IMPACT ON STATES OF CENTRAL TAX PREFERENCES

AN ANALYSIS OF IMPORTANT TAX PREFERENCES

1. Introduction

There are considerable differences in the economic performance of states in India. These differences contribute to differences in capacities to raise revenue as well as in the states' capacity to deliver services to the people. Such differentials are sought to be compensated at least partially through mechanisms of equalizing transfers, through the Gadgil formula and the finance commission transfers. There are a large number of papers in the literature which discuss the impact and effectiveness of these mechanisms in achieving some measure of equality in service provision. There are however, two other forms of intervention by the central government, which can potentially have significant impact states — direct spending by the government on various programmes and tax expenditures resulting from tax preferences. This study aims to look at the latter component.

Before attempting to understand the impact of tax expenditures across states, it would be useful to emphasize an important limitation of any tax expenditure study.[1] Any tax preference by changing the relative price the relative price or by altering the returns to investment in the chosen activity or location, encourages investment in the same. Not all of the total investment that occurs in the chosen activity under the incentive regime, can be attributed to the regime itself — some of the investments could have occurred even in the absence of such incentives. To provide an example, if the government chooses to incentivise investment in petroleum refineries, while this process provides higher return to all units set up in this regime, not all of these units arise solely because of the incentive. Demand for refinery products along with a reasonable price would have attracted some investment into this sector. If tax expenditures are to represent the net additional income the government would have derived in the absence of the incentive regime, ideally only the component of investment or output sustainable

[1] See Burman (2003) for a comprehensive review of the issues surrounding measurement and interpretation of tax expenditures and Bagchi et al (2005) for a discussion of the tax expenditures in central taxes in India.

without exemptions or concessions should be taken into account. However, this difference is difficult to capture and hence, most exercises work with an assumption of unchanged economic activity for deriving dimensions of tax revenue foregone. The present study too adopts “the no change in economic activity” approach.

Another major caveat with tax expenditure studies is that only explicitly stated tax provisions are taken into account. Tax statutes involve some implicit incentives and negative tax expenditures as well. For instance, the fact that income tax act does not cover agricultural income provides an implicit exemption to agricultural income, especially since most states do not exercise their right to tax agricultural income. The tax expenditure study works within the limits set by the tax base defined in the tax laws. Within this defined scope of a tax expenditure study, it is useful to understand how to deal with the tax payers with incomes/turnover below the threshold for mandatory registration. In principle, it is possible to define to components to the above threshold —one threshold where the law believes that units smaller income/turnover are not viable units for taxation purposes and the other where the exemption is extended to “provide a level playing field to small investors”, or “correct for high cost of operations for small units”. The former will not qualify for an exemption while the latter would. In the Indian context, while the income tax exemption threshold is less frequently associated with corrections for higher costs etc., the threshold definition for excise purposes usually has frequent references to the same. Therefore, this study attempts to evaluate the latter but not the former.

Within the above limitations, the present study attempts to identify the impact of a few select exemptions/preferences across states. For Direct Taxes, the Revenue Foregone Statement in the Receipts Budget of Government of India, 2008-09, provides an estimate of the extent of revenue foregone on account of each of the provisions in the Income Tax Act. The present exercise seeks to allocate these amounts for the selected provisions, across states, based on estimates of the share of the individual states in the selected activity. It should be mentioned that since in the case of income tax, where the gains are available only against income tax filed, this provides a fairly reasonable estimate. In the case of indirect taxes however, there are instances were the returns would not reveal information on the extent of exemption availed. Units availing small scale exemption or those availing exemptions under areas based schemes for the most part do not have to file a return. This could be further compounded by the fact that these provisions induce evasion and avoidance. In these cases, while some estimates of the extent of activity involved is attempted, the evasion and avoidance aspect cannot be captured.

The world economy is going through a phase of sharp slowdown in growth, the impact of which is being felt in India as well. Such a slowdown is expected to impact outputs, incomes and taxes as well as the estimates of tax revenue foregone. This process is expected to produce some asymmetric effects — in a slow down, any cost reduction would be useful. Therefore, it makes more sense to make use of any exemptions available. Servicing demand from Uttarakhand and Himachal Pradesh therefore makes more sense that from the rest of the country. This logic would not hold if the cost of operation in these states far exceeds that from other states in India. On the other hand, a reduction in the rates of tax reduces the benefits delivered by any given exemption scheme. In the above example, for instance, a reduction in the rate of excise duty from 16 percent to 8 percent, as it prevalent at this point in time, can significantly reduce the benefits associated with the incentive regime. These asymmetries however are not sought to be captured, in the hope that this is a temporary phase, and the analysis would be applicable once the phase is over. Conceptually however, while the allocation of gains would change, the idea of capturing the differences between states would not. Further, to the extent that most of the exemptions considered in the present exercise are from income tax, the summary numbers presented at the end of the exercise would remain representative.

The paper is organized as follows: impact of tax exemptions within income tax in India is limited by the provisions of the Minimum Alternate Tax (Section 115JB— of the Income Tax Act.) The paper begins with a discussion of the possible impact of this tax on the liabilities of companies which can otherwise avail some tax exemptions. Following this, impact of selected tax exemptions on individual states is presented. This is followed by a discussion of the overall impact of the exemptions considered in this study.

2. Minimum Alternate Tax

The Minimum Alternate Tax was introduced with the purpose of bringing back within the tax net, companies which were becoming zero-tax companies as a result of the various tax preferences. Given that such a provision would neutralize the benefits of the tax preferences provided, it was converted into a form of "advance tax". This provision requires firms to pay at least seven and half percent of the "book profits", with the provision that in subsequent years when the unit becomes a tax paying unit, it can avail tax credit of MAT paid against regular corporate tax payable.[2] It maybe noted that under MAT, a company which is registering rapid growth is incentivised to stagger or tax plan its investments such that it can realize the benefits of accumulated credits under MAT. The provisions of MAT do not apply to SEZ units.[3] However, for all other units which potentially gain from the some provisions in the Income Tax Act, MAT tends to reduce the extent of benefits offered. Consider two situations – one, a stand alone unit in Uttarakhand and second, a company with units located in Uttarakhand as well as elsewhere. The former would be expected to pay MAT which can be realized when the units is liable to pay tax at the end of the incentive period. If the incentive period extends beyond 7 years, then only part of the MAT credit will be available when the units become tax paying units. On the other hand, the second company can continue to set off profits from the non-incentivised units against the incentives available in the incentive areas/sectors and pay taxes close to or equal to MAT as a regular tax. The impact therefore is different for the two kinds of units. Making corrections for the same in arriving at the figures for tax foregone is not attempted in this study.

---

[2] In the computation of book profits, some inclusions and exclusions have been specified. Important among them are deferred tax, It is important to mention here that there is a limit on the number of years within which the tax payer is expected to take tax credit. This effectively translates into a process of providing interest free loan to the government by the tax payer who under other sections of the income tax act, is provided some concessional treatment.

[3] Profits accruing under section 80HHC, 801-11-1E and 80HHF, as well as incomes under sections 10 (except subsection 23G), 10A, 10B, section 11 and section 12 are also outside the purview of the tax.

3.1 Software Technology Parks and EHTPs:

The benefits for STPIs and EHTPs under section 10A of the Income tax Act, provides for a tax exemption for 10 years. This provision has undergone some changes from April 1, 2003 – when the number of years of 100 percent exemption has been reduced to 5 years, to be followed by 50 percent exemption for two years and another three years where 50 percent of the profits could be set aside- tax free for use in reinvestment. The section comes with a terminal date – no exemptions were to be availed under the provisions of this section after April 1, 2010. This date has recently been extended to 2011.[4] There are states in India which claim to the IT capitals or IT hubs of the country. The penetration and use of Information Technology differs quite significantly across states. The gains from this provision therefore would not be distributed uniformly across states, in which ever way we seek to define uniform. The annual reports of the Software Technology Parks of India (STPI), a society set up by the Department of Communication & Information Technology, Government Of India in 1991, provides information on STPI exports by state. (www.stpi.in/annual.htm) The latest available information here is for the year 2006-07, which is used to allocate the estimated gains from the STPI exemptions to the states. (Page 10 of Annual Report, 2006-07). The state wise figures provided by the Department of Revenue are also included in the Table. It should be mentioned that there are some differences in the figures from these two sources. These differences could in part be attributed to the fact that the figures provided to the Department of Revenue are for companies which can be spread over multiple states. The information is assigned to the state in which the company is registered as a tax payer. The figures in the latter source therefore show greater concentration of the gains than the former set of figures. It is felt that for the purposes of the present exercise, the former is a more representative and reliable figure, since this would provide a closer estimate of the extent of economic activity induced by the incentive regime. In this and subsequent sections, therefore, we focus on more direct measures of benefits derived.

[4] By this sunset clause, the benefits under this section potentially get terminated. However, following the enactment of the Special Economic Zones Act, section 10AA provides a fresh lease of life is available to "new" units.

Table 1: STPI: Alternative estimates of State-wise incentives availed

	2006-07		Estimated incentives availed		Incentives as per returns	Including EHTPs	
	Exports	Share in exports	2006-07	2007-08		estimates	based on returns
Andhra Pradesh	18582	12.89	1181	1554	839	1193	839
Bihar					1		1
Chandigarh	345	0.24	22	29	2	22	2
Chattisgarh	2	0.00	0	0	0	0	0
Delhi	4146	2.87	264	347	1,233	266	1,233
Gujarat	564	0.39	36	47	48	36	48
Haryana	9287	6.44	590	776	32	596	32
Himachal Pradesh	1	0.00	0	0	0	0	0
Jammu Kashmir	2	0.00	0	0	0	0	0
Karnataka	48700	33.77	3095	4072	3,185	3126	3,273
Kerala	750	0.52	48	63	25	48	25
Madhya Pradesh	220	0.15	14	18	47	14	47
Maharastra	27625	19.16	1756	2310	2,988	1773	2,989
Orissa	732	0.51	47	61	2	47	2
Pondicherry	44	0.03	3	4	3	3	3
Punjab	195	0.14	12	16	7	13	7
Rajasthan	312	0.22	20	26	3	20	3
Tamilnadu	20745	14.38	1319	1734	670	1331	670
Uttar Pradesh	8453	5.86	537	707	55	543	55
Uttarakhand	9	0.01	1	1	0	1	0
West Bengal	3500	2.43	222	293	25	225	25
TOTAL	144214		9166	12057	9164	9255	9254

Source: Estimated from figures provided in STPI Annual Report 2006-07.

Under the assumption that there would be some synergy between software activities and the hardware activities, it is assumed that the gains to EHTPs too follow the same pattern. It may be mentioned that since EHTP exports are considerably smaller than the STP exports – the former are less than 2.5 percent of the latter – this assumption would not distort the picture significantly.

3.2. Small Scale Exemptions:

Exemptions and concessions are accorded to the small scale units within the CenVAT regime. At present all units with turnover less than Rs 1.5 crore are exempt from tax on goods manufactured, while for those which recorded a turnover of upto Rs 4 crore in the preceding year are entitled to an exemption on the first Rs 1.5 crore of production. These thresholds were revised with effect from April 1, 2007. Prior to that, the exemption limit was Rs 1 crore. While every tax regime would have some threshold for exemption, since it is considered impractical as well as politically unacceptable to tax small units and/or incomes, it is important to ask the question – what is a suitable and appropriate cut-off point. There can be many ways of answering this question. In some countries, the threshold is sought to be related to the average per capita in the country. An alternative approach can be based on the extent of resources available with a tax department – a resource constrained situation might call for a higher threshold. A third approach is one where one seeks a synergy between the thresholds for various taxes and the laws. Using the third approach, the state VAT laws, which apply on most of these units prescribe a maximum threshold of Rs 50 lakh, i.e., Rs 0.5 crore. As per the companies Act, every unit which has a turnover exceeding Rs 40 lakh is expected to comply with certain minimum accounting guidelines and prepare an audited statement of accounts. All such units are expected to produce these documents along with their income tax return for Income Tax purposes. In light of the above, it would appear that, at least so far as compliance requirements and costs are concerned, Rs 50 lakh provides a reasonable threshold for exemption. This is further reinforced by the fact that for service tax, no such exemption threshold is specified. This is important since with the proposed integration of these two taxes into a uniform Goods and Services Tax, it would not be feasible nor desirable to maintain two different exemption thresholds.

If the exemption threshold of Rs 50 lakh is accepted, then units with turnover above this level and availing exemption, would effectively be availing a policy based exemption. It is this category of exemption that the present study seeks to focus on. To derive the impact of this exemption across states, we make use of state level data from the Third SSI census. In using this data, a number of heroic assumptions are implicit. The first major assumption is that this data is representative of the sector even in years 2006-08. De-reservation of some activities in the interim and progressive lowering of customs tariffs, are often argued to have affected the SS sector adversely. Further, since the definition of small scale unit used the central excise department is based on turnover while that of the Ministry of Small and Medium Enterprises is based on capital investment, if there are units with investments beyond those prescribed by the latter, but with turnover corresponding to the former, such units, with high capital output ratio, would not be captured by this approach. Another operational assumption implicit in this exercise is that while, with growth, some of the hitherto small scale units would move out of this category and hence be taxable in the later years, the survey remains representative since new units would emerge and/or even smaller units would grow into the category of interest.

An attempt is made to identify the units which have a turnover above Rs 50 lakh, i.e., Rs 0.5 crore. Of the aggregate state wise turnover of such units, value added is assumed to be 50 percent of the value of output, which is taken as the base for tax and 16 percent and 14 percent rates of tax provide two alternative scenarios. (14 percent rate provides a present day benchmark, since the rate of tax under CenVAT has been reduced in 2008-09). It is assumed that this base remains unchanged in spite of changes in prices and growth, since as mentioned above, an expansion in turnover would remove existing SS units into the non-SS category. So the only rational means for this sector to increase in size is for rapid growth in the number of units. In light of the argument that SS sector is adversely affected by reductions in import tariffs and de-reservation, a conservative assumption of no growth seems reasonable. The results are presented in Table below.

For the units with turnover between Rs 0.5 crore and Rs 1.5 crore, all turnover over and above Rs 0.5 crore is considered the taxable base. On the other hand for units which have a turnover over Rs 1.5 crore, since they would be paying taxes on some part of the turnover, the exemption delivers benefits on Rs 1 crore of turnover. Since the total turnover reported by the SSI census is considerably lower than the turnover suggested by alternative estimates suggested by the Economic Survey and the Ministry of Small and Medium Enterprises, alternative estimate is provided in the last column based on these estimates. While the total implied revenue impact is taken from an earlier NIPFP study, for allocating the same across states, the share of each state as reflected in the computations presented in the "Total Revenue Impact" columns is used.

Table 2: SSI Exemption: Impact of redefined Exemption Threshold

	Revenue impact for Units with Turnover 0.5 crore to 1.5 crore		Revenue Impact for Units with turnover over 1.5 crore		Total Revenue Impact		Revenue (GDP approach)
State Name	16 percent	14 percent	16 percent	14 percent	16 percent	14 percent	
A and N Island	0	0	0	0	1	1	1
Andhra Pradesh	55	48	103	90	158	138	272
Arunachal Pradesh	0	0	0	0	0	0	0
Assam	5	4	9	8	14	12	24
Bihar	2	2	4	4	7	6	12
Chandigarh	3	2	7	6	10	9	17
Chattishgarh	7	6	13	11	20	17	34
Dadra and Nagar Haveli	4	4	16	14	20	18	35
Daman and Diu	9	8	34	29	42	37	73
Delhi	25	22	54	48	80	70	138
Goa	2	2	7	6	9	8	15
Gujarat	32	28	24	21	56	49	96
Haryana	61	53	124	108	185	162	318
Himachal Pradesh	5	4	16	14	20	18	35
Jammu and Kashmir	9	8	17	15	26	23	45
Jharkhand	5	4	5	4	10	8	16
Karnataka	41	36	66	58	107	94	184
Kerala	26	22	39	34	64	56	111
Madhya Pradesh	306	268	46	41	353	309	608
Maharastra	143	125	234	204	377	330	649
Manipur	0	0	0	0	0	0	0
Meghalaya	1	1	1	0	1	1	2
Mizoram	0	0	0	0	0	0	0
Nagaland	0	0	2	1	2	2	3
Orissa	10	9	26	23	37	32	63
Pondichery	5	4	14	12	19	17	33
Punjab	75	66	152	133	227	198	390
Rajasthan	49	43	96	84	145	127	250
Sikkim	0	0	0	0	0	0	1
Tamil Nadu	78	68	120	105	198	174	342
Tripura	1	1	1	1	2	2	3
Uttar Pradesh	73	64	127	111	200	175	345
Uttarakhand	8	7	15	13	23	20	39
West Bengal	35	30	54	47	89	78	153
TOTAL					2501	2189	4308

Source: Computed from Primary data of the SSI Third Census

3.3. Area based exemptions:

The North Eastern Industrial Policy 1997 was one of the major steps taken to provide incentives for the expansion of industrial activity in these states. Incentives under this scheme included duty exemption under Central Excise/CenVAT and exemption from income tax for a period of 10 years after the initiation of commercial production, provided the unit commenced production before 2007. Both new units as well as units undergoing “substantial expansion in economic activity” were eligible for the exemption scheme, where substantial expansion was defined as expansion in book value of plant and machinery by at least fifty percent. Sikkim was not covered by this or similar schemes until 2002, when a New Industrial Policy and other concessions for the State of Sikkim” was announced, when the same scheme was extended to this state as well. Subsequently, the government has provided similar incentives to other states in the North India —Uttarakhand and Himachal Pradesh. in 2003. The incentives for these two states were limited to 100 percent exemption for 5 years followed by 25 percent for another five years.[5] These schemes, it has been argued, have differential impact on different states. For instance, for the states sharing borders or located close to the incentivised states, there are perceptible gains from relocation to the latter. This was considered an important issue when the incentive scheme was introduced for Uttarakhand and Himachal Pradesh, which are relatively closer and better connected to the market in the major states of India than the states in the Northeastern region. Ideally, the impact of the incentive regime across states **in** this case should be judged on the basis of the both gainers and losers. However, this exercise focuses only on the gainers and the extent of gains realized.

The incentive regime for area based exemptions includes both income tax exemptions and indirect tax exemptions. In terms of the benefits derived from these provisions, the tax expenditure statement on income tax provides statewise information on exemptions claimed for Himachal Pradesh, Uttarakhand, Jammu and Kashmir, and Sikkim. For the Northeast, the claims are clubbed together. Since bulk of the investment in these states is in small scale units, it is assumed that the share of each state in small scale sector would a fair representation of the share of the state in the benefits derived in income tax. For excise collections, however, the information in the tax expenditure statement is clubbed together for all these states. Further, the form of computation of tax foregone in excise duty appears erroneous since the

[5] These percentages were 100 percent and 30 percent in the case of companies. Jammu and Kashmir is not covered by these provisions. Similar incentives are extended to enterprises in this state as well under section 80IB, which deals with backward areas and districts in the country.

formula adopted is

Revenue foregone = value*(tariff rate of duty – effective rate of duty)

Where value refers to value of clearances. Since CenVAT is organized in the form of a value added tax where there is tax credit available for the taxes paid on purchases of both goods and services, the above provides an overestimate of incentive offered to the units. Since most units would have paid taxes on their inputs, the tax exemption applies only to value added in the exempt unit. Since share of credit in total CenVAT payable was 55 percent for the year 2007-08, we can use the same figure to derive the extent of tax foregone from these units from the estimates provided in the tax expenditure statement.

Given that central excise or CenVAT operates on tax credit, this brings the base on which the tax is levied a step closer to the base for income tax, the benefits from CenVAT are assumed to be proportionate to the benefits accruing from Income tax. This is further facilitated by the fact that incentive regime for Uttarakhand and Himachal Pradesh began in 2003 and allowed for a five year period of 100 percent exemption. All the firms making use of this provision would therefore be in the 100 percent exemption period itself. Further, since incentives provided to Kutch are also included in the computation, an approximation of the incentives attributable to this region is made based on investment figures provided in the Industries department website of Government of Gujarat.[6] This approach yields a figure of Rs 120 crore as the incentives availed in Kutch.

[6] Government of Gujarat, too had formulated an incentive package for Kachcch in 2001. The industries department of Government of Gujarat has put out a statement on the extent of incentives provided under this scheme and alongside provided figures of investments in this time period as well in an interim statement. These figures are adjusted for a small scale units, since these units are not exempt under CenVAT. For undertaking these corrections, it is assumed that all units with investment less than Rs 2 crore are completely exempt and for units less than Rs 8 crore, there is some benefit accruing. Assuming a capital output ratio of 2 for the small scale units and 3 for the other units, it is possible to derive the value of out and applying a 16 percent rate of CenVAT, the figure for value of incentives provided in Kutch are derived. Since the final incentives statement does not provide a figure for investments, the total incentive derived from the interim figures is inflated to take into account all investments undertaken during this period http://ic.gujarat.gov.in/indus-stat/inc_adh_ kutch.htm and http://ic.aujarat.gov.in/indus-stat/inc_kachchh.htm

Table 3: Impact of Area Based Exemptions

	Income tax	Excise
Arunachal Pradesh	28	23
Assam	814	683
Himachal Pradesh	1677	1585
Jammu And Kashmir	499	472
Manipur	1	1
Meghalaya	34	28
Mizoram	3	3
Nagaland	74	62
Sikkim	13	17
Tripura	141	118
Uttarakhand	760	718
Gujarat (Kutch)		120
Total	**5139**	**3847**

Source: Computed

3.4. Exports and Special Economic Zones

Level playing field for domestic manufacturers in the export markets requires that all exports are cleaned of all domestic indirect taxes. By this principle, all "incentives" provided to exports with an objective to neutralize the impact of domestic taxes, whatever form they may be in, should be kept out of any analysis of the impact of tax expenditures.[7] Here therefore, we focus on special economic zones. Special Economic Zones Act was passed in 2005 and the rules were notified in 2006. While the country already had some export promotion zones, both in the public sector and in the private sector, this legislation put in a framework for expanded activity on this front, pulling together the various incentives available under alternative schemes as well as augmenting the same. For instance, incentive regimes were already in place for various infrastructure projects. Similarly, while they were being phased out, there existed incentive regimes for income tax exemption for exports and especially for export profits from software sectors.

Further, zero-rating was available for all exports, within indirect taxes. The new

[7] It may be mentioned that the provisions under the WTO allow only for some forms of relief, which establish a direct connection between the amount of indirect taxes paid and relief therefrom. All other forms of relief are potentially subject to countervailing duty.

policy aims at making the benefits more comprehensive and can be summarized as follows:

1. For sales made to the domestic tariff area (DTA), outside the SEZs, the transactions are treated on par with imports from the rest of the world and are subjected to import duties as well as any other levy applicable such an additional customs duty and special additional duty, being countervailing levies for excise and state taxes respectively.
2. On imports into these zones, from outside the country or from other SEZs, there are no customs duties leviable.
3. On purchases from the domestic tariff area, these transactions are exempt from excise duty. Zero-rating under excise duty is available for all exports within the country and is not a provision specific to the SEZs. However, zero-rating extends to the developers as well as the exporters in the SEZ policy. This is one important expansion in coverage.
4. On the income tax front, there is an income tax holiday for the first five years of the operation of the enterprise on profits and gains from exports, followed by another five years where the tax liability is 50 per cent of the profits and gains from exports. This is further, followed up by a period of 5 years where a designated amount of the tax dues can be set aside in a fund to be used within a limited time period for investment in plant and machinery. For developers, the incentives are a tax holiday for any 10 consecutive years out of the first 15 years of development of the SEZ.
5. Dividend Distribution Tax and MAT are not applicable to units located in the SEZs as well as to the developers of the SEZs. Further, the provisions regarding withholding tax too do not apply here, for interest payments by off-shore banking units.
6. If a unit is relocating from an urban area outside the SEZ to an SEZ, there is no capitals gains tax liability on the sale of assets.

This category of incentives are presently evolving and therefore the total incentives provided are not taken from the receipts budget, since this figure would represent an underestimate of the current level of incentives availed. The present document therefore presents two alternative numbers. Given the progress achieved so far, it first presents an estimate of the extent of incentives availed in the given year under consideration. Further, given the extent of investment undertaken at the present juncture, under the assumption that all projects where more than 50 percent of the committed expenditure has already been incurred, an estimate of the incentives that would accrue once all these projects come online, would also be provided. The quantum of investment and the relative incentive are derived as follows:

1. The quantum of investment by the developer is obtained from Special economic zones website, setup by the Ministry of Commerce.
2. The above website provides information for each SEZ notified, the year of notification as well as the amount of investment in land and non-land undertaken as on 31.3. 2008. Investment on non-land activities is taken as the base for computing the indirect tax incentives. For the year 2007-08, 40 percent of the investment in units notified in 2006 and all of the investment in units notified in 2007 is taken to the base. Assuming that 50 percent of the non-land cost of the project is materials, and applying a uniform rate of tax of 16 percent as the benchmark for CenVAT, the quantum of tax exemption availed in indirect taxes is computed.
3. Assuming 15 percent return on capital invested and 10 percent interest on borrowed capital, (66 percent borrowed and rest is assumed to be invested) the income generated in development activity for the operational SEZs is worked out.[8] (Operational SEZs are identified as those where the actual investment is equal to or exceeds the projected investment. Only a few of the SEZs may therefore actually be operational). The prevailing rate of tax of 33 percent is applied on this estimate of income to derive the direct tax benefits availed by the developers in the reference year. For deriving the estimate of benefits when all the projects in advance stage of completion,

[8] For financial institutions, which would lend to these units, if they are off-shore lending units, then there is no tax payable on incomes earned from such lending activity. Here it is assumed that lending institutions derived profit of 20 percent from the interest income they earn.

are actually completed, the projected investment in the project is taken as the point of reference to derive the total incomes generated and the tax benefits therefrom. These figures are presented in the last column of the table.

Table 4: Tax incentives availed during 2007-08: New SEZ Developers (Rs crore)

State	Indirect taxes		Investment	Direct taxes			
				Potential income		Tax exemption gained	
	Investment in current year	Tax incentive	Operational SEZs	Developer	Lender	From present Investment	From Proposed investment
Andhra Pradesh	1549	124	1679	85.6	110.8	35.6	36
Chandigarh	0	0	0	0.0	0.0	0	0
Goa	98	8	102	5.2	6.7	2	0
Gujarat	3186	255	2457	125.3	162.1	47	157
Haryana	487	39	1095	55.9	72.3	21	21
Jharkhand	0	0	0	0.0	0.0	0	0
Karnataka	1193	95	474	24.2	31.3	9.1	22
Kerala	21	2	761	38.8	50.2	15	0
Madhya Pradesh	13	1	105	5.4	6.9	2	2
Maharashtra	1576	126	934	47.6	61.6	18.0	23
Orissa	26	2	0	0.0	0.0	0	0
Punjab	145	12	0	0.0	0.0	0	2
Rajasthan	79	6	0	0.0	0.0	0	0
Tamil Nadu	1334	107	1579	80.5	104.2	30.4	72
Uttar Pradesh	237	19	687	35.0	45.3	13.2	4
Uttarakhand	0	0	0	0.0	0.0	0	0
West Bengal	3	0	0	0.0	0.0	0	0
Total		796	9872	503	652	193	339

Source: computed from figures from www.sezindia.nic.in

For the exporters from SEZ, while there are no indirect taxes, the direct tax benefits relate to the profits and gains derived from exports from new units located in any of the SEZs. Since some of the SEZs are old ones and others are newly established, it is assumed that for the older government established SEZs, the increase in exports in 200708 over the figures for 2006-07 will constitute the exports by new units, after the new Act was introduced. For the rest of the zones, all reported exports for the given year are taken as the base for understanding the extent of gains from this provision. It is assumed, conservatively, that profits constitute 10 percent of total value of exports and with 33 percent rate of tax, the benefits accruing to each of the states is derived. As compared to the figures presented in this computation, the figures reported in the tax expenditure statement for direct taxes show an impact of Rs 181 crore for developers and Rs 202 crore for exporters from these zones.

Table 5: Direct Tax Incentives Availed by SEZ exporters (Rs Crore)

	Exports					
	Govt SEZs	Private I	Private II	Total Exports	Profits	Taxes
Andhra Pradesh	51		592	643	64	21
Chandigarh			118	118	12	4
Gujarat	422	12429	2191	15042	1504	496
Haryana			4	4	0	0
Karnataka			1768	1768	177	58
Kerala	3614		28	3642	364	120
Madhya Pradesh		392		392	39	13
Maharashtra	-785		568	568	57	19
. Rajasthan		326		326	33	11
Tamil Nadu	706	12967	1765	15437	1544	509
Uttar Pradesh	9972	0	180	10101	1010	333
West Bengal	19	2141		2160	216	71
Total	14734	28254	7213			1657

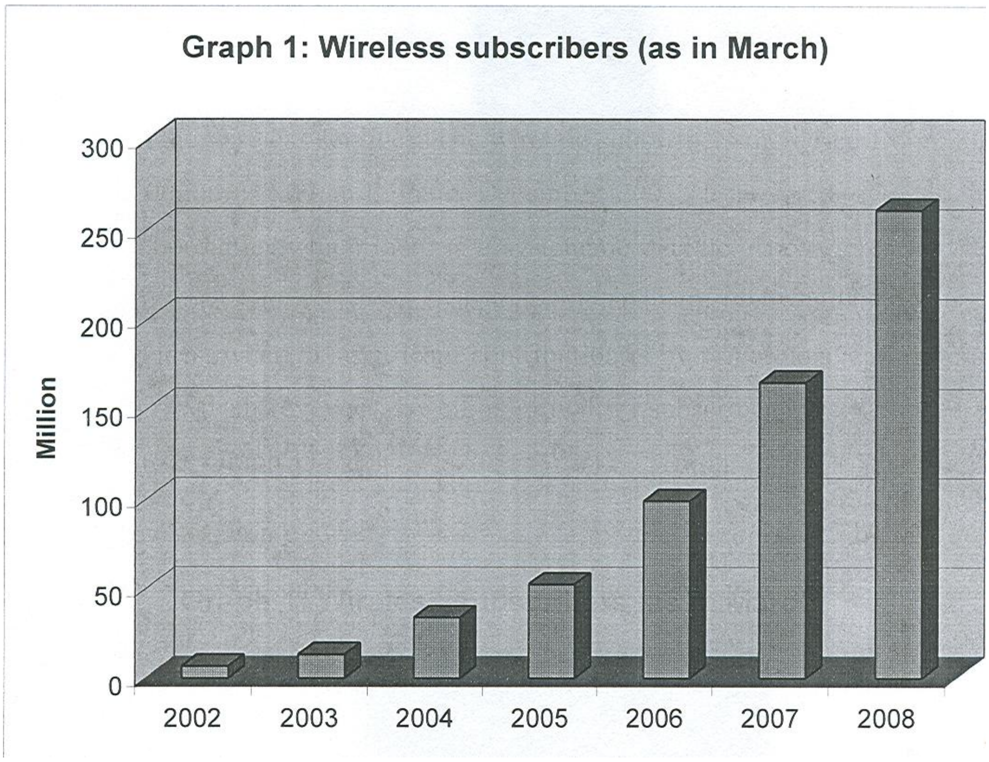
Notes: Private I refers to Zones notified before the SEZ Act and Private II refers to Zones notified under the SEZ Act, 2005.

Source: computed from figures from www.sezindia.nic.in

3.5. Telecom sector:

Any undertaking which has started or starts providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite services, networking of trunking, broadband network, and internet services was eligible for the incentive scheme. The income tax act provides for a deduction of 100 percent of the profits and gains in the computation of total income, for the first five years and then for 30 percent deduction for subsequent five years. This ten year interval can be availed during the first fifteen years of operation of the enterprise. This incentive scheme was available provided the services were initiated between the April 1, 1995 and March 31, 2005. Where the gross income of an assessee includes any profits and gains derived by an undertaking from any business listed below, a deduction of 100 percent of the profits and gains would be allowed in computation of total income. This exemption would be available for a period of ten consecutive assessment years, out of the first fifteen years of operation of the infrastructure facility set up by the enterprise or undertaking.

It is important to highlight a couple of features of the telecom sector before attempting to allocate the estimated revenue impact among the states. Recent trends in the telecom sector highlight a decline in the subscriber base of the wireline services and a rapid expansion in the wireless services. The wireline subscribers increased from 38.33 million in March 2002 to 42.09 million in December 2003. It hovered over 41 million till September 2006, after which there is a systematic decline. The figures for March 2008 are 39.42 million. The massive expansion in teledensity is attributable to expansion in wireless services, where a significant contribution is by private players. In terms of time trends, the growth in revenue as well as growth in subscriber base has been very sharp since 2002. (See Graph 1)



Source: TRAI, The Indian Telecom Services, Performance Indicators, various issues

Keeping these features in perspective, it is useful to focus on the wireless services as a proxy for new investments in this sector. Further, since 100 percent deduction was available for the first five years, in order to arrive at the possible incentive scenario for 2006-07, the revenue base for 2001-02 would represent the base on which thirty percent deductions would be applicable. On the rest, 100 percent deductions would be applicable. For any capacity created before 2001-02, the first period would end before 2006-07, and for capacity created since this date, the units would still be in the 100 percent deduction phase. Hence the above would be a reasonable approximation. Since data on state wise revenues for 2001-02 are not easily available, a further approximation is called for. A comparison between revenue figures for 2001-02 and 2007-08 suggests that the total revenue for the former year was barely 11 percent of the total revenue for the latter year. Since we are further proposing to consider only 30 percent of the same, it is reasonable, to assume that sticking only to mid year 2007-08 estimates would not be a very poor proxy for the total impact. The resulting estimates from such an approach are presented in Table 6 below.

For each state the revenue from CDMA and GSM services is derived by taking the customer base and the average revenue per customer.[9] Investments are assumed to be proportional the revenue generation and hence the incentives related to the investments too should be proportional. Since the figures available in the public domain for the telecom sector provide information by "circle" and not states, all the states in the North East are clubbed into two categories Northeast I ad Northeast II. These figures are allocated to the individual states on the basis of statewise figures for number of telephones for 2004, the latest available figures. As would be evident from the figures in the last column, the figures based on the income tax returns provide a substantially skewed picture with massive concentration of the gains in Delhi alone.

[9] TRAI, Indian Telecom Services, Performance Indicators, July to September 2008. Since there is a sharp increase the subscriber base during the course of the year, a mid year figures are considered a reasonable approximation of the average for the year

Table 6: Statewise Gains from Telecom Exemptions

	Number of subscribers			Revenue Earned		share in total revenue	Gains from Incentives	Allocations from returns
	Total	GSM	CDMA	GSM	CDMA			
A.P.	165	122	44	335	75	0.08	520	1
Assam	29	21	8	59	13	0.01	91	0
Bihar	80	59	21	161	36	0.04	250	0
Chhattisgarh	5	4	1	11	2	0.00	17	0
Delhi	142	105	37	287	65	0.07	447	4,366
Gujarat	139	102	37	282	63	0.07	438	200
H.P.	18	13	5	37	8	0.01	58	0
Haryana	55	40	14	111	25	0.03	172	0
J & K	18	13	5	36	8	0.01	55	0
Jharkhand	6	4	1	11	3	0.00	17	0
Karnataka	141	104	37	285	64	0.07	443	2
Kerala	96	71	25	195	44	0.05	303	0
M.P.	92	68	24	187	42	0.04	291	0
Maharashtra	279	206	74	565	127	0.13	879	291
Orissa	39	29	10	79	18	0.02	123	0
Punjab	99	73	26	200	45	0.05	311	0
Rajasthan	107	79	28	217	49	0.05	337	0
Tamil Nadu	199	146	52	403	91	0.10	626	128
U.P.	228	168	60	462	104	11	416	0
Uttarakhand	6	4	2	12	3	0.00	18	0
W.B.	132	97	35	267	60	0.06	415	66
North East-I	13	10	3	26	6	0.01	41	0
Meghalaya	5			11		0.22	14	0
Mizoram	3			8		0.16	10	0
Tripura	5			12		0.24	16	0
North East-II	3	2	1	6	1	0.00	10	0
Arunachal Pradesh	1			3		0.05	3	0
Manipur	1			2		0.05	3	0
Nagaland	1			3		0.06	4	0
[illegible]	[illegible]	[illegible]		[illegible]		[illegible]	[illegible]	[illegible]

Notes: Number of subscribers are in lakhs and revenue figures are in Rs Crores.
Source: computed using TRAI, Performance Indicators July – September 2007 and TRAI Press Release No. 02/2008 for Average Revenue per User.

3.6. Power Sector

Under section 80-IA, there are some incentives offered to the power sector, for both generation of electricity and investment in transmission and distribution. The incentives in these cases are to the extent of 100 percent deduction of profits and gains from these activities in the computation of total income, for a period of 10 consecutive years within the first 20 years of operation of the infrastructure facility. The units eligible for this incentive scheme are

1. units set up in India for generation or generation and distribution of power,
2. for units establishing a network of new transmission and distribution lines,
3. units undertaking substantial renovation and modernization of existing network of increase in plant and machinery by at least 50 percent of the book value of plant and machinery as on April 1, 2004.

The sunset clause for this provision is the units have to be operational before March 31, 2010.

Since the incentives in the power sector are for both new capacities created as well as for repair and maintenance of the existing transmission and distribution network, the approach adopted in this case is the following. Units are normally classified into state utilities, Central PSUs and non-utilities in the power sector. For state utilities, profits before and after tax are published by Power Finance Corporation.[10] Since, exemption under this provision cannot be combined with other provisions like accelerated depreciation it is assumed that the difference is attributable entirely to the taxes paid. Comparing the resultant rate of tax with the statutory rate of tax, it is possible to identify the extent of profits on which the incentive is availed and hence on the extent of benefit derived as a result of this provision. Here information for both generation companies and transmission and distribution companies are used.

Turning to the central PSUs, there is a conceptual issue in determining the statewise benefits from such an incentive regime. A power generation unit set up in a state does not necessarily provide benefits to that state alone. Alternative approaches can be

- the gains are recorded against the state in which the unit is located.
- The gains are distributed across the various beneficiary states.

[10] Power Finance Corporation (2008)

- The gains are distributed only to the extent any state receives power free of cost or at concessional rates. In the case of Hydel power for instance, the state of location of the unit is entitled to 12 percent of the power generated free of cost.

This study takes the first approach since employment and income generation accrues to the state of "origin".[11] Like in the state utilites, for the central PSUs as well the difference between the profit before and after tax is used to derive the extent of benefit derived. Then for each central PSU, the capacity added in the generation units commissioned since the year 2000 were taken as the benchmark for assigning this gain across the states.[12] This principle applies quite well to generation units. However, since distribution units are expected to connect one state with another, no attempt has been made to map the gains received by these corporations like Power Grid Corporation on to individual states.

Taking into account all the estimated gains by central and state utility companies, the balance of the reported quantum of tax incentives, as per the budget statement, is assigned to the non-utilities. Here only those states where there is an increase in power generated between 2002-03 and 2006-07 are taken as having derived some benefits from the provisions. The share of any given state in the total benefits attributed to the non-utilities is equal to its share in the increase in generation between these two periods of time.

---

[11] It may also be mentioned that data limitations constrain the adoption of the alternative approaches.

[12] This exercise was undertaken for National Hydel Power Generation Corporation, National Thermal Power Generation Corporation, NEEPCO, Damodar Valley Corporation, Nuclear Power Corporation of India, Satluj Jal Vidyut Nigam, Narmada...., Tehri..... For Damodar Valley Corporation, since there are no new projects commissioned, the gains are attributed to renovation and upgration and distributed between Jharkhand and West Bengal in proportion to the capacity installed in each of these states. The figures for Neyveli Lignite Corporation do not reflect any gains captured.

Table 7: Gains from Power Sector Incentives

	Central PSUs	State utilities	Non-utilities	Total	From Returns
Andhra Pradesh.	0	0	0	0	166
Arunachal Pradesh	50	0	0	50	0
Assam	3	0	0	3	0
Bihar	142	0	0	142	0
Chhattisgarh	0	146	457	603	163
Delhi	0	97	0	97	1038
Goa	0	42	0	42	0
Gujarat	112	60	921	1093	127
Haryana	40	1	1	41	367
Himachal Pradesh	244	1	0	245	340
Jammu and Kashmir	77	14	0	91	0
Jharkhand	83	21	128	232	9
Karnataka	128	63	32	224	182
Kerala	0	73	4	77	6
Madhya Pradesh	426	9	253	689	2
Maharashtra	210	41	322	573	1277
Manipur	0	0	0	0	0
Meghalaya	0	0	15	15	0
Mizoram	0	0	0	0	0
Nagaland	9	0	0	9	0
Orissa	0	168	472	641	87
Pondicherry	0	13	16	30	0
Punjab	0	0	49	49	9
Rajasthan	86	0	137	222	128
Sikkim	12	0	0	12	0
Tamil Nadu	0	0	164	164	221
Tripura	0	9	0	9	0
Uttar Pradesh	344	0	0	344	24
Uttarakhand	86	0	28	114	34
West Bengal	132	64	33	229	416
Total gains	**2184**	822	3034	6040.16	4601

Source: computed

3.7. Accelerated depreciation:

Provisions under section 32 of the Income tax provide for a rate of depreciation higher than that provided under the accounting rules of the ICAI. The objective of provision of accelerated depreciation is to encourage capital formation by taxable entities. A higher rate of depreciation by reducing the liability of corporate tax/income tax in the initial years of the enterprise/investment, provides for a higher profitability in present value terms. At the margin, thus, a larger number of projects would be made viable thereby encouraging investment.

This provision, it should be recognized, provides differential benefits to companies depending on the size and profitability of the company. For a small newly upcoming company, since sales might not take off in the initial years, the benefits from accelerated depreciation can be limited at best. On the other hand for a company which already in operation and is profitable, accelerated depreciation following any capital formation would provide instantaneous benefits, since there already exist profits against which the claims can be set off. The impact can quite different during different parts of the business cycle.

Another important caveat is that accelerated depreciation limits the gains in the event of any exemption or concessional rate of tax. For instance, if the software sector is exempt from taxes under under section 10A or 10B, then accelerated depreciation does not provide any additional benefits. Further, for sectors or states where there are other provisions for concessions or exemptions in taxes, this provision does not provide any additional benefit. For instance, investments in Himachal Pradesh and Uttarakhand are provided an incentive of exemption from corporate taxes for a period of 5 years, during this period, the provision of accelerated depreciation does not provide any benefits. Conventional depreciation rules as per accounting norms might actually prove to be a superior alternative. It may be mentioned here that the methodology discussed in the statement on Revenue Foregone in the receipts budget, possibly does not correct for this factor. All tax paying units will report depreciation claims in their returns since these deductions are availed in the process of determination of taxable income. Since the Revenue foregone exercise depends on extracting the relevant information from the computerised returns, this information too would get picked up and as per the methodology presented, the difference between the depreciation reported in the profit and loss account and that available in the Income Tax Act is taken as a measure of the extent of benefit derived. There is no correction proposed for exempt units which do not benefit from this provision. Such a correction is marginally attempted in this section.

The third caveat as discussed above relates to the provisions of MAT.

In arriving at the reported numbers for tax expenditures on account of accelerated depreciation, estimates of state-wise capital formation were projected using GSDP figures and the ICOR for the country.[13] These figures were derived sectorally in line with the GSDP figures. It is assumed that the share of each state in tax paying activities where the tax payer can claim accelerated depreciation is in proportion to the capital formation in that state, in any given year. Given the data limitations, the GSDP data for 2005-06 and 2006-07 is taken. Using the share of each state in total investment in 2006-07 as derived above, the total reported revenue foregone on account of accelerated depreciation is apportioned among the states. In doing this exercise, some sectors were removed from the analysis – agriculture and public administration and defense since these are not part of the tax base. This gives us figures of "notional benefits". However, as argued earlier, since these benefits do not accrue in the case of sectors where there are exemptions, some corrections are attempted for the same. For each state, the share of the three exempt sectors - Electricity, gas and water supply, unregistered manufacturing and communication in total capital formation are taken to correct the figures of notional benefits, in order to derive effective benefits. It may be mentioned that since profits from all manufacturing activity in the special category states is exempt from taxes, for these states, total manufacturing is used in place of unregistered manufacturing to make the above correction.

It may be mentioned that capital formation, even after correcting for some of the above factors may not provide a very good proxy for deriving the benefits from accelerated depreciation since all units/individuals or firms investing in the state may not be tax paying units. In such a case, there is no incentive to be availed. Small income units and or small scale industries may be a case in point. However, since no other source of information provides state wise figures even for gross investment, this approach is the only one available.

[13] GSDP data was taken from the CSO website

Table 8: Accelerated Depreciation, Quantifying benefits

	Share in total investment	Share of exempt sectors	Notional Benefit	Effective Benefit
A& N Island	0.03	2.54	3.10	3.02
Andhra Pradesh	8.84	16.47	903.12	754.39
Bihar	1.97	14.36	200.78	171.95
Chandigarh	0.28	14.99	28.99	24.65
Chhattisgarh	2.22	6.37	226.39	211.96
Delhi	2.81	32.06	286.64	194.74
Goa	0.48	4.13	48.84	46.83
Gujarat	10.90	29.23	1113.97	788.32
Haryana	4.87	14.04	497.60	427.76
Jharkhand	6.61	0.58	674.90	670.97
Karnataka	2.90	19.97	296.19	237.05
Kerala	2.30	24.24	234.50	177.65
Madhya Pradesh	1.52	27.77	155.19	112.10
Maharashtra	16.69	17.79	1705.11	1401.80
Orissa	4.69	11.00	478.68	426.01
Pondicherry	0.32	8.78	32.78	29.90
Punjab	2.25	35.33	229.94	148.71
Rajasthan	1.86	6.72	190.26	177.47
Tamil Nadu	5.74	16.37	586.67	490.62
Uttar Pradesh	7.52	43.83	768.19	431.48
West Bengal	8.93	25.55	912.23	679.11
Special Category States				
Assam	0.98	66.33	100.47	33.83
Arunachal Pradesh	0.12	59.34	12.33	5.01
Himachal Pradesh	1.30	79.63	132.81	27.05
J & K	2.42	18.01	247.54	202.96
Manipur	0.11	11.56	11.18	9.89
Meghalaya	0.11	48.52	11.43	5.88
Mizoram	0.06	27.15	5.91	4.30
Nagaland	0.07	36.31	7.33	4.67
Sikkim	0.03	46.56	3.40	1.82
Tripura	0.14	27.22	14.49	10.55
Uttarakhand	0.94	66.38	96.05	32.30
TOTAL	100.00		10217.00	7944.73

Notes: Notional benefit is prior to correction for the impact of various exemptions while effective benefit is subsequent to the correction.
Source: Computed from state GSDP and country wide ICOR

4. Overall Impact:

The exemptions explored in this exercise represent 65 percent of the tax expenditures in direct taxes and about 18 percent of those reported for excise duty in the tax expenditures statement.[14] While these do not represent a comprehensive coverage of all exemptions in the direct and indirect tax laws, it is illustrative of the kinds of impact achieved. Himachal Pradesh and Uttarakhand emerge as clearly far ahead of the others in gaining from the incentives considered here. This is partly attributable to the tax holidays for investments in these states and partly to the massive investments in power generation in these states. Given the small population of Himachal Pradesh, the per capita figures show a remarkably huge difference between the levels for this state when compared to any of the other states. The fourth column in the table captures the per capita value of exemption excluding the area based exemptions. Interestingly, this series shows a remarkably different behaviour – there emerges a positive relation between per capita income and per capita exemption availed. In other words, higher income states derive more benefit from a bulk of the exemptions analysed here.[15] Within the major states Karnataka emerges distinctly ahead of the other states – while per capita benefits for Karnataka are Rs 922, the Haryana and Goa come second and get only Rs 700 per capita.

While the present exercise does not cover all the exemptions within the tax statutes – it covers about 68 percent of reported revenue foregone on account of direct taxes and 18 percent of the reported revenue foregone on account of indirect taxes - it attempts to cover some important and contentious tax concessions.[16] The

[14] The total incentives provided in for excise in the Revenue foregone statement, as argued above is an over estimate. Applying the same correction as in the paper, the actual revenue foregone should be about Rs 39596 crore. The component accounted for in this study represents 20 percent of this amount.

[15] While this relation is robust to changing the sample size – it holds good whether one considers all states, all states excluding Goa or major states excluding Goa – it is not a good statistical fit. The estimated linear relations have an adjusted R square of between 0.29 and 0.33, with an insignificant constant term.

[16] When compared to reported figures for revenue foregone in excise in the Revenue Foregone Statement, exemptions discussed in this study account only for 8 percent. However, following the discussion in section

Table 9: Overall Impact (Rs)

	Total value of benefits (Rs crore)	Per capita		Per capita GSDP
		Total	net of area based	
Andhra Pradesh	3167	388	388	33005
Bihar	571	62	62	10222
Chattisgarh	852	372	372	24620
Goa	108	700	700	88921
Gujarat	3340	599	577	42388
Haryana	1662	700	700	53268
Jharkhand	930	313	313	23450
Karnataka	5245	922	922	32254
Kerala	821	245	245	39582
Madhya Pradesh	1479	219	219	18973
Maharastra	5703	536	536	43636
Orissa	1290	328	328	23208
Punjab	764	289	289	46757
Rajasthan	925	146	146	22400
Tamil Nadu	3859	588	588	37524
Uttar Pradesh	2463	132	132	16751
West Bengal	1776	206	206	29462
Special Category States				
Arunachal Pradesh	109	921	490	27631
Assam	1639	564	49	22384
Himachal Pradesh	3612	5535	537	43362
Jammu and Kashmir	1346	1213	338	26048
Manipur	15	64	55	27560
Meghalaya	98	392	144	28208
Mizoram	20	212	149	31159
Nagaland	156	726	92	32281
Sikkim	44	752	237	34991
Tripura	297	860	109	28914
Uttarakhand	1666	1779	201	31907
Large Union Territories				
Chandigarh	67	581	581	96295
Delhi	1165	707	707	82260
Pondicherry	83	721	721	54965

Source: computed using tables 1-8 above.

results presented suggest that while some of the tax concessions do correct for regional imbalances, the impact of others would work in opposite directions. In this exercise, while the area based exemptions, by definition, provide benefits only to the selected areas, in most other exemptions, the benefits accrue

3.3, an adjusted figure for revenue foregone is worked out assuming 45 percent of total excise revenue due from the exempt units would be payable in cash. This would be effective revenue foregone.

disproportionately to the relatively more developed states. On the other hand, there is high correlation between per capita benefits accruing due to small scale exemptions in excise or the overall benefits to the developers in SEZ and the per capita income of the state. (See table 10 below for comparisons)

While each of the exemptions offered in the tax statutes needs to be assessed on its own merit, the present exercise suggests that there could exist dimensions beyond what are normally considered in such assessments. If a set of exemptions tend to accentuate the regional disparities, it would be useful to ask whether these effects need to be neutralized in some other manner if not completely, at least partially. While the present study does not attempt to find answers for this question, it hopes to draw attention to the need for such a discussion.

Table 10: Correlation with per capita GSDP

Exemption	**All states and major UTs**	**All States**	**Major States**
STPI	0.279	0.149	0.094
SSI	0.608	0.601	0.613
SEZ Developers: Excise	0.404	0.744	0.783
SEZ Developers: Income tax	0.430	0.792	0.858
SEZ Developers: total	0.416	0.766	0.813
SEZ units: income tax	0.156	0.124	0.104
Telecom	0.272	0.183	0.131
Power	0.118	0.275	0.375
Accelerated depreciation	0.644	0.627	0.722
Overall	0.144	0.230	0.651

Source: Computed

References

Bagchi, Amaresh, R.K. Rao and B. Sen, 2005, "Raising the Tax-Ratio by Reining in the "Tax Breaks-An Agenda For Action," Working Paper No. 2, Tax Research Unit, National Institute for Public Finance and Policy, New Delhi.

Burman, Leonard (2003). "Is the Tax Expenditure Concept Still Relevant?" *National Tax Journal* 56(3):613-628.

Economic Intelligence Service (2008), *Energy,* Centre For Monitoring Indian Economy, Mumbai.

Jain, R .K. 2008, "Central Excise Tariff of India" CENTAX Publication Pvt. Ltd. 54th Edition.

Rao, R. Kavita (2008): "Tax Concessions for Small Scale Sector: Benefits, Beneficiaries, and Costs", Report prepared by NIPFP for the Department of Revenue, Ministry of Finance, Government of India.

Software Technology Parks of India (STRI) Annual Report 2006-2007 Mimeo http://www.stpi.in/Policy/annual.pdf

Taxmann (2008): Income Tax Act.

Power Finance Corporation (2008): *Performance of the State Power Utilities in India, 2005-06 to 2006-07,*