3. A REVIEW OF THE DATA

1. Data Requirements

FOR a meaningful evaluation of the tax incentive under study, highly disaggregated data are required. While the effectiveness of a tax incentive can be judged from the aggregate data, the process of estimation of its efficiency requires disaggregated data. It would be ideal to have all the necessary information on a donor company to estimate its income, deduction for charitable contributions, tax saving due to charitable contributions and that required to measure different concepts of income. This would include information on the following aspects[1] of a donor company:

(*i*) Type of the eompany, such as foreign, industrial and other than industrial, closely held and widely held;
(*ii*) Year of assessment;[2]
(*iii*) Gross income (GI);
(*iv*) Loss set-off[3] (LSO);
(*v*) Assessed income (AI);
(*vi*) Actual tax demand[4] (ATD);
(*vii*) Charitable contributions according to the type of recipient charitable organisation such as Prime Minister's Drought Relief Fund and organisations involved in promoting family planning; and
(*viii*) Rate schedule of corporation income tax applicable to the company.

If all this information on donor companies is available for more than one year, these companies can be clubbed for the purposes of estimation of effects of the incentive under study.

In case the number of donor companies is large, evaluation of the tax incentive could be based on a representative sample. Such a sample should include donor companies from all income classes and all types of companies. This requires two-stage stratified sampling of the donor companies: First-stage stratification with respect to the type of companies and second-stage stratification with respect of income classes of the donor companies.

In the absence of data on each of the donor companies included in the study, the next best alternative would be to use grouped data on the donor companies if available by types and income classes of companies.

The availability and quality of data have to be examined in the light of data requirements of the study.

2. Availability of Data

Not much information is gathered and published about donors and their contributions to charitable organisations. *All India Income Tax Statistics* (*AIITS*) and *Statewise Income Tax Statistics* (*SITS*) are the only sources of published data on charitable contributions by income tax payers. Both these annual publications are brought out by the Directorate of Inspection (Research, Statistics and Public Relations), Income Tax Department, Government of India. While the data on total number of donors and total amount of deduction and tax relief availed of by them for the contributions are contained in *AIITS*, a Statewise break-up of these data is available in *SITS*. The distribution of the donor companies and their charitable contributions either income class-wise or according to the types of companies (liable to different rate schedules of income tax) is not available in either of these two sources of data. While the abovementioned data (published in aggregate form) are of use to form an idea about the effectiveness of tax incentive provisions, it is clear that these data do not conform to our requirements for estimation of effects of the incentive provisions.

For the purposes of this study, we have depended on the unpublished data on the donor companies. As discussed in Chapter 2, the basic corporate tax rates applicable to different categories of companies had remained unchanged during 1974-75 to 1983-84, and variation in rates of taxation between and within the different categories of companies has been greater than that in the later period. Therefore, the data corresponding to the period 1974-75 to 1983-84 would be thought more appropriate for analysing the stimulative effects of the tax incentive than those corresponding to the period subsequent to 1983-84. A cross-section of companies corresponding to a year in the former period would have greater variation in tax saving per unit of contributions among different companies than that among the companies during the latter period. In fact, the data corresponding to the latter period may not provide sufficient variation in tax saving per unit of contributions of different companies to estimate the incentive effect on the contributions.

The latest year, falling in the period 1974-75 to 1983-84, for which the required unpublished data could be compiled is 1978-79. The data set used in this study is a cross-section[5] of those donor companies, the assessments of which were completed during the financial year 1978-79. The data on these companies are compiled from their assessment forms, 'Income Tax Non-Statutory 150A' (ITNS-150A) forms. Directorate of Inspection (Research, Statistics and Public Relations) gave us access to the required assessment forms. In the current study, we have attempted to include all those donor companies which have availed themselves of the tax incentive. Specifically, we have obtained data on the following aspects of the donor company:

(*i*) Type of company;
(*ii*) Year of assessment;
(*iii*) Gross income (GI);
(*iv*) Loss set-off (LSO);
(*v*) Assessed income (AI);
(*vi*) Actual tax demand (ATD);
(*vii*) Deduction for charitable contributions; and
(*viii*) State or Union Territory where the head office of the company is located.

In addition, we have obtained data on the number of donors, amount of deductions and tax relief availed of by them for charitable contributions, by two broad categories of donors, companies and non-companies, for a few years. This information by category of donors is not published, in fact it was not compiled by the Department for the years 1979-80 to 1983-84. The data obtained by us for a few years are not based on the complete coverage of the taxpayers. The limitations in respect of incomplete coverage of the tax payers in *AITS* are applicable to these data. The coverage of the taxpayers differs from year to year (Gupta and Aggarwal, 1982; Bagchi and Aggarwal 1983). These data obtained by us are blown up to correspond to the population of taxpayers in the corresponding years, so as to give a correct picture of the trend of deductions availed of under the tax incentive. For this purpose, the total number of taxpayers at the end of a year in the books of the Income Tax Department based on the information available in the *Report of the Comptroller and Auditor General of India* (CAG) is taken as the population of taxpayers in that year. These blown-up data have been furnished in Chapter 1 (Table 1.1).

Regarding the set of data on the cross-section of donor companies in the year 1978-79, we have been able to compile information on 564 donor companies from those companies for whom the assessments were completed in the year 1978-79. These 564 companies account for 26.7 per cent of the donor companies and 21.5 per cent of the deductions availed of by all the donor companies in that year.

3. Limitations of the Data

The assessment forms do not contain all the necessary information on donor companies. However, some of the required information can be derived from the information compiled by us from the assessment forms of the companies. Regarding the types of company, the information contained in the assessment form is incomplete. While it states whether the company is foreign or domestic, and widely held or closely held, it does not state whether a closely held company is industrial or other than industrial. This gap in information is important as the industrial and other than industrial closely held companies are subject to different rate schedules of income tax. It has been possible to derive this missing information from the average rate of tax[6] of the company. A closely held company would be an industrial company if its average rate of tax is less than 68.25[7] per cent, and if it is higher or equal, the company is taken to be other than industrial company.

About the amount of charitable contributions, the assessment form includes information on the total amount of deduction allowed for contributions rather than on total amount of contributions. No break-up of this deduction by type of recipient charitable organisation is available. In the absence of this information, it is not possible to compute the actual amount of contributions made by a company. However, contributions may be estimated reasonably on the assumption that deductions have been availed of at the rate of 50 per cent on all contributions as contributions to all but the organisations involved in promoting family planning are deductible at the rate of 50 per cent. A note of caution that may be sounded here is that, this estimate of charitable contributions may be biased upward, the bias being directly related to the share of contributions to organisations involved in promoting family planning (deduction for contributions to these organisations is allowed at a higher rate) in the total contributions of a company. As this share reduces to zero, the upward bias ceases.

The data compiled from the assessment forms of companies, with the refinements and assumptions discussed above, are used for the purposes of estimation of income effect and price effect of the incentive provisions.

This body of data allows freedom to investigate alternative measures of income and price that are relevant in explaining contributions of donor companies. Also, sufficient independent variation in income and price variables exists to permit an attempt at statistical identification of the income and price effects. This variation has been possible because the different types of companies are liable to be taxed at different rate schedules.[8] In this cross-section of companies, for the same level of income the price of a unit of charity would differ between different type of companies, leading to independent variation in income and price variables. Further, this cross-section of companies provides sufficient variation in the price variable to permit statistical estimation of the price effect of the incentive provisions.

Notes and References

1. The aspects (*ii*) to (*vi*) are explained in Annexure III.
2. Information on the year of assessment is necessary to obtain a time profile of the contributions.
3. Data on loss set-off will help refine the concept of income

wherever necessary.

4. It would be of help in defining post-tax income wherever necessary.
5. We have assumed that widely held companies, closely held companies and foreign companies are homogeneous in behaviour as far as charitable contributions arc concerned and included all of such donor companies in our analysis of the incentive provisions.
6. Average rate of tax of a company is simply the ratio of the actual tax demand to assessed income.
7. The maximum rate of tax on industrial and minimum rate of tax on other than industrial closely held companies including surcharge are 63 per cent and 68.25 per cent respectively.
8. In India, though companies are said to be taxed at flat rates of income tax, during the reference period different rates of tax were applicable to different types of companies, and for both the widely held companies and closely held industrial companies two flat rates of tax were applicable, depending on their level of income. Two flat rates of tax applicable to a category of companies were in effect equivalent to a rate schedule for that category of companies. For example, a widely held company paid income tax at the rate of 45 per cent if its income did not exceed Rs. 1,00,000 and at the rate of 55 per cent if its income exceeded Rs. 1,00,000, such that additional tax did not exceed 80 per cent on the income in excess of Rs. 1,00,000. This was equivalent to the following rate schedule of income tax:

Income	*Rate of income tax (per cent)*	
	Exclusive of Surcharge	*Inclusive of Surcharge*
1. Upto Rs. 1,00,000	45.00	47.25
2. Next Rs. 40,000	80.00	84.00
3. Exeeeding Rs. 1,40,000	55.00	57.75

Surcharge was levied at the rate of 5 per cent on the income tax.