

The Need and Importance of Tax Planning For the Promotion of Entrepreneurship

Dr. G. Rajendran

*Associate Professor, P.G. Department of Commerce,
Jawaharlal Nehru Govt. College, Port Blair, 744104, A&N Islands,
(Affiliated to Pondicherry University), A Central University(India).*

Abstract

Entrepreneurship is indispensable for the economic development of a country. The emergence and development of entrepreneurship is not spontaneous one. Its emergence and development exclusively depend on the Govt. support in the form of providing basic facilities, incentives and concessions. Accelerating the growth and development of entrepreneurship is definitely a challenging task but this is the only solution to solve the problems of poverty, insecurity, unemployment and over population. The present paper focuses on the need and importance of Tax planning for the promotion of entrepreneurship in the economic development of our country. The main aim is to enlighten the prospective entrepreneurs, investors, bankers and students relating to the various incentives and concessions available to set-up new business undertakings in India. The study would reveal how far the tax incentives and concessions, available under the Income Tax Act 1961 and the Income Tax Rules, 1962, are beneficial to prospective entrepreneurs, investors and students to set-up new business undertakings.

INTRODUCTION

Entrepreneurship is the key to economic development. The supportive actions of the Govt. definitely influence the emergence of entrepreneurship in a country especially developing country like India. G.F. Papanek and J.R. Harris have rightly described that “economic incentives are the main drive for the entrepreneurial activities. In some cases, it is not so evident, but the persons’ inner drives have always been associated with economic gains. Therefore, these incentives and gains are regarded as the sufficient condition for the emergence of industrial entrepreneurship.” Such supportive actions encourage prospective entrepreneurs to start new business undertakings and enable to overcome the risks associated with their business.

The entrepreneurs should possess some characteristics and competencies. Then only they will be successful in their business. In other words, only certain characteristics alone distinguish successful entrepreneurs from unsuccessful. Robert E. Nelson has rightly defined, “An entrepreneur is a person who is able to look at the environment, identify opportunities to improve the environment, marshal resources, and implement action to maximize those opportunities.” Peter Drucker has also rightly described as “An entrepreneur is one who always searches for change, responds to it, and exploits it as an opportunity.”

Liberalisation of the economy and globalisation of industry have generated vast entrepreneurial opportunities in India. It is evident from the entry of multinational companies to utilise the business opportunities in our country. This is a knowledge era. Knowledge has become the most important factor of production. Knowledge here refers to the information and intelligence required by an entrepreneur regarding the opportunities available in the business environment. The Govt. of India provides a lot of opportunities to promote the emergence of entrepreneurship in our country through the Income Tax Act 1961. The need of the day, is, therefore, to encourage the prospective entrepreneurs to aware the various tax incentives and concessions available under the Income Tax Act 1961.

OBJECTIVES OF THE STUDY

- To study the importance of tax planning for the promotion of entrepreneurship in India.
- To examine the various tax incentives, concessions and reliefs available as per the provisions of Income Tax 1961 to set-up new business undertakings or expansion and growth of business.

DATA BASE AND METHODOLOGY

The present study is based on secondary data. The relevant secondary data was collected from books, journals, magazines and other documents. This is an analytical study of the various tax incentives, concessions and reliefs available as per the Income Tax 1961 to set-up new business undertakings or expansion and growth of business.

LIMITATION OF THE STUDY

The present paper attempts to examine the viewpoint of Sec. 10 AA, Sec. 80-IA, , Sec. 80-IA(4)(iv), Sec. 80- ID, Sec.80-IE of the Income Tax Act 1961 towards tax benefits available to set-up new business undertakings. All other Sections relating to tax benefits available to set-up new business have not been focused in this paper for the present study.

Definition of the concept: Tax planning

Every citizen of India has certain fundamental rights as per the constitution of India. Opportunities have been given to everyone to start any legal business anywhere in India to earn as much profit as possible to satisfy the needs of people. Every businessman, who has taxable income, is required to pay tax genuinely so as to achieve certain socio-economic objectives of our nation. Opportunities have also been given to the taxpayers to reduce their tax liability within the provisions of Income Tax Act 1961 to encourage the businessmen in the interest of the nation. Tax Planning, thus, defined as the arrangement of financial activities of an assessee in such a way that the maximum tax benefits by availing certain exemptions, deductions, rebates and relief so as to reduce his tax liability.

Significance of Tax Planning

Tax Planning is significant for the following purposes:

1. *Reduction of tax liability:* An assessee can reduce his tax liability by availing tax concessions, exemptions and reliefs etc. admissible under the Income Tax Act 1961. This enables him to save his hard earned money and to satisfy his personal and social needs.
2. *Reduction in cost:* An assessee can reduce the overall cost of producing a product since incidence of tax forms a part of cost of production. This enables him to increase the competitive strength, sales and profits.
3. *Investment:* An assessee can invest the money so saved through tax planning in the current business for expansion and growth or in new business. This enables him to develop his business by formulating a suitable growth strategy.
4. *Entrepreneurship development:* The Income Tax Act 1961 provides a lot of tax concessions, exemptions and reliefs to the prospective entrepreneurs, investors to set-up new undertakings. Tax Planning, thus, encourages the promotion of entrepreneurs in our country.
5. *Generation of employment opportunities:* The money saved through tax planning is generally invested in commencement of new undertakings or expansion of the business. This creates new employment opportunities in business.
6. *Healthy growth of economy:* The main intention of the Income Tax Act 1961 is to prevent completely the generation of black money through tax evasion. Generation of black money hinders the growth of economy. The money saved through tax planning fosters the growth of economy since it is invested in business in our country.

Tax Planning for Setting-up of New Business

Opportunities in the form of various tax incentives, concessions, rebates and reliefs have been provided by the Income Tax Act 1961 to the prospective entrepreneurs, investors and people to set-up new business undertakings. When a person wants to set-up a new business undertaking, he has to update his knowledge with regard to location, nature and size of business, form of business organisation and capital structure to avail the maximum tax benefits.

In this section, an attempt is made to examine the various tax incentives, concessions, exceptions and reliefs available under the provisions of Income Tax Act 1961 to set-up new business undertakings:

1. New Business Undertakings in Special Economic Zones (Section 10 AA)

An entrepreneur who has started a new business undertakings in Special Economic Zone to manufacture or produce articles or things or provide service on or after 1.4.2006 for the purpose of exporting to other countries, shall be allowed deduction from his total income provided he must fulfill all the essential conditions as specified under this section 10 AA. Deduction under this section is available to all categories of assesses being entrepreneurs viz., individuals, firms, companies, etc. who derive any profits or gains from such undertakings for a total period of 15 years.

100 percent of the profits and gains derived from the export of such articles or things or from services for the 5 consecutive assessment years beginning with the assessment year relevant to the previous year in which the units begins to manufacture such articles or things or provide services shall be allowed as deduction.

50 percent of profits or gains of such undertaking for the next 5 consecutive years shall be allowed as deduction. 50 percent of profit of such undertaking for the next 5 consecutive years shall be allowed as deduction provided the conditions mentioned in section 10AA (2) are satisfied

It is clear from the above study that the Govt. of India has been encouraging the starting of new export business undertakings in Special Economic Zone by providing tax deduction for a total period of 15 consecutive assessment years.

2. New Undertaking or Enterprise engaged in Infrastructure Development (Section 80 IA)

A new undertaking, owned by a company or consortium of companies registered in India., or by an authority or a board or a corporation or any other body established or constituted under any Central or State Act, starts operating and maintaining the infrastructure facility on or after 1st April, 1995 but before 01.04.2017, shall be allowed deduction from its total income provided it must fulfill all the essential conditions as specified under this section 80IA. Infrastructure facility means(a) a road including toll road, bridge or a rail system., (b) a highway project including

housing or other activities being an integral part of the highway project.,(c) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system .,(d) a port, airport, inland water ways or inland port or navigation channel in the sea.

100 percent of the profits from such undertaking is eligible for deduction for a period of 10 consecutive assessment years from the initial assessment year in which it begins to operate. The deduction will be available for any ten consecutive assessment years out of 20 years beginning with the year in which the undertaking begins to operate.

It will be available for any ten consecutive assessment years out of 15 years instead of 20 years beginning with the year in which the undertaking begins to operate and develop port, airport, inland waterways or inland port.

It is understood from the above study that the Govt. of India has encouraged the emergence and promotion of new undertaking or enterprise engaged in infrastructure development by providing tax deduction for a total period of 10 consecutive assessment years.

3. New Undertaking engaged in the business of Generation or Generation and Distribution of Power (Section 80 IA(4)(iv))

A new undertaking will be eligible for deduction under this section 80-IA(4)(iv) if it:(a) begins to generate and distribute power on 1-4-1993 but before 1-4-2017 in any part of India; (b) starts transmission or distribution by laying a network of new transmission or distribution lines at any time during the period beginning on 1-4-1999 and ending on 31-3-2017; (c) undertakes substantial renovation and modernisation of the existing transmission or distribution lines at any time during the period of 1-4-2004 to 31-3-2017.

100 percent of the profits from such undertaking for a period of 10 consecutive assessment years out of 15 years beginning with the year in which the undertaking generates power or commences transmission or distribution of power provided it must fulfill all the essential conditions as specified under this section 80-IA(4)(iv).

It is clear from the above study that the Govt. of India has encouraged the emergence and promotion of new undertaking or enterprise engaged in the business of generation or generation and distribution of power by providing tax deduction for a total period of 10 consecutive assessment years.

4. New Undertaking engaged in the business of Hotel (Section 80 ID)

A new undertaking engaged in the business of hotel (two-star, three star or four-star category) has started or starts functioning in the specified district having a World Heritage Site on or after 01-04-2008 but before 31-3-2013, shall be allowed deduction from its total income provided it must fulfill all the essential conditions as specified under this section 80 ID. 100 percent of the profits and gains from such

business for five consecutive assessment years from the initial assessment year in which it begins to operate.

It is understood from the above study that the Govt. of India has encouraged the emergence and promotion of new undertaking engaged in the business of hotel in the specified district having a World Heritage Site by providing tax deduction for a total period of five consecutive assessment years.

5. New Undertakings in North Eastern States (Section 80- IE)

New undertakings carry on eligible business will be eligible for deduction under this section 80-IE if it: (i) begin to manufacture or produce any eligible articles or thing; (ii) to undertake substantial expansion to manufacture or produce any eligible articles or thing in North Eastern States during the period beginning on 1-4-2007 and ending before 1-4-2017 provided certain essential conditions under this section 80-IE might have been fulfilled. 100 percent of the profits derived from such business for 10 consecutive years commencing with the initial assessment year.

Eligible business under this section means (a) Hotel (not below two star); (b) adventure and leisure sports including ropeways; (c) providing medical and health services in the nature of nursing home with a minimum capacity of twenty-five beds; (d) old-age home; (e) operating vocational training institute for hotel management, catering and food craft entrepreneurship development, nursing and Para-medical, civil aviation related training, fashion designing and industrial training; (f) running information technology related training centre; (g) manufacturing of information technology hardware and (h) bio-technology.

It is clear from the above study that the Govt. of India has encouraged the emergence and promotion of new undertakings carry on eligible business in North Eastern States by providing tax deduction for a total period of 10 consecutive assessment years.

FINDINGS AND SUGGESTIONS

The above study reveals that the Govt. of India has been encouraging the emergence and promotion of new undertakings to promote export, infrastructure development, tourism development, medical facilities, technology development, development of agro based industries so as to achieve the socio-economic objectives by providing tax deductions under the various provisions of Income Tax Act 1961. Nearly seventy five percent of India's population is living in rural areas. But industries are mostly located in urban areas. Rural people are educationally, economically and socially backward. Rural industrialisation is considered as an effective means of accelerating the process of rural development. Rural economy is backbone of our Indian economy. It is, therefore, suggested that the Govt. of India may encourage the emergence and promotion of Rural Entrepreneurship by inserting certain tax incentives in the provisions of Income Tax Act 1961 to strengthen the rural economy.

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