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C_O_N_T_E_N_T_S

CHAPTER I

Pages

THE CONCEPT OF CORPORATION 1 - 14

Three schools of thought on the concept of corporation. The first school has two approaches as: (1) John Marshall's approach in terms of features of corporation. This approach explains corporation as a legal entity. (2) Second approach in terms of functions of corporation. This approach explains corporation as an economic entity. Complementarity of these two approaches.

The Second school of thought has two theories as: (1) Contract theory of corporation - contractual arrangement between persons. Recognition of the contract by the state. So, corporation is a piece of contract paper. (2) Sovereignty theory of corporation explains corporation as a right-and-duty bearing unit. Relative merits and demerits of these two theories.

The third school of thought has a socio-economist's approach developed by P.F. Drucker. He explains corporation in terms of human effort or as a social institution for human welfare. Drawbacks of this approach. Concept of corporation as adopted in the Western countries and in India.

CHAPTER II

GROWTH AND ROLE OF CORPORATION IN INDIA

(PART I)

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Factors governing the growth and role of corporations-- economic and political factors. Types of Corporations on the basis of activity or place of incorporation or relation between corporations and the State or the principle of liability. Classification of companies in India.

Concept of corporate sector-- Reserve Bank's approach; New element introduced since 1957.

Growth of corporations: (A) Its evolution--Two broad phases of India's economic development and the evolution of ~~India~~ the corporate sector. Role of the Managing Agency

II

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System in the evolution of the corporate sector. Effects of the companies Act of 1956 on the corporate sector. (B) Its growth in terms of: (1) Number and (2) paid-up capital. Geographical, industrial and structural pattern of corporations in India.

CHAPTER III

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(1)-Capital formation in the corporate sector during 1946-1960. Meaning and importance of capital formation. Performance by the public and the private companies. (2) Internal financing of the corporate sector 1946-1960. Meaning and importance of internal financing. Factors governing internal financing. Relative role of the sources of internal finance and external finance. Future trends in financing of the corporate sector. (3) Companies' share in the Net Domestic Product of the country-shares of the corporate sector and of other sectors compared. Role of corporate sector in terms of employment and tax yield.

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JUSTIFICATION OF CORPORATE TAXATION 61 - 81

(1) Double taxation argument - Five forms of double taxation. Scientific concept of double taxation. Tax treatments of individuals and corporations. Double taxation and the principle of equity. Practical justification of double Taxation. (2) Forward or backward shifting argument. Traditional theory of tax shifting--its assumptions, shifting under competitive and monopoly situations. Its conclusion that a corporate tax cannot be shifted forward being supported by different surveys. New theory of shifting--states that corporate tax can be shifted forward. Theory of administered price. Views of businessmen on shifting of corporate tax. Justification of taxing the shareholders. Summing up of the traditional theory, new theory and the businessmen's views. (3) Revenue loss argument. (4) "Contract theory" argument - corporation, a mere piece of paper. Arguments of contract theory and counter arguments of sovereignty theory. Compromise view by the taxation Enquiry Committee of 1924-25. (5) "Investment - effect" argument --

Effects of corporate tax on investment and expansion of corporations. Conclusion.

CHAPTER V

TAXATION OF CORPORATE INCOME

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In the first part of the chapter, the discussion is on:

Concept of income - Economic concept, accounting concept and income-tax concept.

- (A) Economic concept of income - This can be explained by the following theories of income: (1) Consumption or expenditure theory of income by Irving Fisher. (2) Flow of goods and services theory of income by William W. Hewett. (3) Accretion of economic power theory of income by Robert M. Haig.
Relative merits and demerits of these theories of income.
- (B) Accounting concept of income - operating income concept and all inclusive concept. Views of Henry Simons and Nicholas Kaldor on the concept of income.
- (C) Income tax concept of income - It is a practical concept. Its adoption in the U.K. and India. Cost of income. Summing up the different concepts of income.

In the Second part of the chapter, the discussion centres round the tax treatment of corporations. "How should corporations be taxed" can be explained by the following approaches:- (1) Separate entity approach - It explains corporation as a separate legal and economic entity for the tax purpose. So need for separate taxes on corporation and shareholders. (2) Integration approach - It regards a corporation inseparable from its members. So, this approach advocates "grossing of dividend". "How to integrate personal and corporate taxes can be explained by:- (1) Partnership approach - Its suitability for small & large corporations. (2) Dividend-received-credit approach allows a tax credit to the shareholders. Three variations of this approach adopted by the U.K., Canada and the U.S.A. The relative merits and demerits of these variations. (3) Dividend-paid-credit approach Suitability or otherwise of the three approaches.

In the third part of the chapter, some important corporate tax problems relating to net income, inter-corporate taxation and unreasonable accumulation of surplus are discussed.

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Features of the pre-Independence corporate tax System - Basic tax system patterned after British tax system. "Grossing" of dividend system. Absence of exemption limit. No specific tax relief for new and small companies.

(2) Growth of profit taxation in the post-Independence period i.e. 1947-1962. This can be divided into two suitable periods viz. 1947-1959 when the old scheme of company taxation existed and 1959-1962 when the new scheme came into existence.

- (a) 1947-1959 - old scheme of company taxation - Rebate of income introduced in 1948. Distinction between Indian and foreign companies introduced in 1948. Companies Act of 1956, a land mark, in the history of company taxation. It introduced: Capital gains tax, excess dividend tax and tax on bonus shares. Companies Act of 1957 raised the tax rates and introduced wealth tax and proposed changes in section 23-A.
- (b) 1959-62 - New Scheme of company taxation - Wealth tax and excess dividends tax; Abolition of the system of "grossing" of the dividends. System of deduction of the tax at source. Effects of the new scheme on the tax yield, on companies and on the shareholders.

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