4. CONCLUSIONS AND RECOMMENDATIONS

The striking conclusion that emerges from the study is that, the incentive provided to the corporate sector through deduction of expenditure incurred on approved programmes of rural development under section 35CC of the Income-tax Act did not evoke much enthusiasm. The initial response was lukewarm and it became indifferent over the years. Only 155 companies seem to have obtained approval for such programmes and, out of those who obtained the approval not all went ahead to implement them. In fact roughly one-fifth of them did not implement them. One third of the companies which availed of the benefit of the provision lost interest in it after implementing relatively modest programmes. The total financial outlay on the programmes came to about Rs. 9 crore only and the tax saving (or revenue forgone on their account) was of the order of Rs. 5 crore. It is significant that several of the companies which had claimed deduction under the provision had been running such programmes even earlier. Whether, and if so, to what extent the incentive spurred them to put in further efforts in this direction is difficult to say. However, the fact that the total outlay for which deduction was claimed was no more than Rs. 9 crore indicates that the element of "additionality" in the outlay could not have been significant and at least some of the activities which were supported by the outlay would in all probability, have been undertaken by the companies concerned in any case.

The bigger companies and Large Industrial Houses had a preponderant role in the programmes undertaken under section 35CC. Available information shows that over 86 per cent of the deductions claimed under the section under review were accounted for by companies coming under the purview of the MRTP Act. As much as 38 per cent of the total deduction was claimed by one Large Industrial House. This was perhaps to be expected as the big concerns alone possess the resources to embark on programmes not directly connected with their business activities. Moreover, inadequacy or absence of profit in a particular year was no constraint on their capacity to run such programmes especially since the size of the outlay was relatively small.

Section 35CC programmes were generally implemented in areas from which the sponsoring companies drew their human or material inputs. A few of the programmes were undertaken in areas with which the persons in control of the sponsoring company had sentimental affinity. There was an uneven geographical distribution of the programmes. The States which saw maximum activity under section 35CC were Gujarat, Maharashtra, Uttar Pradesh, Andhra Pradesh and Karnataka, with Gujarat alone accounting for as mueh as 25 per cent of the total outlay.

The underlying objective of section 35CC was to help develop appropriate technology and transfer of skills to the small farmers. By and large, this object does not seem to have been fulfilled by programmes which were actually undertaken in response. The scope of the provision includes any programme for promoting the social and economic welfare of, or uplift of, the public in a rural area. The accent was on welfare and uplift. Several of the programmes implemented under section 35CC had more of "welfare" than "uplift" in their content. Consequently, only a fraction of the very limited response to this incentive was used in the deployment of corporate skills of management and expertise for raising village farmers' income.

On the face of it the administration of the section does not seem to have posed any serious problem so far as the tax authorities were concerned as audit objections and litigations over the interpretation of the section were few. The claims made by the companies were generally allowed without much interference by the assessing officers. The number of cases involved were also relatively small. However, the study reveals that approval of the schemes involved considerable delay. The procedures evolved were time consuming. In several instances, neither the companies nor the revenue authorities appear to have appreciated all the implications of the statutory provision and complied with them fully.

Another deficiency of the measure was absence of an effective mechanism for monitoring the implementation of the approved schemes. While prescribed authorities made welcome efforts to see that the assessees' claims for relief under section 35CC did not suffer on legalistic or technical grounds, in none of the cases gone into in the course of the study was any independent monitoring or evaluation report found to have been available to the assessing officer to show whether the programmes had been duly implemented according to the approved plan. Thus once a plan was approved, there was no effective check to ensure that the outlays incurred served to provide the benefits to the extent contemplated under the approved programme.

The experience of the operation of section 35CC as revealed by the present study underlines the need for circumspection in providing incentives for achieving socio-economic objectives through the tax system. First of all, it is unrealistic to expect that taxpayers can be enthused to undertake philanthropic activities totally unrelated to their business merely because of some tax relief. Second, tax benefits tend to be appropriated largely by big resourceful assessees. Also, these tend to support activities which some assessees might have engaged in, any way. Third, the costs of a tax expenditure are unlikely to be commensurate with the benefits unless an effective mechanism for monitoring is also devised. Lastly, tax incentives do not seem to be the right vehicle for motivating private agencies engaged in business activity to take up philanthropic work on their own. The decline of section 35CC with the introduction of section 35CCA shows that gifts to agencies specially equipped to undertake philanthropic or rural welfare programmes are more popular than the idea of taking up such programmes directly. However, whether encouraging contributions for rural welfare indirectly through a tax incentive as embodied in section 35CCA was an efficient method for promoting rural development is another matter not gone into. Evaluation of section 35CCA is beyond the purview of this study.

At present, an assessee interested in rural welfare and uplift along with saving in tax, may make donations to tax-exempt charitable trusts providing voluntary services in rural areas. Subject to the limitations stipulated therein, section 80G of the Act entitles him to 50 per cent deduction of the sum donated.

Alternatively, he may make payments to the National Fund for Rural Development and obtain full deduction under section 35CCA or section 80GGA.[1] If he is carrying on a business or profession, section 35CCA is operative; the payment is not subject to any monetary limit and if part of the business loss for the year, may be carried forward and set off. For assessees not carrying on a business or profession, section 80GGA is applicable and the aggregate of deductions under chapter VIA of the Act including this deduction cannot exceed the gross total income for the year. Were the recommendation of the Economic Administration Reforms Commission for shifting all tax incentives and special deductions not relating to the income activity to a stage after the arriving at of the true income of the taxpayer, to be accepted, the relevant provision of section 35CCA would get shifted to chapter VIA and make for a uniform tax treatment of donations to the National Fund for Rural Development for all assessees. Indeed, it would be desirable to have all provisions relating to tax treatment of donations put together in one section in chapter VIA of the Act.

The collection of requisite data for the study presented much difficulty. Whenever a tax incentive is introduced in future, it may be advisable to simultaneously design an information system to ensure speedy monitoring; special studies being made whenever found necessary. The Comptroller and Auditor General's (C & AG) annual report on Union Government (Civil) Revenue Receipts gives general information as to receipts under various Direct Taxes, variations between budget estimates and actuals, cost of collection, number of assessees, appeals and revision petitions, etc., besides setting out the lapses noticed in the course of Statutory Audit during the year. C&AG's reports for the years 1974-75 to 1978-79 indicated the number of assessees availing of some of the tax concessions under chapter VIA of the Act and the amounts of relief allowed. This information has not been furnished since 1978-79. As incentives constitute an important facet of tax policy and entail substantial expenditure by way of revenue forgone, it would be very helpful if the Revenue Audit reports continued to provide the available data on all the tax incentives item by item on a regular basis.

NOTE

1. The donors to the National Fund for Rural Development may indicate their preference for the area or locality and the rural development programmes for which the donation is to be used as also the voluntary agency through which the programmes may be implemented. The wishes of the donors in this regard will be respected as far as possible: Direct Taxes Circulars, *Taxmann*, 1985, Vol. 1, p. 331.