REVIEW PAPER

A Comparative Study on the Relationship of Funds of Firm from Traditional Vs. Modern New Taxation Policies towards Dividend Concerning India

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ABSTRACT

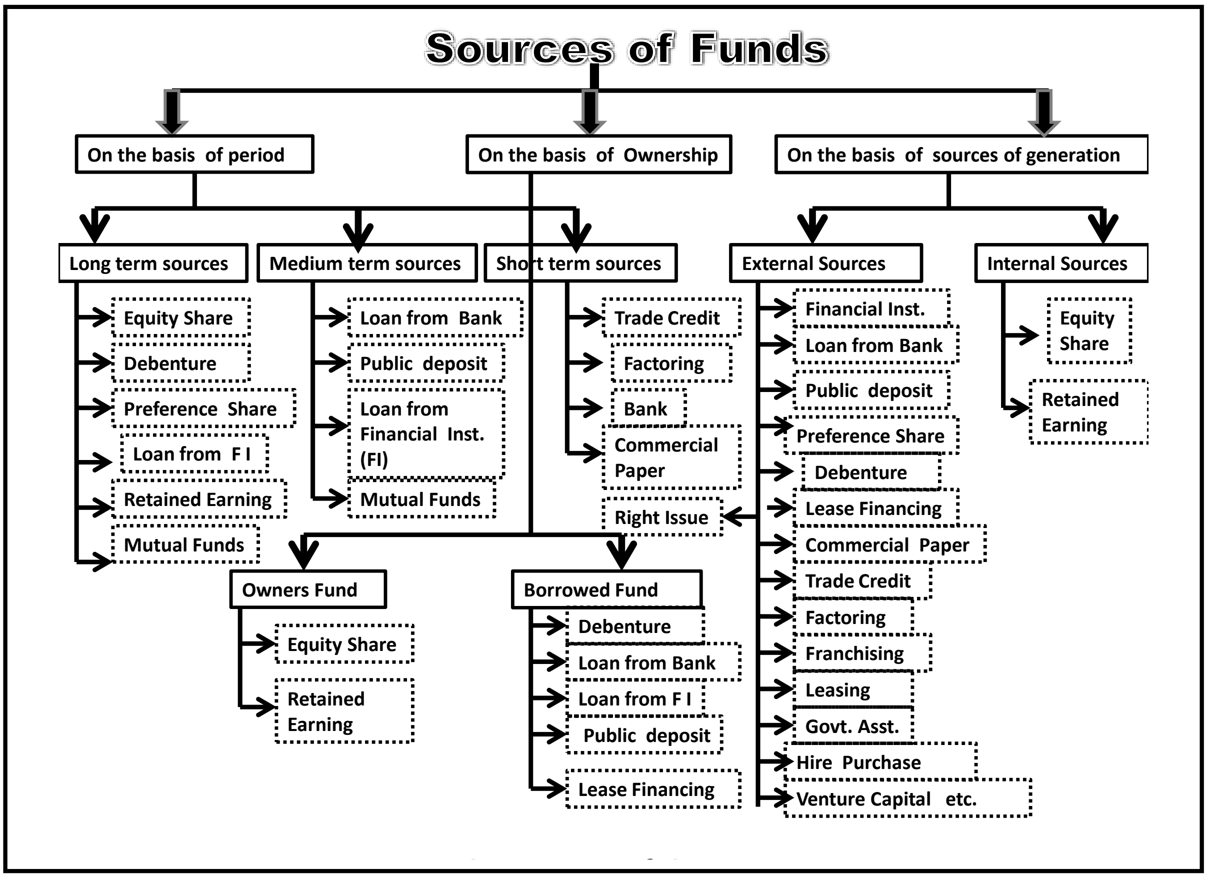
The business funds utilize for various purpose with its maximum yield of return as per promise towards various types of investors especially payment of dividend to shareholders is a challenging task. The expansion of needs of funds for the firm increases for various purposes, from traditional taxation policies to modern taxation policies. The traditional period of taxation assumed from the introduction of the income tax Act 1961 till the introduction of the economic policies or reforms and modern taxation policies covered from the introduction of economic policies till 2019-20. Funds or corporate finance deals with the financial decisions of business enterprises and the tools are used to analyze to make financial decisions. It brings efficiency and effectiveness for the firms to continue for a longer period after paying dividends too. This study is based on the comparative study on the relationship of funds of the firm from traditional taxation policies to modern new taxation policies towards dividend concerning India that exist positive relationship. The study follows mixed approach.

Key Words: Taxation policies, Cess, Funds structure, Dividend

1. INTRODUCTION

Traditional taxation policies covered three decades from the legislation of Act 1961 before 1991. The modern taxation policies especially corporate tax implementation has covered three decades which started after the introduction of Economic policies in India till to the period of 2019-20. It concerned the various types of company funding for the essence of every need towards the payment of dividend to the shareholders.

Funds are required by every organization ranging from small to large for each activity short-term or long-term need has different financial structure [1]. Lack of funds, won't help organizations to set up, grow, develop and expand nationally and internationally [2]. There are various sources for collection of funds mainly called owners fund, borrowed fund, and



other sources [3]. The Owner's funds are generally classified as shares and its different types (preference, equity, sweet equity, deferred ordinary shares & Ordinary shares) and retained earnings. The borrowed funds are debt from different sources like commercial banks, financial institutions, and other internal and external private sources, debenture & its types and term deposit, etc. The other sources are Franchising, Government assistance, Hire purchase, Loan stocks, New share issues, Rights issue and Venture capital and many more. The funds can be raised from the money market and capital market whether primary and secondary market through different methods by promising to pay higher yields (dividend) [4]. But in India, some sources of fund raising have been restricted by the government of India to prevent illogical and misleading activities [5].

The owners fund covered the preference share and received priority over equity shareholders for paying dividend at a fixed rate but rather it depends on the types of preference shares issued [6]. Any deferred and type of deffered ordinary shares are not issued in India. Equity shareholders have last responsibility for the financial decision makerd to pay dividend. There are different rates of return on various type of investment which are fixed but the rate of dividend is not fixed on equity shares. The sweet equity issues to employees or executives of the company for their performance and loyalty at a low rate or nil, which is not circulating outside but can be buy back at the internal rate of return (IRR) at 30% of the investment. It is achieved by 2.5 times of the originally invested amount returned to the private equity funds. The purpose of issuing this type of share is only for motivating employees, to appreciate their

Table 1 – Traditional taxation policy: 1909-2001: World Tax Database, Office of Tax Policy Research, Oct 17, 2002

Years	1961-63	1964-65	1965-67	1968-70	1970-71	1971-78	1979-87	1987-88	1988-90
Tax rate in percentage	52%	50%	48%	52.8%	49.2%	48%	46%	40%	34%

contribution and raise financial growth indirectly [7]. The retained earnings are the remaining amount of profit that is not distributed to the investors or the amount retains of equity shareholders returns at a compound rate of interest.

The borrowed funds are collected through various sources in various forms of a loan by commercial banks, financial institutions, and other internal and external private sources at a different rate as per organization's requirement [8]. The debenture and various types of debentures are debt instruments that are issued for the medium and long term by large companies for various purposes to borrow funds at a fixed rate of interest. The types of debentures are varied from one to another with different characteristics like collateral securities, redeemable or non-redeemable, and so on. The bonds and their types have the same feature as debenture held with the same terms and conditions [9]. Term deposits are types of borrowed funds for long-term requirements at a higher rate of interest.

The other sources of funds like Franchising and leasing are the methods of expanding business

Table 2 - Corporate tax rate and MAT tax rate (Modern Taxaion policy)

Year / Tax Rate	**1991 -94**	**1994 -96**	**1996-97**	**1997-98**	**1998-99**	**1999 -02**	**2002 -03**	**2003 -04**	**2004 -05**
Domestic Co. (Pvt. Or Public)	**50%**	**40%**	**40**	**35%**	**35**	**35%**	**35%**	**35%**	**35%**
Foreign Co	**65%**	**55%**	**50%**	**48%**	**48%**	**48%**	**48%**	**48%**	**40%**
MAT				**^30%**	**30%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**

Year / Tax Rate	**2005 -06**	**2006-07**	**2007 -10**	**2010-11**	**2011 -12**	**2012 -13**	**2013 -15**	**2015 -17**	**2017-19**	**2019 -20**
Domestic Co. (Pvt. Or Public)	**35%**	**30%**	**30%**	**30%**	**30%**	**30%**	**30%**	**30%**	**25%**	**22%**
Foreign Co	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**
MAT	**7.5%**	**7.5%**	**10%**	**15%**	**18%**	**18.5%**	**18.5%**	**18.5%**	**15%**	**15%**

on less capital. That would be needed through a single investor. In Government assistance, they provides finance to companies as grants and other forms of direct assistance. This assistance is part of policies for helping the national economy, especially in high technology industries and in areas of higher unemployment. Hire purchase is similar to leasing in that it involves buying goods on installment credit. But possession of the goods transfers to hire or purchase from the customer upon payment of the final credit instalment [10].

The requirement of the fund is for various aspect whether fixed capital for the scale of operation, the technique of production, technological up-gradation, growth, diversification, level of collaboration or joint venture and working capital for nature of business, size of operation, production policy, length of business cycle or manufacturing process, seasonal variations, working capital cycle, and rate of stock turnover, etc. have tremendously changed the capital structure of the business organization. The structural growth of Funding can be understood through an index of BSE SENSEX of thirty financial sound companies started in April 1979 with 100 base points whereas the NIFTY weighted average index of fifty largest Indian Companies listed in national stock exchange start-up April 22, 1996. In modern taxation period which cover-up fourteen sectors. The overall structural elements and newly added elements of the well-reorganized structure of any organizational decisions depend on the requirement of fixed and working capital. The requirement of funds vary organization to organization (figure 1) [11].

The Traditional Taxation Policies period is assumed from the introduction of the legislative of Income-tax Act 1961 to the period before the start of economic policies in India. During three decades, various Acts have been introduced and connected with the income of the corporate Assesses. A corporate tax or company tax is a direct tax imposed by a jurisdiction on the income or capital of corporations or analogous legal entities of any type of organization. Before the implementation of the Income Tax Act, other types of taxes exist on the Companies like Municipal Taxation Act 1881, Public debt Act 1944 (Government securities), Central Excise Act 1944, The Professional Tax limitation (Amendment and validation) 1949, Wealth Tax 1Act 951, The sales Tax Laws Validation Act 1956, The securities Contract (Regulation) Act 1956 and The Wealth Tax 1957. But from the coverage of cited Traditional period from Income-tax Act, 1961 other types of taxes introduce like The Custom Act 1962, The Taxation Laws (Amendment and Miscellaneous Provisions) Act 1965, Taxation Laws (Continuation and validation of recovery proceedings) Act 1964, The Companies (Profits) Surtax Act 1964, The Delhi sales Tax Act 1975, The interest Tax Act 1974, The Taxation Laws (Extension to Jammu and Kashmir) Act 1972, The Sick Industrial Companies (Special provisions) Act 1985 and MAT in 1987 under Finance Act. Many other have brings various provision and amendment in Income-tax Act 1961 [12]. The introduction of various other types of Act, provisions and, amendment directly not only affect the corporate tax but also change the tax system which can be seen in table 1 with corporate tax rates.

Table 3 - Comparative analysis taxation Policies with Index

Traditional Taxation Policies				Modern Taxation Policies					
Years	Domestic Company Tax rate	BSE SENSEX	NIFTY weighted av. Index	Years	Tax rate	Foreign Company Tax rate	MAT	BSE SENSEX	NIFTY weighted av. Index
1961-1965	52% - 50%	--	--	1991-1995	50% - 40%	65%-55%	--	3405.88	--
1965-1970	50% - 52%	--	--	1995-2000	40% - 35%	55%-48%	30-7.5%	5001[5]	1263.55
1970-1975	52% - 48%	--	--	2001-2005	35% - 35%	48%-40%	7.5-7.5%	11356.95	2845.55
1975-1980	48% - 46%	129	--	2006-2010	35% - 30%	40%-40%	7.5-10%	17,528	6147.3
1980-1985	46% - 46%	354	--	2011-2015	30% - 30%	40%-40%	10-18.5%	30024.74	7955.56
1985-1990	46% - 34%	781	--	2016-2020	30% - 22%	40%-40%	18.5-15%	46373.34	14024.85[5]

The modern Taxation policies covered from the introduction of economic policies till 2019-20 of three decades. Like the assumed traditional period of taxation policies have wider amendments and provisions that take place in the modern period too. Many new Acts introduce, abolished, sections and sub-sections replaced or inter-change. The Minimum Alternative Tax (MAT), Cess, and SHEC have found a great place in corporate tax. The other Act which introduced during the modern period of taxation policies are; The cess and other Taxes on Minerals (Validation) Act 1992, The Depositories Act 1996, The Direct –Tax Law (Miscellaneous) Repeal Act 2000, The Competition Act 2002, The Prevention Money Laundering Act 2002, The sick Industrial Companies (Special Provisions) Repeal Act 2003, The Educational Cess in 2004, The Customs and Central Excise Laws (Repeal) Act 2004, The National Tax Tribunal Act 2005, The Government Securities Act 2006, The Secondary Higher Educational Cess in 2007 under Finance Act, Dividend Distribution Tax in 2007, The Integrated Goods and Services Tax Act 2017, The Integrated Goods and Services Tax Act (extension to J & K) 2017, The Central Goods and Services Tax Act 201, etc. The modern period of taxation policies had witnessed enormous change of economic policies and fluctuations of corporate tax rate whether domestic or foreign company with minimum alternative tax too (table 2).

The Economic reforms introduced in 1991 known as economic policies are liberalization, Privatization, globalization, or LPG policies have affected directly or indirectly organizational productivity or income and its corporate tax too [13]. Liberalization removes inessential restrictions and extra controls to ensure that business and enterprises can maximize their contributions. There are various reason for liberalization:

- Abolition of existing licensing Raj in the country
- Reduction of tariff barrier, quotas, and interest rates.
- Approval of foreign direct investment in various other sectors.
- The cutting monopoly of the public sector from various areas of Indian Economy

Privatization is the transfer of ownership, property, or business from government or public to private-owned fully or partially in various sectors to develop the growth of the economy for increasing the efficiency of the organizational productivity and make more competitive for fulfilling the demand of the country. There are various reasons for the privatization is the part of economic reforms;

- Providing strong momentum to the financial inflow of foreign direct investment
- Improve the efficiency of public sector undertakings
- To rings efficiency in defective services and stopped company make workable

Globalization implies the continuing expansion, modification, and diversification, intensification of economic, environmental, political, cultural, social, and judicial relations across the borders. It reduces the distances, communication costs, rising of information technology and makes liberalize the market such as capital markets, money and credit markets, and insurance markets, commodity markets, etc. of Indian Economies like for the free flow of commodities and service. The impact of globalization is;

- Lead to increased flows of inward investment between countries.
- Lead to increased trade, movement of factors of production, and the creation of more employment opportunities in other countries.
- It enables worldwide to access the sources at a cheaper rate, outsourcing increased productivity at low cost which increased revenue and generates increased profits for shareholder.

The study has shown how the corporate tax rate continuously changes since three decades of traditional and modern taxation policies. The study tries to collaborate two different aspects i.e., funds and taxation. The significant results help to forecast new trends for the organization and provide idea to deal with it. It generate new sources by knowing the last impact and run for a longer period with little chance of connected risk with the research aim is;

- To find out the effects of different components of taxation policies from traditional to new taxation policies for dividends.

2. MATERIALS AND METHODS

2.1. Research Design

The purpose of the paper is to contribute a very significant aspect of the proportion of organizational funds used by the contribution of taxation policies in financial leverage of dividend declared from traditional to modern period in India. This research is based on a quantitative approach. The research problem is to connect the structure of funds of an organization during three decades; each towards taxation policies from traditional to a modern period for paying dividend. The SENSEX Index variability has been assessed to check the Hypothesis testing. The type of research problem generates various questions like, whether there is any significant difference between traditional and modern taxation policies of organizational funds for payout of dividend? What is the relationship between two assumed taxation policies concern fund structure? To what extent can proportionate funds predict high profitability for dividend payment as essential liable to pay tax?

This type of research follows some statistical tools like averages, variables, and hypothesis testing and create some diagram like figure and table for analysis and prediction through published available data. The assumed hypothesis of the cited research is;

H0: There is a possible positive relationship between various funds used by the firms for traditional to the new taxation policies for dividends. Firms that have a high level of debt usage are expected to post a low level of efficient growth of capital investment of the company.

H1: There is a possible negative relationship between various funds used by the firms for traditional to the new taxation policies for dividends. Firms that have a low level of debt usage are expected to post a high level of efficient growth of capital investment of the company.

The hypothesis says various increasing sources of funds used by a firm may liable to pay more tax and exert a positive relation. When more debt funding leaves less profit to the distribution of other parties that ultimately reduces the low level of growth for the organization and vice versa.

3. ANALYSIS

Data analysis is the method of cleaning, transforming, and modelling data in order to uncover valuable knowledge for business decision-making. It breaks substance or complex topic into smaller parts to gain a better understands of it logically and mathematically. In this review, the transformation of capital structure of fund up to greatest extent from traditional to modern taxation period for the dividend is described. The capital structure may vary from company to company which is based on the decision as per the business environment and the Provision of Memorandum and Article of Association that has submitted at the time of incorporation of a company. The dividend is always paid on the owner's fund i.e, equity. The company gets the position in BSE and NIFTY as per their paying capacity and strong financial credibility. But the issue is that BSE SENSEX started in 1979 in the traditional period whereas the NIFTY weighted average Index start-up on April 22, 1996, in the modern taxation period. The points Index can be easily analyzed and judge through Table 3 in two assumed periods of the research of taxation policies with MAT for a dividend.

During the two periods of taxation policy corporate tax rate has been found continuously decreasing at a different rate within each three decades. Whereas corporate tax rate is found constant in a first decade i.e. 52% - 52%, in the second decade decrease 52%-46%, and in the third decade decrease 46%-34%, but in the modern period in the first decade decrease 50%-35%, in the second decade decrease 35%-30%, and in the third decade decrease 30%-22% can be easily seen in tables. The educational cess subject to vary 2%-4% and secondary higher educational cess 1% will be paid together with a surcharge which varies subject to a charge from 2004-05 to 2019-20. The surcharge will be added with the increase of total income with the corporate tax rate. Minimum Alternative tax also implemented same on Domestic and foreign company both with surcharge, Educational cess, and secondary higher educational cess. It is found that the first highest tax rate decreased in the second decade is 15% in the modern period and the second-highest decrease in third decades is 12% in the traditional period. The long variable data has to combine five years and then ten years which represent decrease in the corporate tax rate and increase in SENSEX which can be seen in table 3. It is also seen corporate tax rate decrease for foreign companies too. It is decreasing in the first decade ranging from65%-48%, in the second decade decrease ranges from 48%-40%, and then constant from the second half to the whole of the third decade ranging from 40%-40% whereas the trend of MAT is fluctuating; i.e. decrease 30%-7.5%, increase 7.5%-10% and again increase 10%-18.5%. Therefore H0 is accepted, found true and valid to say positive relation between the two taxation policies and the dividend payment in India When using high level off debts; usage is expected to post low level of efficient growth of capital investment of the company. In this way, H1 will automatically be rejectes and will be invalid.

4. CONCLUSION

The security portfolio management has tremendously changed the funding structure by considering corporate taxation policies for knowing the responsibilities towards various parties especially to pay the dividend to the shareholders. When Tax rate decreases, the government impose cess, surcharge, and other taxes to increase rate. Then the company is liable to pay more taxes. At the same time liability will be increased on other parties whether internal or external to pay as per their promise especially for the dividend. This is not sufficient to pay a dividend but to pay higher, this makes a challenge for the financial management who deal in securities. So, the security portfolio management has to deal with all the payment of high yield whether borrowed or equity funds by changing proportionate of sources of the fund or capital structure. Suppose a company has received a profit Rs.100 fund collected from all sources Rs. 50@10% from borrowed and Rs.50 from equity at Rs.1 per share and corporate tax @50%. The company is liable to pay borrowed funds first Rs. 100-5=95 then taxed Rs. 95-47.5=47.5. So the per-share price of equity share wills be Rs. 0.95. If sources of funds of borrowed decrease by Rs. 25@10% and Equity will Rs. 75@Rs. 1 without changing tax rate. Then Rs. 100-2.5=97.5 and taxed Rs.97.5-48.75=48.75. Now EPS will Rs.0.65. If tax decrease by 25% with the same structure of funds in the first case; then the EPS will be in the first case Rs.1.425 and second case Rs. 0.975. These are the proof of H0 automatically authentic and make valid thus H1 rejected. If the tax rate decrease, then the dividend will increase. If the proportionate change in fund structures just half with the same tax rate the EPS decreases. But if the tax rate and borrowed fund both decrease half then the EPS or dividend will improve automatically. It’s a challenge for portfolio managers which are restricted to manage the fund and decide the best way to pay every party a significant amount as per schedule of AS especially greater influence towards shareholders for their dividends.

5. CONFLICT OF INTEREST

NA

6. SOURCE/S OF FUNDING

No source of funding

7. REFERENCES

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