

1. INTRODUCTION

The Industrial Credit and Investment Corporation of India entrusted the National Institute of Public Finance and Policy (NIPFP) with a study on the analysis and quantification of the impact of inflation on the taxation of capital income in the corporate sector.

The terms of reference were :

- (i) To identify the ways in which inflation reduced the usefulness of the present method of accounting and quantify its effect on the accounts;
- (ii) To analyse the ways in which inflation affected the tax liability of the corporate sector and measure the effect in terms of corporate income tax liabilities;
- (iii) To indicate other effects that inflation has exerted on the corporate sector through the changes in corporate income tax liability, particularly on their finances; and
- (iv) The analyses and estimation mentioned above were to be carried out with reference to only manufacturing companies, both government owned and privately owned. The differences in the impact of inflation, if any, between companies of different sizes, ages, and industries were also to be brought out.

To carry out the empirical work enjoined in the terms of reference actual accounts data were prerequisites. A sample of 90 manufacturing companies were selected by us using stratified random sampling under the probability proportional to size method and the required data were collected for these companies. Along with the data on prices, these form the basis of the present study.

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