

Preface

National Institute of Public Finance and Policy is an autonomous non-profit organisation carrying out research and imparting training in the field of public economics and related policy.

The present study was sponsored by the Central Board of Direct Taxes to evaluate the costs and benefits of four incentive provisions in the Income-tax Act, viz., Rural Development Allowance (Section 35 CC of the Income-tax Act, 1961), Investment Allowance (Section 32A), Backward Area Allowance (Section 80HH) and the partial Tax Holiday for the newly established undertakings, etc. (Section 80I). The studies were intended to ascertain

- (a) Whether and if so, to what extent the underlying purpose of the incentive has been achieved, qualitatively and quantitatively;
- (b) Cost in terms of revenue forgone;
- (c) Whether there has been abuse of the provisions, and,
- (d) Problems of implementation: Whether there have been difficulties in operation and if there have been problems arising from disputes over interpretation, court rulings and/or audit objections.

The report presented here deals with Investment Allowance (Section 32A). Among the core chapters, chapters 2, 3, 4 and 5 have been written by Dr. J.V.M. Sarma, while chapters 6 and 7 have been written by Shri H.K. Sondhi.

Investment Allowance is now making way for a new funding scheme enacted as section 32AB (Investment Deposit Account). A critique of section 32AB is outside the scope of the study. However, some points of relevance of the new provision have been noted in the light of experience with the two earlier incentives.

It is hoped the Government and also students of public finance will find this report useful. We are grateful to the Central Board of Direct Taxes, Ministry of Finance, Government of India, for permission to publish the report.

The Governing Body of the Institute does not take responsibility for the views expressed in the report. That responsibility belongs to the Director and, more particularly, to the authors of the report.

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