wholly used for the purposes of business. Secondly, the rebate is available for the year in which the plant or machinery was installed. This second aspect gave rise to a difficulty connected with the problem of unused amount of the development rebate in a year. The Finance Act of 1955 did not make a specific and clear provision for the carry forward of the unused amount of the rebate. If a company could not manage to set-off the rebate fully against net operating income in the year for which it accrued i.e. the year in which the relevant plant or machinery was installed, the unused rebate was lost. Also, since there was no

limitation on the income against which development rebate could be set-off, the provision favoured the existing companies more than newly established companies. An established company with regular income was less likely to lose the advantage of development rebate; whereas a newly started company may not be able in some cases to use development rebate fully. Therefore, from all quarters, a request had been persistently made to make a clear and specific provision regarding the carry forward facilities of development rebate.

The Finance Act of 1958 made a clear provision for carry forward of the unused portion of the rebate. This facility of carry forward has been limited for a period of eight years as has been the case also for carrying forward operating losses. Though the Taxation Enquiry Commission had suggested this rebate not for all industries, at present the rebate with its facility of carry forward is available for all the industries.

Also, under the Finance Act of 1958, a restriction was introduced to impose certain conditions to ensure that funds made available to companies through this rebate are reinvested for the expansion of the industry and not frittered away otherwise. These conditions are:

- (1) An amount equal to three quarters of the development rebate must be debited to the profit and loss account of the

relevant year and credited to a reserve account.

(2) This amount must be utilised by the company within ten years only for the acquisition of assets for the purposes of the company or for investment in the company.

(3) The asset on which the development rebate is allowable must not be sold or otherwise transferred by the company prior to ten years from the end of the year in which the new asset was first put to use.

If a company fails to abide by any of these conditions, development rebate is not allowed. A specific provision exists for the retrospective disallowance of the rebate. On the whole, the rebate will certainly help promotion and expansion of the companies in the years to come.

After having discussed the systems of depreciation allowances and the development rebate, it would be quite interesting to compare the broad features of these two systems. This comparison would throw light on the merits and demerits of both these systems.

(1) The development rebate is available only in respect of plant and machinery; whereas, the depreciation allowance is available for buildings, furniture, fittings, machinery and plant.

(2) Development rebate is permissible only if the plant and machinery are new. Depreciation allowances are given for all types of assets whether new or not.

(3) The plant and machinery on which development rebate is allowed must be "installed". An item of plant and machinery such as motor cars, cycles etc. when purchased cannot be said to have "installed". Though they may fall under the broad category of "plant and machinery" for depreciation purpose, no development rebate would be available for these items.

(4) Development rebate is permissible only in respect of such plant and machinery as is "wholly" used for the purposes of the business. By contrast, depreciation allowance is available not only for assets which are wholly used for business but also for those assets also which are partly used for business and partly for the personal use of the proprietor. For instance, the use of a refrigerator.

(5) Development rebate is available only if the plant and machinery are used for the company's own business. If they are used for some other company's business, the development rebate is not allowed. Whereas, the depreciation allowance is permissible on plant and machinery which are the property of the assessee, although these may be let out by the assessee and be in use for another company's business.

(6) The development rebate is available only for the year of actual installation and not in the subsequent year. Whereas, the depreciation allowance is admissible over the entire period

○ of the life of an asset.

(7) Under the Finance Act of 1958, it has been laid down that the unabsorbed amount of development rebate can be carried forward from year to year, but not for more than eight years, which is also the number of years for which business loss can be carried forward. Also, it has been provided that development rebate for current year is to be given only after allowance of development rebate brought forward from earlier year is <sup>exhausted</sup> ~~exhausted~~ and further that if there is an unexhausted amount of development rebate carried forward for more than one past year, the first year's amount of unexhausted development rebate will be adjusted first, and so on for subsequent years.

Whereas, the provision for carry forward of depreciation allowance states that the unabsorbed allowance will be added to next year's allowance with a proviso that as between a business loss to be carried forward and also unabsorbed depreciation to be carried forward, business losses shall first be carried forward and the unabsorbed depreciation only later. Again, in respect of unabsorbed depreciation, there is no limitation of time upto which the same can be carried forward -- it may be more than 10 or 12 years. On the other hand, the unabsorbed amount of development rebate

can be carried forward only for not more than eight years, and if during those eight years the amount of unabsorbed development rebate is not utilised for adjustment against total income, the unabsorbed amount would lapse.

(8) It may be noted that it is not the actual date but the actual year of installation which is material for the purpose of the development rebate. On the other hand, depreciation allowance is given on the basis of monthly use so that if the newly installed machinery has worked only for three months in a year, only 1/4th of the amount of depreciation would be allowed thereon.

(9) Under the Finance Act of 1958, it has been laid down that unless 75 percent of the development rebate to be actually allowed have been debited to the Profit and Loss Accounts of the relevant previous year and credited to a reserve account, no development rebate would be allowed. The obvious effect of debiting 75 percent of the development rebate to the Profit and Loss Account is to reduce the disposable profits in the year.

While such reductions in the disposable profits will not be of any consequence in companies having a small percentage of fixed assets in relation to the volume of business, and may not even be felt very much in companies in which capital additions are more or less evened out; the effect of debit of 75 percent of the development rebate will certainly

be felt very acutely in those companies which have launched upon heavy expansion programmes as a result of which the amount of development rebate to be debited would be very considerable.

This provision can also be criticised on the ground that the new plant may not, and usually does not, start earning profits in the very year of installation, and that therefore it is illogical to strain the year's profits with an amount, on account of the development rebate on the new machinery which has made no contribution to the earning of those profits.

In this respect, the depreciation allowance system has no such harsh treatment.

(10) Another harsh condition regarding development rebate is that the amount of rebate debited as mentioned above should be utilised during the next ten years for the purpose of the business of the company except (a) for distribution by way of dividends or profits and (b) for remittance outside India as profits or for creation of any asset outside India. If the amount of the rebate reserve is not utilised for the business of the company, but is utilised for any extraneous purpose or for somebody else's business, this amount would be forfeited.

No such restriction stands for the depreciation reserve.

(11) Another limitation in regard to the development rebate is that if the plant and machinery are sold or transferred to any

person or a company before ten years from the end of the year of installation, the rebate previously allowed will be withdrawn. This restriction is very stringent. The ten year period is too long in regard to the modern rapid technological advances.

The above-mentioned features of development rebate and depreciation allowance systems reveal that there are some restrictions on the development rebate; whereas, the depreciation allowances are quite liberal and free from harsh conditions.

TAX HOLIDAYS:- Two types of tax holidays are available to the companies. One is section 15 C and the other is section 56 A. Some more exemptions are made available to the companies in recent years. These will be referred to, after having discussed section 15 C and section 56 A provisions.

Under section 15 C of the Indian Income tax Act of 1949, a provision exists that company profits or gains from any industrial undertaking, upto 6 percent of "total capital employed" in the undertaking, should be exempted from income tax and super tax in the first five years of operation. Within the limitation of this period, the exemption from these taxes is also extended to the shareholders if their dividends have been paid by the company from the funds exempted by section 15 C. But, if a company wants to avail of the benefit of this section, it has to satisfy the following conditions:-

(1) The company must not be formed by the splitting up, or the reconstruction of business already in existence or by the transfer to a new business of building, machinery or plant previously in use.

(2) The company must begin to manufacture or produce articles in India by April 1, 1961.

(3) The company must employ ten or more workers in a process using power, or twenty or more workers in a process not using power.

The application of this section is subject to the approval of the Central Government or the Central Board of Revenue. Also, the section does not exempt any company from the application of penalty super-tax on dividends over 6 percent of paid-up capital and on the face value of bonus shares. Under this section, "total capital employed" means depreciable assets at their written down value, plus certain non-depreciable assets, such as land and working capital, minus debts owned and taxes due. This much about section 15 C.

Section 56 A was inserted under the Finance Act of 1953. Under this section, an exemption is granted from super-tax those dividends which are received by a domestic or foreign company from an Indian company, if the Indian company was formed and registered after March 31, 1952, and is wholly or mainly engaged in one of the twenty industries listed as

"nationally important" industries which are:- (1) coal, (2) Iron and steel, (3) Motor and aviation fuel, kerosene, crude oils and synthetic oils, (4) Heavy Chemicals and fertilisers (5) Heavy machinery used in industry, (6) Machinery and equipment for the generation of electric energy, (7) Non-ferrous metals, (8) Paper, (9) Internal combustion engines, (10) Power-driven pumps, (11) Automobiles, (12) Tractors, (13) Cement, (14) Electric motors, (15) Locomotives, (16) Rolling stock, (17) Machine tools, (18) Agricultural implements, (19) Ferro-manganese and (20) Dye-stuffs.

It should be remembered that the exemption under section 56 A is subject to the same conditions of size and use of power as those under section 15 C. The exemption is available without any time limit and extends to any transfer of inter-corporate dividends, whether the Indian company is a subsidiary of the receiving company or not. The exemption from super tax on inter-corporate dividends also applies to dividends paid in respect of any fresh capital raised after February 28, 1953, by public subscription to initiate or expand production in any of the above-mentioned twenty industries.

This tax exemption apparently does not exempt income tax in any way since it applies only to super tax on inter-corporate dividends. But, under normal circumstances, in fact no income tax will be payable by the company

receiving such dividends. So, in most of the cases, complete tax exemption will be possible. However, the tax exemption of this nature should be thought of in relation to the following four situations:-

- (1) When inter-corporate dividends are paid from funds which are free from income tax and super-tax under section 15 C, the same exemption will continue for shareholders too and no income tax will be payable by them.
- (2) When inter-corporate dividends are paid from funds which are not given tax exemption under section 15 C (because the funds represent profit exceeding 6 percent of total capital employed) and which are thus liable to income tax, the dividends will carry an income tax credit to meet the income tax liability of the receiving company and thus section 56 A obviates the need to pay super-tax.
- (3) If dividends are paid from funds made available to the paying company from the one-quarter of development rebate which is not required to be placed in reserves, they will be subject to income tax on the receiving company.
- (4) A situation similar to no:3 mentioned above may arise, if dividends are paid from funds made available to the paying company by depreciation allowances, on which the company paying the dividend has not got to pay income tax or super-tax. If this happens, the receiving company would be subject to

income tax at a rate of 25 percent on the net dividend received, eventhough section 56 A exempted the same dividend from super-tax on the receiving company. If section 56 A did not apply, income tax and super-tax would both apply on the receiving company.

Thus, these two tax exemptions are meant especially for the new industrial investment and the impact of these exemptions is certainly significant for the first five years of a newly started company.

Ofcourse, it is quite possible that due to certain circumstances, companies may not be able to fully utilise all these exemptions, if they do not have sufficient operating profits against which to set them off. This is mostly not likely for development rebate and also for depreciation allowances and for operating losses themselves, because of the carry forward facilities available for them.

But, this criticism may apply to the tax exemption available under section 15 C which does not provide for carry forward facilities. That is why it has been often alleged that section 15 C ~~has~~ may remain unused or less used. In this sense, it has proved to be a superfluous incentive whose benefits can neither be used in the first five years nor carried forward to future years.

Some other tax exemptions made available to the companies are as follows:-

- (1) In respect of capital gains, exemption is given on capital profit arising on transfer of assets by a 100 percent holding company to a subsidiary Indian company. The reverse is not true i.e. if the transfer of assets is made by such subsidiary company to a 100 percent holding company, this exemption is not applicable.
- (2) Section 23-A does not apply to a company 100 percent of whose shares are held by a non-section 23-A. Under this section recently the percentage of shares to be held by ~~company~~ public, in the case of industrial companies, has been reduced from 50% to 40%, thus permitting the majority holding of a company and at the same time not applying section 23-A.
- (3) Another tax exemption conferred recently by the Finance Act of 1961 is for a company 75 percent of whose share capital is held by a charitable institution or a fund whose profits are exempt under section 4(3), is exempt from section 23-A.
- (4) Under the provisions of the Finance Act, 1961, rebate of super tax is given on inter-corporate dividends.
- (5) From the assessment year 1961-62, on the royalty payable by an Indian company, in pursuance of an agreement made after April 1, 1961, the tax rate is reduced from 63 percent to 50 percent.

The other reliefs are:abolition of the wealth tax and excess dividend tax, With effect from 1960-61, the list of basic industries to be benefited under section 56 A, is considerably increased. Further, the profits deposit scheme introduced by the Finance (No:3) Act of 1956, was abolished in the financial year 1958-59. Under this provision, if a company failed to deposit with the Government a prescribed percentage of its accumulated reserves and of its undistributed current profits, it would lose the benefit of development rebate and depreciation allowances. Now the companies are spared from this punishment.

Thus, there is no doubt that the tax incentives especially for newly started industrial companies are quite liberal for the first five years of their operations. No doubt, the impact of these incentives is bound to vary with the capital intensity and profitability of particular industrial undertakings.

In the conclusion, it may be pointed out that Indian tax system is based on deductions and tax concessions. First, deductions are given in such a manner as to reduce the taxable profits and thereby the tax liability of the companies. Second, outright tax holidays and exemptions are granted to build up the resources for the industries. These measures have assisted the expansion of productive enterprise in India.

Development rebate along with depreciation allowances has served the good purpose of increasing the tempo of industrial activity in the corporate sector of the economy. In order to enhance the utility of the development rebate, it would be necessary to tone down the restrictions already referred to. Moreover, if India's depreciation system, which is liberal, no doubt, could be made flexible so as to generate contra-cyclical effects, it would certainly go a long way in regulating the corporate sector during the periods of boom and depressions. This aspect of depreciation system will be discussed separately in chapter XII.