TRENDS, BUOYANCY AND ELASTICITY OF THE

CORPORATE PROFITS TAX

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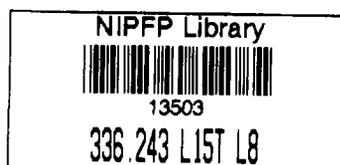
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I   INTRODUCTION

       The legal base of the corporate profits tax in India has remained unchanged for almost two decades. In the 1959-60 Budget a major change was introduced: the income tax on companies and the super tax were merged and the system of grossing up of shareholders' income abolished[1] Since then corporate profits tax changes have touched the statutory tax rate only twice; the other changes were mainly around fiscal concessions and incentives for fresh investments in the corporate sector, levies on capital gains, excess profits, and inter corporate investments. Total corporate profits have remained as the conceptual base of the tax. Yet the tax base has eroded over time, due to the increasing number of complicated fiscal concessions. The gap between the statutory and effective tax liabilities has become pronounced. No systematic

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* Sujata Dutta collected most of the primary data.

[1] Till this change was introduced, a shareholder was given credit for the tax deemed to have been paid by the company on dividends received by him. The grossing up system was highly complicated, and also introduced an element of uncertainty. The rate of grossing depended on the effective rate at which the company's profits were initially taxed, and this effective rate, in turn, was dependent upon the composition of the company's income. Further, when the dividends are paid from reserves, the determination of the effective rate at which profits are taxed become even more complicated. Finally, the shareholder's assessment could be made only after the company's assessment was completed. Under the new system of taxation, the shareholder's tax liability would no longer be related to the tax borne by the company. The company would deduct tax at a prescribed rate and credit it to the government and this tax would be reimbursed to the shareholders.

study has however been made to ascertain the sensitivity of
the corporate profits tax system to changes in national income
since the new system of company taxation was introduced in
1959-60. The present study is an attempt in this direction.

1. **Objectives**

The main objectives of this study are:

i) to evaluate the trends in corporate profits tax
revenue as well as the changing composition of
assessed corporate income and tax yield obtained
therefrom;

ii) to measure the buoyancy and elasticity of the
corporate profits tax system;

iii) to identify some of the factors that explain the
changes in elasticity of the corporate profits tax;

The present exercise is of an exploratory nature, and
the results in some cases will need to be further substantiated.
Certain areas wherein further research especially at the
disaggregated level, need to be done, are identified.

In the light of the findings, some policy implications
are spelt out relating to the elasticity of the corporate profits
tax system, tax base erosion and fiscal concessions.

2. **Period**

The period covered in this study extends from 1960-61
to 1974-75 (1975-76 in some cases). This period begins after

the introduction of the revised company tax system in 1959-60;
the last year chosen depends on the availability of data.

3. Data

The empirical exercises in this study are based on
data obtained from the following sources:

    i) Directorate of Inspection, (Research, Statistics
       and Publication) Ministry of Finance - All India
       Income Tax Statistics. (Annual); hereinafter
       referred to as AIITS

    ii) Reserve Bank of India Bulletin - Studies on Company
       Finances.

    iii) Central Statistical Organisation, Government of
       India - National Accounts Statistics

    iv) Annual Budgets of the Central Government

    v) Annual Reports of the Comptroller and Auditor
       General of India, (Civil) Revenue Receipts. (Annual).

II   TRENDS IN CORPORATE PROFITS TAX REVENUE

The corporate profits tax occupies a significant
position in the Indian tax system, contributing 11.3 per cent
of the total tax revenue of the Government of India ,39.1 per
cent of that which is accounted for by direct taxes and 40.4
per cent of the total income tax revenue in 1975-76. Over the
years, its share in total tax revenue has slightly fallen from
12.3 per cent in 1960-61 to 11.3 per cent in 1975-76,
though in terms of its share in total direct tax revenue
it has increased markedly from 28.8 per cent in 1960-61
to 39.1 per cent in 1975-76. In absolute terms, the revenue
from corporate profits tax has increased more than seven-fold,

from Rs. 104.10 crores in 1960-61 to Rs.861.70 crores in 1975-76,

and then to Rs.1113.00 crores in 1976-77 (revised estimates).

It is expected to increase to Rs.1298.20 crores in 1977-78.
The share of corporate profits tax in direct tax as well
used (Budget estimates).   (Table II.1 and III.1).

The average annual growth of corporate profits tax

revenue, as presented in Central Government Budgets has been

11.1 per cent during the period 1960-61 to 1975-76; the overall

growth rate however conceals sharp year to year variations as

well as inter period variations within the overall time period.

Thus for instance, during the period 1960-61 to 1964-65 the average

annual growth of corporate profits tax revenue was 30.2 per cent.

The growth rate declined sharply to 2.1 per cent during 1965-66

to 1969-70 and then improved to 16.3 per cent during 1970-71

to 1974-75.   (Table III.1)

1.   Composition of Assessed Corporate Income

Over the period covered in this study, there have been

some noticeable changes in the composition of assessed corporate

income and tax yield, reflecting the structural changes in the

organised corporate sector. The data on assessed income and tax

are taken from AIITS. There is, of course, some difference

between the absolute amount of corporate tax yield presented

for this analysis, compiled from AIITS and the corporate profits

tax revenue data presented in the annual budgets of the Central

Government. The difference arises because the Budget data

relate mainly to advance payment of tax and collection of

arrears for earlier years; in effect, a large part of this consists of non assessed collections relating to the income in the same financial year. On the other hand, **AIITS** presents data on assessments completed during the year relating to the previous financial year and pending assessments of earlier years.

The most significant increase in assessed corporate income has been through corporate trading, manufacturing and service operations (i.e. "business and professions"). The share of this source rose from 83.7 per cent of the total assessed corporate income in 1960-61 to 88.6 per cent in 1971-72 and further to 90.0 per cent in 1975-76.

Assessed corporate income from investments has declined in importance over the period. Interest from securities and dividends on inter corporate investments jointly contributed 11.7 per cent of assessed corporate income in 1960-61, but only 5.4 per cent in 1975-76. The share of assessed income from property has declined nominally (from 1.0 per cent to 0.7 per cent) while that from profits on sale of capital assets i.e., capital gains, increased (from 0.4 per cent to 1.2 per cent).

The changing composition of assessed corporate income naturally changed the composition of corporate tax yield.
and
Tax on business/professional income contributed 89.8 per cent of the total corporate profits tax yield in 1975-76 as against

83.7 per cent in 1960-61, while corporate income from dividends and interest on Government securities together contribute 5.8 per cent of total tax yield now as against 11.9 per cent in 1960-61. (Table II.2)

2. Generation of Corporate Income:

Together with the structural changes in the composition of assessed corporate income there have been some marked changes in the industry-wise break-up of corporate assessees and their income and tax yields. This analysis covers only corporate————income from business and professions (a source accounting for almost 90 per cent of assessed corporate income) and is therefore, limited to the extent that other corporate income are not included.

The changes in corporate income originating from different industry groups reveal the structural transformation that has taken place in the organised corporate sector. Corporate assessees from engineering and chemical industries (20.2 per cent of total corporate assessees) together account for 38.6 per cent of the assessed corporate income and 38.9 per cent of the tax yield in 1975-76, as against 21.3 per cent and 22.0 per cent respectively in 1960-61. Some other modern and developing industries like cement, rubber and paper (10.9 per cent of assessees) contribute 11.2 per cent and 11.5 per cent of assessed corporate income and tax now as against 8.2 per cent in both cases in 1960-61. On the other hand, the share of traditional service group like commerce, transport and communications and

traditional a nd primary industries like textiles, leather,
foodstuff and beverages, forestry, mining and quarrying has
gone down in terms of *number of* corporate assessees, income and tax.
These groups of assessees together accounted for 52.5 per cent
of assessees, 49.2 per cent of assessed corporate income and
46.9 per cent of tax yield in 1960-61, but 56.2 per cent,
34.9 per cent and 35.8 per cent respectively in 1975-76. Among
these groups, the proportion of corporate assessees from commerce,
transport and communications has improved (from 34.8 per cent
to 37.1 per cent) but their proportionate contribution to
assessed corporate income and tax has declined quite sharply
(from 21.8 per cent to 13.2 per cent for income and from
22.8 per cent to 14.2 per cent for tax yield). (Table II.3)

These trends relating to both the private as well as
the public sector corporate assessees, correspond to the general
diversification that took place in the industrial sector biased
towards relatively modern and capital intensive industries.
Capital intensive modern industries are becoming more important
sources of corporate income and tax yield while traditional
industries and the services sector in the organised corporate
sector are declining in importance as a source of corporate
tax revenue, even though the number of assessees from these
sectors has increased over time. This finding has significant
implications for the administration of the corporate profits
tax.

3. **High Concentration among Assessees**

Another interesting revelation from the data on
corporate assessees and their assessed income and tax yield
(relating only to income from business and professions)
is that the majority of corporate assessees are still relatively
small having annual assessed income not exceeding Rs.50,000.
Almost 60 per cent of corporate assessees fall in this
category, with 45.2 per cent of the assessees having income
not exceeding Rs.25,000. Yet, their combined contribution
to assessed corporate income and tax is negligible (1.5 per
cent and 1.5 per cent respectively). Not only do the small
and medium sized corporate assessees contribute insignificantly
to tax revenue, but their relative share has also deteriorated:
in 1960-61 they together accounted for 68.6 per cent of total
corporate assessees, 3.3 per cent of assessed corporate income
and 3.3 per cent of corporate tax yield as against 57.4
per cent, 1.5 per cent and 1.5 per cent respectively, in
1975-76. On the other hand, slightly more than 30 per cent of cor-
porate assessees with an annual assessed income of Rs.1 lakh
or more contribute as much 97.3 per cent of assessed corporate
income and 97.1 per cent of the tax yield. If further break-
up of large corporate assessees can be obtained (say, into
those having annual assessed corporate income between Rs.10
lakh and Rs.25 lakh and those with annual assessed corporate
income above Rs.25 lakh) it would probably turn out that the
degree of concentration of assessed corporate income and tax

is even more pronounced. Even for the presently available size wise distribution of corporate assessees, the Gini coefficient for 1975-76 is as high as 0.835 and 0.832 for assessed corporate income and tax yield, respectively. (Tables II.4 and II.5)

The high Gini coefficients, with less than 4,000 corporate assessees accounting for almost the entire assessed corporate income and tax yield, besides reflecting the high level of concentration prevailing in the Indian corporate sector, are highly significant from the view point of corporate profits tax administration.

4. Pending Assessments

The number of pending assessments of corporate assessees is quite large. As at the end of March 1975, as many as 28,438 corporate assessments are pending, of which more than one-tenths are pending for three years or more and about two-fifths for two years or more. These proportions have remained fairly constant during the last three years (1973 to 1975) for which some data are available; the bulk (three fifths) of the pending assessments are for only one year. One cannot of course say anything definite about the amount of corporate income assessed and corporate tax collected from these pending cases. It is, however, likely that the amount of corporate income to be assessed and tax obtained from the pending assessments may be quite large as it is unlikely that the larger proportion of the pending assessments

would relate to small assessees; as shown earlier in this
section, only about three-tenths of corporate assessees have
assessed income of Rs.1 lakh or more and they together account
for almost the entire assessed corporate income and corporate
profits tax yield. (Table II.6)

III   ELASTICITY AND BUOYANCY

The analysis in Section II brought out the high
degree of concentration of assessed corporate income and tax
yield in a small proportion of corporate assesses, as well as
indicated the trend for an increasing proportion of corporate
income and corporate profits tax arising from the modern
capital intensive areas in the corporate sector, which
received marked impetus during the sixties. The Indian
Companies Act as well as the Industrial Policy Resolution
of 1956, encouraged the formation of corporate units,
particularly in capital intensive and modern industries and
this is reflected in the changing pattern of origin of assessed
corporate income and tax. In this direction, fiscal incentives
also played an important role. A number of fiscal measures were
introduced during the period and the scope of the existing
ones were further enlarged to encourage fresh investments
in desired "priority" industries. The fiscal concessions
based on fresh investments in plant and machinery include the
development rebate or investment allowance, tax holiday,
accelerated depreciation and special deductions for export

income. These concessions gave an impetus to investment
activity in the preferred areas because they significantly
reduced the effective corporate tax liability. In a sense
the base of the corporate profits tax system, which has
always been corporate profits, was eroded. Estimates of the
actual impact of these concessions on effective tax liability,
or on the growth of the corporate sector have not been made.
Some work relating to development rebate was done in 1967 (Lall,
1967). Even work on the responsiveness of the overall corporate
profits tax system to national income is scanty, the only
work available so far being that of G.S. Sahota (Sahota, 1967).
An analysis of Sahota's findings precedes our own estimates
and analysis of the elasticity and buoyancy of the corporate
profits tax system.

1. Sahota's Estimates

The degree of responsiveness or sensitivity of the
corporate profits tax structure to changes in national income
is reflected in its elasticity and buoyancy coefficients.[2/]

2/ The terms "buoyancy" and "elasticity" have been explained
in detail in the Institute's companion paper on "Trends,
Composition and Elasticity of Union Excises and Import
Duties" by P.B. Nayak and K.K. Atri. Briefly, the measure
of buoyancy shows the percentage change in the actual
yield of the tax for a one per cent change in national income
or other relevant base, while the elasticity coefficient
gives the percentage automatic change in the yield of the
tax in response to a one per cent change in national income
or the relevant base.

Sahota's estimates made in 1961 relate to the period 1951-52
to 1957-58. The coefficients were found to be quite high,
the elasticity coefficient being 1.25 and the buoyancy
coefficient 1.47. These values indicated a highly elastic
and buoyant corporate profits tax structure.

Sahota, however, did not indicate what data he used
to compute these coefficients. During the period which he
has covered, only the sur tax was shown as corporation tax
while the income tax on companies was shown under the
general category "income tax". Apparently he has included
both the sur tax and the income tax on companies, the
breakup of which is available in the explanatory memorandum
to the budgets, because our own computation using such data
gives a fairly similar result , the elasticity coefficient
being 1.19.

Sahota did not examine the factors that resulted in the
corporate profits tax system being highly elastic; an explanation
is now attempted. During the period which Sahota covered,
the variation between the statutory corporate profits tax rate
and the effective tax rate was negligable as the various
concessions which erode the taxable base did not then exist.
Thus, while the statutory tax rate for public limited companies
was 45.0 per cent, the average effective tax rate was 44.1
per cent. Similarly, the average statutory and effective
tax rates for private limited companies for a part of the
period (1955-56 to 1957-58) for which comparable effective

tax rate data are available, was 60 per cent and 56.2 per cent, respectively. Therefore, increases in corporate profits tax as a result of increases in turnover and output of the corporate sector were reflected in the tax paid by it. Hypothetically, therefore, it could be expected that tax paid by the corporate sector increased in consonance with the increase in corporate profits, and at the same rate as the corporate profits tax is a proportional tax. And, as the national income as well as the corporate profits in the industrial sector (a close approximation to the corporate sector) grows at a faster rate than that in other sectors, the elasticity of the corporate profits tax to national income was higher than unity.[3]

. 2. Our Estimates [4]

Over a period of years, the corporate profits tax structure in India seems to have become less responsive to changes in

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[3] In general, it may be added that if the rates of tax are not essentially regressive or progressive i.e. are proportional, over the ranges of income, the elasticity of tax yield to tax base cannot but be expected to deviate significantly from 1. If the overall elasticity deviates from 1, it can be explained only by the elasticity of tax base to national income. If the overall elasticity is greater than 1, then the elasticity of tax base to national income is greater than 1, that is, tax base is growing at a faster rate than national income. If, however, the overall elasticity is less than 1, then the elasticity of tax base to national income is less than 1, that is, the tax base is growing at a slower rate than national income.

[4] The proportional adjustment method is used to clean the series of the effects of discretionary changes for computing the elasticity coefficient.

national income. While Sahota's estimates for the period
1951-52 to 1957-58 indicated a highly elastic and buoyant
corporate profits tax structure, our computations for a
later and substantially longer period from 1960-61 to 1974-75
indicate that the corporate profits tax structure during
this period was highly inelastic and also that the revenue
collection did not keep pace with the growth in national
income. Over this 15 year time period, the elasticity
coefficient works out to 0.74 and the buoyancy coefficient
to 0.96.[5] In other words, for every increase in national
income of 1 per cent, corporate tax revenue increased by only
0.96 per cent and would have increased by only 0.74 per cent
in the absence of discretionary tax changes. (Table III-2)

3. Changing Economic Conditions and Elasticity Coefficients

The period 1960-61 to 1974-75 can be broken up into
three distinct sub-periods on the basis of the different
economic conditions prevailing in these periods. During
the years 1960-61 to 1964-65 (period I) there was an all-round
growth in the corporate sector, also marked by improvements
in output, sales and profits. The period 1965-66 to 1969-70
(period II) includes three years 1967-68 to 1969-70 which
were marked by industrial recession, generated by inadequate
demand culminating in a set-back in corporate expansion, output,
sales and profits. The average rate of expansion during the

5/ R^2 being 0.84 and 0.86 respectively.

period was therefore low, though the slightly better performance during the first two years of this period, as seen from Table III.3, to some extent marginally altered the otherwise depressing periodwise results. The following period 1970-71 to 1974-75 (period III) was an era of slow recovery coupled with a very high rate of inflation; to some extent, improvements in financial results during this period are, therefore, illusory but elasticity coefficients do take these things into consideration as they link tax at current prices with national income at current prices.

Table III.4 presents growth-rate data for selected indicators of changes in the private corporate sector, worked only on the basis of RBI data. These substantiate the distinct differences brought out in thepreceeding paragraph as between the three time periods. Gross fixed assets per company showed an average annual increase of 10.0 per cent in period I, 9.2 per cent in period II and 9.3 per cent in period III, while total corporate assets had an average annual growth of 8.7 per cent, 8.1 per cent and 8.2 per cent respectively; the growth rates of profits before tax and value of production also follow a similar trend. These data/show that there was thus a distinct set back in period II and the recovery though definite in period III, was not complete.

The sharp variations in corporate performances within the 15 years time period can explain the overall low elasticity

of the corporate profits tax to changes in national income.
The 5 year sub-periods are however too short to do any meaningful
regression analysis. Simple year to year elasticities can
however be computed. Before the year to year elasticity
results are presented, some revealing comparable growth rate
data on corporate profits, value of production and corporate
profits tax provision for the RBI sample companies as well as
of national income are examined.

The average annual growth of corporate profits tax
provisions during period I was at 16.8 per cent, substantially
higher than the average annual growth of corporate profits
(9.0 per cent), value of production (9.7 per cent) and national
income (11.2 per cent). On the other hand, during period II,
corporate profits tax provision declined at an average annual
rate of 0.2 per cent, while national income averaged an
annual growth of 10.8 per cent. Finally, during period III,
the respective average annual growth rates were 14.6 per cent
for national income and 2.5 per cent for corporate profits
tax provisions. (Table III.4)

Using the data on company finances available in the
RBI studies, and a simple method to measure the year to year
elasticity of the corporate profits tax provision (X) to
national income (Y) within the 3 sub periods and working
out period averages gives results which are in harmony with the
period-wise results of corporate operations[6] In period I,

6/ The following formula is used to compute the elasticity
   coefficient of X (corporate tax provision) to Y (national income)

$$E = \frac{\Delta X}{\Delta Y} \cdot \frac{Y}{X}$$

elasticity was very high (2.58), it slumped sharply in period
II (0.10), and partially recovered in period III (1.21).(Table III.
The less than unit elasticity for the whole period, 1960-61
to 1974-75 can, therefore, be attributable to the unusually
low coefficients for the years 1965-66 to 1969-70. These
results have limitations because company tax provisions in the
balance sheets are mere provisions and are not exactly what
are later shown in AIITS as well as in the Budgets as corporate
profits tax assessments and collections. Further, the RBI
data on company finances relate to sample of companies, whose
size and composition vary from time to time. Yet in the
absence of other more appropriate data, these results are useful.

4. Dummy Variable

To capture the periodic changes within the abnormal
sub-period, 1965-66 to 1969-70 which includes the years of
industrial recession, a dummy variable was used and the
relationship between the corporate profits tax to national
income improved. While the elasticity coefficient improved
from 0.74 to 0.80, the buoyancy coefficient remained unaffected
at 0.96.[2] The use of a dummy variable therefore improves the
elasticity of the corporate profits tax system.

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[2] R^2 being 0.88 and 0.87 respectively. Dummy variable is
statistically significant at 5 per cent probability level

5. Some Alternative Estimates

Elasticity and buoyancy coefficients are also worked
out for the period 1960-61 to 1974-75 (up to 1975-76 in 3
cases) with alternative definitions of national income and
using the regression approach. These include gross national
product and net domestic product at factor cost and market
value and net national product at factor cost. The
elasticity coefficients derived are very similar, ranging
between 0.738 and 0.751. The range of variation of the
buoyancy coefficients for the different period is somewhat
longer, namely between 0.901 and 0.982. (Table III.6)

As the bulk of the corporate profits tax revenue
originates from corporate entities engaged in non-agricultural
operations, the elasticity and buoyancy coefficients were
computed with gross domestic product and net domestic product
as bases excluding income from agriculture and allied sectors
as well as from community and personnel services sectors.
The adjustments do not affect the values of the coefficients;
elasticity and buoyancy coefficients with adjusted GDP works
out to 0.75 and 0.96 and with adjusted NDP as base, these
are 0.68 and 0.89 respectively.

6. Disaggregated Results

In order to further examine the inelastic corporate
profits tax structure, it was felt that calculations may be
done at the disaggregated level, to get a picture of the
buoyancy of the corporate profits tax for different types of

companies. Under the existing system, the statutory tax
rate for public limited widely held companies is 55 per cent,
for private limited companies 65 per cent and for foreign
companies 70 per cent. Further, the effective tax rate
which determines the elasticity show even greater variation
depending on the type of industries in which the companies
operate, the location of the industries, the expansion
and investment programmes and the export performances. Tax
data however, is not available in the annual budgets for
different categories of companies having different statutory
and effective tax liabilities. The AIITS publishes data on
public limited, private limited and foreign companies on the
basis of assessed tax collected in a particular year and which
includes collections made for earlier years; hence such
data cannot be used to compute the elasticity coefficients
by type of companies.

Some information, which can be used is available in
the RBI studies on company finances. Such data, though
suffering from certain limitation, indicated earlier,[8]/ do
enable us to have some idea of the buoyancy of corporate
profits tax provision (per RBI sample company) to national
income at the disaggregated level. A set of buoyancy
coefficients for public limited companies, private limited
companies and foreign companies are therefore computed.

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[8]/ The limitations are spelt out earlier in sub-section 3 page17

While for public and private limited companies the period
covered is 1960-61 to 1974-75, for foreign companies it is
1960-61 to 1972-73.

The buoyancy coefficients bring out an important
result; the buoyancy of large public limited Indian companies
is higher than that of large foreign companies which have a
higher statutory tax rate. In the case of large and medium
sized public limited companies, buoyancy of tax provision to
NNP at market prices during 1960-61 to 1974-75 is 0.73[9/]
while that of tax provision to the gross value added by the
companies is 0.81[2/]; the respective buoyancy coefficients
of foreign companies for the period 1960-61 to 1972-73 are
0.48[10/] and 0.77[9/] In the case of large and medium sized
private limited companies the buoyancy coefficient are -0.01[10/]
with reference to NNP and 0.60[10/] with reference to GVA.
(Table III.7) These results, though not statistically significant
in all cases, suggest among various possibilities
a slower growth rate of foreign companies vis a vis large
Indian companies and national income.

Variation in statutory tax rate thus has some bearing
on the effective tax rate and also an impact on the buoyancy
of the corporate profits tax.

9/ Statistically significant at 5 per cent level

10/ Statistically not significant at 5 per cent level.

IV.   DETERMINANTS OF ELASTICITY: SOME POSSIBILITIES

Theoretically, various factors, closely interlinked to each other, have a bearing on the sensitivity or responsiveness of the corporate profits tax structure, in India as well as elsewhere. Some of these factors are now identified. The analysis is not wholly and only applicable to the Indian situation, but is rather/a general nature.

As the elasticity of the corporate profits tax to national income is a product of the elasticity of tax yield with respect to tax base and the elasticity of tax base with respect to national income, factors affecting both these components need to be examined. If the ratio of tax yield to tax base rises over time, the elasticity of the tax yield with respect to tax base will be greater than 1 and when the above ratio falls   over time the elasticity will be less than 1. However, under a proportional tax system, the ratio of tax yield to tax base will remain constant and the elasticity of tax yield with respect to tax base will be equal to 1. The elasticity of tax yield with respect to national income will then depend upon the elasticity of tax base with respect to national income only.

For a given set of concessions under proportional taxation, if the ratio of tax base to national income decreases over time, the elasticity of the tax base with respect to national income and hence, the elasticity of tax yield with respect to national income will be less than 1. In case

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the type of concessions also change over time the tax structure

can be deemed to have changed. The ratio of the relative

change in tax yield to the relative change in national income

will then give the buoyancy rather than the elasticity of

the tax structure.

1. Erosion of Taxable Profits Base

The following analysis first relates to the erosion

of the taxable profits base, examining the factors that

affect the elasticity of tax base to national income, by

widening the gap between corporate profits and taxable corporate

profits, the gap being due to fiscal concession linked

adjustments. The faster the growth of fiscal concessions,

the lower will be the growth of the taxable profits base

vis a vis total corporate profits base. In effect, the

variation in the growth rate of the two profits bases affects

the elasticity of the corporate profits tax structure.

a. Fiscal concessions: The multitude of fiscal concessions

result in some proportion of corporate generated income and

profits not paying the corporate profits tax, or not paying

the full quantum of the corporate profits tax which would

have had to be paid in the absence of the concessions. The

fiscal concessions give a direct impetus to the expansion

of the corporate sector, both through expansion of existing

units as well as through setting up of new units. Not only

do the number of fiscal concessions increase over time, but

the number of corporate bodies taking advantage of the various concessions are also simultaneously on the increase.

The substantial growth in the number of corporate units and in the total profits of these, will tend to raise the elasticity of tax yield with respect to national income. But the increasing erosion of the tax base, even if the number of concessions do not change, will dampen the elasticity and tend to keep it at a low level.

b. Priority sectors: Further, in a developing economy the industrial structure undergoes perceptible changes, as brought out in Section II. One point that needs to be pointed out here is that certain sectors are specified for "priority" treatment for purposes of fiscal incentives, lower tax rates, financial assistance, supply of raw materials, power, fuel and other infrastructural requirements. These sectors therefore, receive an even greater impetus than sectors not considered as "priority". Consequently, these sectors expand at a faster rate than other sectors and at the same time their income and profits are liable for corporate profits taxation at lower rates or are completely exempt from the purview of the corporate profits tax for specified periods.

The above factors which result in the changes in the ratio of taxable corporate profits to corporate profits over time lead to changes in the elasticity of the corporate profits tax. If the ratio improves, elasticity will improve

and if the ratio decreases elasticity will decrease.
Further, even if the share of corporate profits in national
income remains/unchanged, but the ratio changes, elasticity
will change. The elasticity would rise or fall depending
on the change in the ratio. Similarly, even if the share
of corporate profits in national income falls, the ratio of
taxable corporate profits to corporate profits may rise and
neutralise the adverse effect on elasticity.

2. Erosion of Total Corporate Profits Base

There are certain conditions under which the corporate
profits base (unadjusted for fiscal concessions) can also
change even before the fiscal concessions can operate; in fact
these concessions can come into operation after an earlier
set of factors have already, to an extent reduced the corporate
profits base. The   effect is directly through changes
in the rate of profitability and the growth rate of corporate
profits.

a. Capacity utilisation, production cost and profits: The
availability of various fiscal concessions linked to fresh
investments in priority sectors, backward areas as well as
in general industrial operations induce corporate units to
add to their fixed assets to obtain these concessions and
reduce their effective tax liability; at times there may be
a fall in corporate profits in the process. In some other
cases, even without fiscal concessions new investments are

forthcoming for other reasons and these could also affect corporate profits. Theoretically, a situation could arise under which additional fixed assets are not fully or adequately utilised, with the result that while there is an increase in fixed costs represented by such items as interest on borrowings to finance the expansion programme, repair and maintenance, cost of basic infrastuctural facilities, salaries of essential personnel for the additional assets, among others, there is no corresponding growth in output through full utilisation of the additional assets to pay for the additional fixed and operating cost incurred on them. As a result, income generated from this as well as other operations and departments are used to meet the cost of maintaining the new fixed assets, leading to a decline in the overall corporate profits and also tax. liability... These developments even erode the corporate profits tax base even as regards the profits and output from the already existing assets. Thus, while additions to the national income through the corporate entities continues to grow or is at least, the same as before, there is an absolute decline in tax accruing from those operations because of the erosion of the tax base due to higher per unit cost of production.

Partial utilisation of newly created capacity naturally has an adverse effect on profits, even though the tax saved because of the reduction in tax liability linked to the additional investment may be greater than the loss due to the

fall in profitability due to lower aggregate capacity
utilisation. There could also be—even though it may appear
somewhat irrational—a possibility of corporate units using
tax concessions to reduce the tax liability inspite of a set
back in their profits. It has been found that industries
add to their fixed assets, for various reasons, such as to
avail of fiscal concessions, to pre-empt licensable capacity
and/or strengthen monopolistic control over industries; even
if there is an immediate set back in short term profitability.

b. Corporate growth, losses and carry forwards: In a
developing economy, organised business operations tend to
increase and business concerns operate as corporate entities
mainly because they receive various facilities and privileges
not available to other forms of business organisations such as
sole proprietorship concerns, registered partnerships and other
firms. Existing as well as new entrepreneurs prefer to
operate as corporate entities, either by setting up new
companies and/or converting existing non-corporate firms into
corporate entities. In particular, the benefits of limited
liability, lower statutory tax rate on undistributed profits,
easier access to credit facilities, among others, induce the
growth of the corporate sector. However, a large number
of corporate units are necessarily small in size and these,
as well as large companies which are of recent origin do not
generally earn enough income to be taxable under the corporate

profits tax system, or may even make losses which can be carried forward. This fact creates a situation in which not the whole income and profits generated in the corporate sector become liable for corporate profits taxation. As a result, while the rate of growth of the contribution by the corporate sector to national income may increase, the rate of growth of tax revenue contributed by the corporate sector may not increase proportionately. This is a special characteristic of a growing organised sector in all countries.

c. Concentration, recession and boom: As a result of various factors, some inherent in the system itself, a few giant-sized companies tend to account for a sizable proportion of assessed capital, income, profits and tax payments in major industrial sectors. Any significant change in the operations of even of a few of them has an immediate impact on the whole sector and even on the economy, be it in terms of production, employment, profits or tax revenue. The impact becomes highly pronounced during a period of recessionary whirpool or a phase of booming economic conditions. Thus, for example, during a recessionary situation the growth rate of national income would be higher than that of corporate profits tax revenue because the production process cannot be immediately stopped and the corporate output produced is accounted for in national income calculations, but the demand based recession results in a slump which is reflected in increasing inventory holdings,

lower sales, profits and tax liabilities. Therefore, tax revenue has a tendency to fall faster than the fall in corporate sector contribution to national income or national income itself. On the other hand, during "boom" production cannot be immediately increased in response to demand pressures (even if prices may rise), due to various constraints like existing capacity, availability of basic inputs (raw materials, labour, power and fuel) and finances; recourse is made to inventory holdings to meet the surging demands. As inventory is already accounted for in the national income data at some earlier point of time, but is not reflected in profits and tax liability until sales are realised, there is a possibility of profits and tax liability increasing at a faster rate during a 'boom' than the value added by the corporate sector or national income itself.

In other words, while during a recession there is a tendency for the growth in corporate profits and tax to fall more sharply than the growth in the national income, during boom, there is a tendency for corporate profits and tax to increase faster than national income. The variations are thus analogous to those of a "fix price" system in which imbalances lead to changes in the volume of inventories, and thereby affecting the elasticity of the corporate profits tax structure.

d. Assessment delays. Delays in tax assessment and determination of tax liability is another possible factor. The corporate sector's contribution to the national product is already accounted for, once the output leaves the factories; in fact, other taxes like excise duties, sales tax, octroi, personal income tax on salaries of employees may already have been paid. Yet it is possible that the corporate profits tax revenue - or, at least, a part of it - accruing on the output and profits already accounted for in the national income calculations is not yet determined or collected, and is therefore not reflected in the data on corporate profits tax revenue. While data on extent of delays in tax assessment and arrears in tax collection are not available, theoretically, the time lag between the accounting of corporate output and profits in the national income data and the accounting of the assessed corporate profits tax in the tax revenue statistics adds to the inelasticity of the corporate profits tax system at any particular point of time, assuming that the amount of arrears increase proportionately.

V. CONCLUSIONS

1. Need for Higher Sensitivity

To the extent that the sensitivity of a tax structure is considered to be an indicator of a healthy system, there is need to improve the elasticity of the corporate profits tax in India. This is all the more necessary in the context of further growth in the operations of the corporate sector expected in the future, inspite of greater emphasis being

given to rural and small scale industries. It is not unlikely that over the coming years, a substantial proportion of small scale industries as well as rural industries will operate as corporate units, due to the various fiscal and other benefits that a corporate entity is eligible for, vis a vis other forms of business organisation. The existing units also can be expected to grow. There is therefore urgent need to look into ways of improving the elasticity of the corporate profits tax system so that revenue resources can be easily and painlessly mobilised from this sector.

2. **Fiscal Concessions and the E rosion in Tax Base**

As it emerges from this study, the investment based concessions erode the tax base, and the erosion can become more substantial when the additional fixed assets fail to be adequately utilised. There is therefore need to re-examine the present system of corporate profits tax concessions and look into the possibilities of linking corporate profits tax concessions with other criteria like improvement in production, employment and capacity utilisation, apart from fresh investment. Measurement of capacity utilisation, of improvement in production and productivity as well as of employment generation, does raise basic methodological problems, but these need to be resolved in one way or another.

3. **Need for Overall study of all Taxes**

There is need to make/comprehensive and simultaneous study of the elasticity and buoyancy of all t axes, rather

than study individual taxes in isolation. Even if the elasticity

coefficient of a particular tax, such as the corporate profits

tax is low that by itself need not be a matter for serious

concern. The elasticity of other taxes which are dependent

to a large extent on the growth and performance of the corporate

sector need to be examined. As explained earlier in this

paper, corporate profits tax liability accrues only when

proceeds of sales are received and profits worked out. However,

much before this stage arises, the growth and operations in the

corporate sector gives rise to various other tax liabilities

and these taxes are already paid. Growth in fixed assets involves

payment of import duty on imported capital goods and excise

duties, sales tax and octroi on domestic capital goods,

import duty on imported raw materials and excise duties, sales

taxes and octroi on purchases of domestic raw materials and other
                                                              and
inputs. Sales tax and octroi are also paid on sale

transportation of the finished goods, much ----------
before profits can be earned. Finally, personal income tax is

paid on income received by individuals and firms involved in

the series of exchange processes.

The built up of fixed assets, inventory and

sales thus involves a process of exchanges during which various

commodity and personal taxes are levied and paid at the

Central and State levels. Therefore, a faster growth in the

corporate sector could improve the elasticity of various

Central and States taxes, but until the products are actually

sold and profits made, there is no positive effect on the elasticity of the corporate profits tax system. Therefore, while there is need to think in terms of introducing measures which can reduce the erosion in the tax base of the corporate profits tax, there is no need to get alarmed, at the low elasticity of the corporate profits tax.

In fact, it can be said that in a developing economy which is posed for growth there would be a tendency for the corporate profits tax to have an elasticity less than unity, while other taxes which are paid by the growing corporate sector may have relatively higher elasticity coefficients. On the other hand, it is possible, that even though the growth rate of profits is/maintained but the growth rate of the corporate sector capacity is not high enough to bring into operation the fiscal concessions that erode the taxable profits base, the elasticity coefficient of the corporate profits tax may be high.

4. Tax Administration

There is need to improve the tax administration system to reduce the delays in assessment and collection of the corporate profits tax. The very high proportion of corporate income and tax accounted for by an infinitesimally small proportion of assessees highlights the necessity for placing more emphasis on large assessees and fixing a suitable officer: assessee ratio for these cases, taking into consideration their geographical and zonal distribution.

5. Data Gaps

Lack of adequate data needs to be bridged to enable
a continuous and reasonably early evaluation of the corporate
profits tax system. In   particular, studies on the impact
of the various concessions and rebates which affect tax base
and elasticity, and a full and periodic assessment of the
sensitivity of the tax system would then be possible.

6. Areas for Research

Various areas wherein there is a need for further
research in the field of corporate profits taxation have
emerged from the present study. There is need for quantification
of the major tax concessions to assess their actual impact and
effect on savings, investment, capital structure, production,
employment and capacity utilisation as well as on effective
tax liability. It has also to be seen to what extent fiscal
concessions have actually served the purposes they were
intended to serve. Only on the basis of such a detailed
enquiry can one draw conclusions regarding the type of
concessions that should be provided on a long-term basis.

7. International Comparisions

In other countries also, fiscal concessions are
special features of corporate profits tax systems. A
comparative study of these tax systems and that of India .
together with a quantification of the effect of their incentive
provisions would be helpful in reformulating the incentives

and concessions in our own country.

A long-term study undertaken in the Institute would attempt to go into some of these aspects of the corporate profits tax system, including among other things, fiscal concessions, legal statutes, and quantification of the impact of the tax structure. The present exercise is a preliminary one covering only one aspect of this research project. The Institute would be very happy to receive comments and suggestions emanating from the methodology covered in this study, and the results obtained therefrom, as well as on other aspects that could and should be covered in a comprehensive study of corporate profits taxation in India.

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    New Delhi.

VDL/SP.

TABLE II.1

Trends in Corporate Profits Tax Revenue

Year	Corporate Profits Tax Revenue(Rs.Crore)	Share of Corporate Profits Tax in Total Tax Revenue (Per cent)1/	Share of Corporate Profits Tax in Total Direct Tax Revenue (Per cent)2/	Share of Corporate Profits Tax in Total Income Tax Revenue (Per cent)3/
1960-61	109.10	12.25	28.80	29.98
1965-66	304.84	14.79	41.89	43.54
1970-71	370.52	11.55	30.01	30.80
1975-76	861.70	11.33	39.08	40.37
1976-77 4/	1113.00	13.77	49.62	51.34
1977-78 5/	1298.20	14.42	51.79	53.31

1/ Consists of tax revenue from direct and indirect taxes, including States' shares of taxes which are collected by the Centre but shared with the States.

2/ Includes taxes on income, estate duty, wealth tax, gift tax including states'-share in them.

3/ Includes taxes on personal and corporate income, including States' share in them.

4/ Revised estimates.

5/ Budget estimates

Source: Central Government Budgets.

TABLE - II.2

Sources of Assessed Corporate Income and Tax Yield

Source of Income	1960-61			1965-66		
	Number of companies	Assessed income (Rs. lakh)	Tax Yield (Rs. lakh)	Number of companies	Assessed income (Rs. lakh)	Tax Yield (Rs. lakh)
1. Interest on securities	1585 (10.30)	791.9 (3.07)	581.2 (3.06)	1187 (6.77)	666.6 (1.69)	326.5 (1.72)
2. Property income	1360 (8.84)	248.0 (0.96)	189.3 (1.00)	1232 (7.03)	725.5 (1.84)	412.0 (2.17)
3. Business and professions	8280 (53.82)	21596.0 (83.65)	15869.2 (83.67)	9341 (53.29)	32104.7 (81.32)	16088.2 (84.59)
4. Dividends	1750 (11.37)	2228.4 (8.63)	1667.7 (8.79)	1972 (11.25)	3592.4 (9.10)	1417.2 (7.45)
5. Capital gains	202 (1.31)	93.5 (0.36)	28.6 (0.15)	363 (0.07)	219.1 (0.55)	87.4 (0.46)
6. Others	2209 (14.36)	859.8 (3.33)	631.4 (3.33)	3433 (19.59)	2171.3 (5.50)	686.9 (3.61)
TOTAL	15386 (100.00)	25817.6 (100.00)	18967.4 (100.00)	17528 (100.00)	39479.6 (100.00)	19018.2 (100.00)

Notes: 1) Figures in parenthesis are percentages to total.

Source: Government of India,
Ministry of Finance.
"All India Income Tax Statistics.

contd TABLE - II.2

Source of Income	1971-72			1975-76		
	Number of companies	Assessed income (Rs. lakh)	Tax Yield (Rs. lakh)	Number of companies	Assessed income (Rs. lakh)	Tax Yield (Rs. lakh)
1. Interest on securities	1030 (5.22)	1785.4 (1.45)	1006.3 (3.21)	536 (3.21)	1544.2 (1.73)	876.0 (1.67)
2. Property income	1412 (7.16)	1346.3 (1.09)	797.6 (1.14)	985 (5.90)	623.3 (0.70)	385.1 (0.74)
3. Business and professions	11631 (58.97)	109058.9 (88.59)	62078.8 (88.50)	11362 (68.05)	80324.8 (89.99)	47032.5 (89.80)
4. Dividends	1639 (8.37)	5314.5 (4.32)	3167.5 (4.52)	1018 (6.10)	3293.8 (3.69)	2134.5 (4.08)
5. Capital gains	880 (4.46)	1490.2 (1.21)	699.4 (1.00)	572 (3.43)	1102.8 (1.24)	519.7 (0.99)
6. Others	3130 (15.87)	4115.3 (3.34)	2395.4 (3.41)	2223 (13.31)	2373.9 (2.66)	1427.6 (2.73)
TOTAL	19722 (100.00)	123110.6 (100.00)	70145.0 (100.00)	16696 (100.00)	89262.8 (100.00)	52375.3 (100.00)

TABLE II.3

Assessees, Assessed Income and Tax Yield of Companies: Industry-wise Break-up

Industry group	1960-61			1965-66		
	Number of companies	Assessed income (Rs. lakh)	Tax yield (Rs. lakh)	Number of companies	Assessed income (Rs. lakh)	Tax yield (Rs. lakh)
1. Forestry, mining and quarrying	229 (2.77)	774.9 (3.59)	56.8 (0.36)	233 (2.50)	608.9 (1.89)	315.3 (1.96)
2. Primary industries (manufacture of food stuffs and beverages)	722 (8.72)	2520.6 (11.67)	1867.0 (11.76)	631 (6.76)	2953.3 (9.20)	1497.3 (9.31)
3. Textiles and leather	508 (6.14)	2612.9 (12.10)	1901.5 (11.98)	570 (6.11)	5019.6 (15.63)	2410.3 (14.98)
4. Metals and chemicals and their products	1169 (14.12)	4594.5 (21.27)	3495.7 (22.03)	1498 (16.05)	7883.9 (24.55)	3956.8 (21.59)
5. Cement, rubber and paper	676 (8.16)	1760.0 (8.15)	1306.8 (8.23)	866 (9.28)	3080.4 (9.60)	1431.3 (8.90)
6. Construction and utilities	317 (3.83)	763.8 (3.54)	579.6 (3.66)	287 (3.08)	1263.8 (3.94)	632.5 (3.93)
7. Commerce transport and communication	2885 (34.84)	4713.6 (21.84)	3616.2 (22.79)	3842 (41.07)	6989.7 (21.77)	3628.5 (22.55)
8. Finance	1419 (17.14)	3539.3 (16.38)	2304.2 (17.74)	1123 (12.04)	3967.6 (12.36)	2051.2 (12.75)
9. Professions	355 (4.29)	316.4 (1.46)	230.5 (1.45)	291 (3.12)	337.5 (1.05)	165.0 (1.03)
TOTAL	8280 (100.00)	21596.0 (100.00)	15869.2 (100.00)	9341 (100.00)	32104.7 (100.00)	16088.2 (100.00)

Note: 1. Relates to income of companies from business and professions.   Source: Same as Table II.2

2. Figures in parenthesis are percentages to total.

Industry group	1971-72			1975-76		
	Number of companies	Assessed income (Rs. lakh)	Tax yield (Rs. lakh)	Number of companies	Assessed income (Rs. lakh)	Tax yield (Rs. lakh)
1. Forestry, mining & quarrying	302 (2.60)	2177.0 (2.00)	1213.1 (1.95)	197 (1.73)	1080.4 (1.35)	642.7 (1.37)
2. Primary industries (manufacture of food stuffs and beverages)	861 (7.40)	11259.9 (10.32)	6365.0 (10.25)	726 (6.39)	8176.6 (10.18)	4796.3 (10.20)
3. Textiles & leather	721 (6.20)	11691.4 (10.72)	6496.3 (10.46)	683 (6.01)	8162.7 (10.16)	4735.5 (10.07)
4. Metals & chemicals & their products	2470 (21.24)	30086.0 (27.59)	17034.9 (27.44)	2298 (20.23)	31015.1 (38.61)	18275.2 (38.86)
5. Cement, rubber & paper	1211 (10.41)	13221.2 (12.12)	7250.3 (11.68)	1239 (10.90)	9024.7 (11.24)	5427.5 (11.54)
6. Construction & utilities	319 (2.74)	2976.4 (2.73)	1780.1 (2.87)	228 (2.01)	1101.9 (1.37)	643.4 (1.37)
7. Commerce transport & communication	4102 (35.27)	18619.6 (17.07)	11369.9 (18.32)	4212 (37.07)	10606.5 (13.20)	6694.8 (14.23)
8. Finance	1158 (9.96)	18341.8 (16.82)	10160.6 (16.37)	1217 (10.71)	10313.5 (12.84)	5332.8 (11.34)
9. Professions	487 (4.19)	685.6 (0.63)	408.6 (0.66)	562 (4.99)	842.6 (1.05)	484.3 (1.03)
TOTAL	11631 (100.00)	109058.0 (100.00)	62078.8 (100.00)	11362 (100.00)	80324.8 (100.00)	47032.5 (100.00)

TABLE II.4

Size wise Distribution of Assessed Corporate Income and Tax Yield

Income Class (Rs.)		1960-61			1965-66		
	Number of companies	Assessed income (Rs. lakh)	Tax yield (Rs. lakh)	Number of companies	Assessed income (Rs. lakh)	Tax yield (Rs. lakh)	
1.	0 - 25000	4419 (53.37)	606.9 (2.81)	429.0 (2.70)	4567 (48.89)	561.4 (1.75)	289.1 (1.80)
2.	25001 - 50000	1019 (12.31)	387.5 (1.79)	285.2 (1.80)	1135 (12.15)	406.6 (1.27)	206.0 (1.28)
3.	50001 - 100000	864 (10.43)	652.7 (3.03)	489.3 (3.08)	1093 (11.70)	752.3 (2.34)	388.6 (2.42)
4.	100001 and above	1978 (23.89)	19948.9 (92.37)	14665.7 (92.42)	2546 (27.26)	30384.5 (94.64)	15204.5 (94.51)
	TOTAL	8280 (100.00)	21596.0 (100.00)	15869.2 (100.00)	9341 (100.00)	32104.8 (100.00)	16088.2 (100.00)

Notes: 1. Data relate to corporate income from business and professions only
2. Figures in parenthesis are percentage to total.

Source: Same as Table II.2.

contd: TABLE II.4

Income Class (Rs.)	1971-72			1975-76		
	Number of companies	Assessed income (Rs. lakh)	Tax Yield (Rs. lakh)	Number of companies	Assessed income (Rs. lakh)	Tax Yield (Rs. lakh)
1. 0 - 25000	4559 (39.20)	655.5 (0.60)	398.9 (0.64)	5130 (45.15)	620.2 (0.77)	369.7 (0.79)
2. 25001 - 50000	1363 (11.72)	559.8 (0.51)	333.1 (0.54)	1390 (12.23)	545.2 (0.68)	344.7 (0.73)
3. 50001 -100000	1314 (11.29)	1002.1 (0.92)	590.5 (0.95)	1338 (11.78)	1039.6 (1.29)	650.9 (1.38)
4. 100001 - and above	4395 (37.79)	106841.5 (97.97)	60756.3 (97.87)	3504 (30.84)	78119.8 (97.25)	45667.2 (97.10)
TOTAL	11631 (100.00)	109058.9 (100.00)	62078.8 (100.00)	11362 (100.00)	80324.8 (100.00)	47032.5 (100.00)

TABLE - II.5 1/

Gini Coefficients

	Assessed corporate income	Corporate tax yield
1960-61	0.745	0.745
1965-66	0.730	0.730
1971-72	0.784	0.782
1975-76	0.835	0.832

Notes: 1. 1/ With respect to number of corporate assessees.

2. Based on data in TABLE II.4

TABLE II.6

Pending Assessments
(as on March 31)

	Pending for					
	1 year	2 years	3 years	4 years	5 years	Total
1975	17314 (60.89)	7681 (27.01)	731 (2.57)	592 (2.08)	2120 (7.45)	28438 (100.0) (10.84) 2/
1974	15646 (60.98)	6824 (26.60)	844 (3.29)	393 (1.53)	1950 (7.60)	25657 100.0) (24.65) 3/
1973	12366 (60.08)	58?0 (28.42)	28? (1.37)	284 (1.38)	1802 (8.75)	20584 (100.0)
Average 1973 to 1975	15109 (60.70)	6785 (27.26)	619 (2.48)	423 (1.70)	1957 (7.86)	24893 (100.0)

Note: 1. Figures in parenthesis are percentages to total

2. Annual growth rate between 31.3.1973 and 31.3.1974

3. Annual growth rate between 31.3.1974 and 31.3.1975.

Source : Annual Reports of the Comptroller and Auditor General of India, Union Government (Civil) Revenue Receipts Vol II : Direct Taxes.

TABLE - III. 1

Trends in Corporate Profits Tax Revenue

(Rs. Crore)

Year	Budget estimates	Revised estimates	Actual revenue
1960-61	135.0	137.5	111.1
1961-62	141.0	160.0	156.5
1962-63	168.0	187.5	221.5
1963-64	196.0	275.0	274.6
1964-65	295.0	342.0	314.1
(Period I)			
1960-61 to 1964-65	(20.8)	(26.7)	(30.2)
1965-66	386.0	330.0	304.8
1966-67	372.0	345.0	328.9
1967-68	350.0	319.7	310.3
1968-69	320.4	322.0	299.8
1969-70	326.2	320.0	353.4
(Period II)			
1965-66 to 1969-70	(-4.7)	(-1.3)	(2.1)
1970-71	342.0	365.0	370.5
1971-72	395.0	442.0	472.1
1972-73	493.5	558.0	557.8
1973-74	608.0	627.0	582.6
1974-75	661.0	713.0	709.5
(Period III)			
1970-71 to 1974-75	(19.1)	(18.3)	(16.3)
1975-76	780.5	954.0	861.7
1976-77 1/	1025.0	1113.0	- 969.21
1977-78 1/	1298.2	-	-
1960-61 to 1974-75	(12.0)	(11.5)	(11.1)

Notes: 1/ 1976 and 1977-78 revised and budget estimates respectively.

  - Not available

Figures in parenthesis are average annual growth rates for the respective periods.

Sources: 1. Annual Budgets of Central Government

  2. All India Income Tax Statistics

Contd. TABLE - III. 1

| | | | (Rs. Crore) | |
Year	Budget estimates of additional revenue	Additional revenue adjusted to actuals	Revenue adjusted for estimation of elasticity	Revenue as given in income tax statistics
1960-61	0.0	0.0	111.1	122.0
1961-62	1.0	1.1	155.3	195.9
1962-63	10.4	13.8	206.2	175.1
1963-64	25.0	36.4	221.7	136.1
1964-65	1.7	1.8	252.2	179.1
(Period I) 1960-61 to 1964-65	-	-	(22.1)	(4.1)
1965-66	-14.4	-11.4	253.9	186.6
1966-67	32.0	28.3	250.4	274.9
1967-68	0.0	0.0	236.3	301.1
1968-69	-4.0	-3.7	231.1	319.3
1969-70	-3.8	-4.1	275.5	301.9
(Period II) 1965-66 to 1969-70	-	-	(0.8)	(11.7)
1970-71	0.0	0.0	288.9	-
1971-72	23.5	28.1	346.1	648.2
1972-73	13.5	15.3	397.9	387.7
1973-74	11.0	10.5	408.0	-
1974-75	0.0	0.0	496.9	409.2
(Period III) 1970-71 to 1974-75	-	-	(13.3)	-
1975-76 1/	10.5	11.6	554.7	496.0
1976-77 1/	-	-	-	-
1977-78 1/	-	-	-	-
1960-61 to 1974-75	-	-	(8.1)	(10.4)

TABLE III.2

Elasticity and Buoyancy of the Corporate Profits Tax
(1960-61 to 1974-75)

	Elasticity			Buoyancy		
	E	R^2	't' value	B	R^2	't' value
Without dummy variable	0.74	0.84	8.31	0.96	0.86	9.16
With one dummy[1] variable	0.80	0.88	9.03	0.96	0.87	8.80

1/ One dummy variable used to capture the periodic change within the abnormal period 1965-66 to 1969-70.

TABLE III.3

Selected Accounts Data
(1965-66 to 1969-70)

Year	Gross fixed assets Per company (Rs. lakh)	Growth rate (%)	Value of production Per company (Rs. lakh)	Growth rate (%)	Profits before tax Per company (Rs. lakh)	Growth rate (%)	Sales net of excise Per company (Rs. lakh)	Growth rate (%)
1965-66	209.40	18.7	278.41	16.1	22.21	11.2	271.89	10.3
1966-67	238.13	13.7	310.26	11.4	23.24	4.6	304.11	11.1
1967-68	259.62	9.0	332.47	7.2	19.99	0.1	328.53	8.0
1968-69	279.15	7.5	359.98	8.3	20.33	1.7	356.61	8.5
1969-70	299.64	7.3	401.08	11.4	26.48	30.3	396.41	11.1

Source: RbI Bulletins: Studies on Finances of public limited companies.

TABLE III.4

Average Annual Growth Rates

	1960-61 to 1964-65	1965-66 to 1969-70	1970-71 to 1974-75	Overall growth rate 1960-61 to 1974-75
1. National income	11.20	10.80	14.62	11.26
2. Income from mining, manufacturing and transport, trade sector	9.13	10.32	13.97	11.42
3. Profits and dividends 1/	11.74	1.88	14.68	7.08
4. Profits and dividends 1/	12.33	0.97	15.70	6.97
Per Company				
5. Gross fixed assets	9.97	9.15	9.32	9.62
6. Net sales	9.24	9.56	9.72	9.32
7. Total assets	8.70	8.09	8.16	8.12
8. Profits before tax	8.37	4.65	7.21	5.02
9. Tax	15.80	-0.19	2.46	0.59
10. Profits after tax	2.97	-0.19	8.98	7.80
11. Value of production	9.72	9.18	10.04	9.20

1/ Excluding profits and dividends from agriculture and allied sector as well as community and personnel services sector.

Source: (1) CSO: National Accounts Statistics. (2) RBI Bulletins: Studies on Finances of public limited companies.

TABLE III.5

Year to Year Elasticities

Years/Period	Elasticity coefficient
1960-61	-
1961-62	5.00
1962-63	3.99
1963-64	0.52
1964-65	0.81
1960-61 to 1964-65	2.58
1965-66	0.16
1966-67	-0.10
1967-68	-0.41
1968-69	-0.82
1969-70	1.67
1965-66 to 1969-70	0.10
1970-71	0.53
1971-72	2.76
1972-73	1.50
1973-74	0.13
1974-75	1.14
1970-71 to 1974-75	1.21
1960-61 to 1974-75	1.21

Note: The following formula is used to calculate
the year to year elasticities.:

$$\frac{\Delta X}{\Delta Y} \cdot \frac{Y}{X}$$

Source: C.S.O: National Accounts
Statistics for
national income.

R.B.IBulletins: Studies on
finances of public limited
companies.

TABLE - III.6

Elasticity and Buoyancy of the Corporate Profits Tax: Alternative Bases

Independent Variable/ Dependent Variable	Corporate Tax Revenue (Accounts)					
	Elasticity			Buoyancy		
	β	R^2	$t(\beta)$	β	R^2	$t(\beta)$
1. GNP (F)	0.7405	0.8322	8.0306	0.9817	0.8640	9.1236
2. GNP (M)	0.7387	0.8428	8.3478	0.9612	0.8667	9.1927
3. GDP (F)1/	0.7510	0.8365	8.1546	0.9777	0.8612	8.9800
4. GDP (M)	0.7385	0.8427	8.3454	0.9611	0.8668	9.1977
5. NNP (F)1/	0.7513	0.8349	8.1075	0.9009	0.8442	2.8124
6. NNP (M)	0.7381	0.8417	8.3139	0.9607	0.8659	9.1620
7. NDP (F)1/	0.7510	0.8348	8.1065	0.9781	0.8599	8.9337
8. NDP (M)	0.7380	0.8416	8.3117	0.9606	0.8660	9.1675
9. GDP2/	0.7458	0.8591	8.9035	0.9628	0.8795	9.7392
10. NDP2/	0.6848	0.8048	7.3210	0.8858	0.8179	7.6417

1/ Period covered is 1960-61 to 1975-76

2/ Income from agriculture and allied sector as well as from community and personel services sector excluded

.(M) and (F) refer to market value and factor cost, respectively.

Source: 1. C.S.O : National Accounts Statistics
2. Budgets of Central Government.

TABLE III.7

Buoyancy Coefficients: Disaggregated Results

	Indian Public companies		Indian Private limited companies		Foreign companies	
	I	II	I	II	I	II
Tax to NNP	0.73	0.72	-0.01[1]/	-0.01	0.48[1]/	0.50
Tax to GVA	0.81	0.82	0.60[1]/	-0.05	0.77	0.75

I. By regression method

II. By growth rate method
1960-61 to 1974-75 for Public and Private limited Indian companies and 1960-61 to 1972-73 for foreign companies

1/: Statistically not significant

NNP : Net national product at market prices

GVA : Gross value added

Tax : Corporate profits tax provision