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# IMPACT OF TAXATION POLICIES FROM TRADITIONAL TO MODERN PERIOD TOWARDS DIVIDEND WITH RESPECT TO INDIA

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**ABSTRACT-** The taxation system is always intense research for the researchers from its existence to the framing of legal entity to prevailing period as modified shape as we are dealing Today. It has a complex nature that has covered wider critical concepts. It has raised issues in different periods of time which has attracted the various parties to enhance the potential impact towards different assesses to get tax benefits legally especially assesses of the corporate sector because they are also legally responsible to pay different parties in various from as one of important payment is the dividend. Every assessee is liable to pay tax under different heads to follow a certain tax slab as per his/her yield or income earned during the previous year. This paper analyses the impact of taxation policies amongst firms from the traditional to the modern period towards dividends and its effect on various Components during the two periods. The traditional period assumed from legal structured framework i.e., Income-tax Act 1961 to the period of 1990, and the modern period assumed after the introduction of economic reforms 1991 to the period of assessment in 2019-2020. In the Indian taxation system, there have been various provisions occurred that have brought changes to the corporate environment and amendments, not only decade by decade but year by year for a variety of reasons of the government that has changed the economy. The tax slab also introduces in the budget of every year which is found more flexible as well as certain new provisions to be implemented. That has not only brought significant changes in the environment of the corporate sector but after the introduction of various other Acts that became the challenge for the assesses to deal in a way for fulfilling their own objectives by the following of the norms. It is the responsibility of the management to make possible to fill the promises towards the shareholders to give dividend and give more dividend on their investment than ever before. That has given an attraction to me to work on the cited topic and find out the impact between taxation Policies and dividend analysis in two periods i.e., traditional and modern.

**Key Words**: **Tax system, dividend, Yield, capital structure, Cascading**

## I. INTRODUCTION

Economy for the short term whereas on the other side for fiscal correction and institutional change were the initiation in the field of trade, industry, and the public sector for long term economic phenomena. In the modern period, fiscal reforms, monetary and financial reforms, reforms in the capital market, industrial policy reforms, trade policy reforms, promoting foreign investment, rationalization of exchange rate policy, etc. have taken shape. Whereas it is seeing that various components or factors must be simultaneously affected not only in short term and left a long-lasting impact on the business. It has Every company has its various mode of financing through various sources directly or indirectly by keeping in view of business environment especially Fiscal Policies of the Government of India because of knowing the corporate liability towards various stakeholders especially for the payment of dividends. Necessary steps were taken to restore the balance of payment in Equilibrium and to control inflation in the Indian become a challenge to compile with the new change of business environment and try the get benefit by following certain norms which have amended in Act as per avail new provisions legally for reducing tax liability with increasing net profit. This is a complicated process to make the strategies for the financial decision-makers of the management to give maximum return or dividend than before to the shareholders in the shaping new scenario of business by compiling with other added tax too.

This paper covers the traditional period which assumes the introduction of the Income-tax Act in 1961 with the framework of legal structured by the amendment of taxation policies in India till 1990 whereas the modern period has been covered from Economic Reform 1991 to the period of assessment in 2019-2020. The traditional to modern period has covered three decades each which has found a tremendous change of taxation policies, dividend policies, the introduction of different Act, the introduction of new concept and views, amendment of various policies and so many issues and challenges take placed between the two periods. During these two periods financial and capital market structure has shaped the new corporate business environment by the beginning of the era of various reforms is the part of the modern period. Were the mixture of macroeconomics indices of the growth rate of the industries not only stabilized the environment and brought structural adjustment for the successful achievement of short term and long term objectives of the corporate sector especially for the wealth maximization and dividend payout. The main objective of this paper is:

- To establish the relationship between traditional to modern taxation policies for dividends.
- To find out the effects of different components of taxation policies from traditional to new Taxation policies for dividends.

## II. LITERATURE REVIEW

The corporate tax could also be a kind of tax levied on profits earned by businessmen during a specific period of some time. Various rates of corporate taxes are levied for various levels of profits earned by business houses. Corporate tax is typically levied on the revenues of an organization after deductions like depreciation, cost of products sold, and selling general and administrative expenses are taken into account. In other words, a corporate tax levied on the net present value of assets of the organizational productivity. Corporate tax or company tax are often assumed as a tax for income earned by businesses assesses. Many countries levy a corporate tax to smooth the tax process for enterprises. Corporate tax in India is levied on both domestic also as foreign companies. Like all individuals earning income are imagined to pay a tax on their income, business houses to are imagined to pay as tax specific portion of their income earned. This tax is known as corporate tax, corporation tax, or company tax.

"Any juristic person having a separate and independent legal entity from its shareholders is known as a corporate assesses. The income earned by a company is computed and assessed separately from the dividends that it offers to its stakeholders. These dividends do not figure out in the tax calculation of the enterprises, but are assessed as a part of the income of shareholders." For the purpose of computation of the tax, companies in India have been broadly divided into the following two categories;

**Domestic Company: u/s 2 (22A) 'Domestic Company** or domestic corporations" means an Indian company or any other company which has made prescribed arrangements for the declaration and payment of dividends (including dividends on preference shares) with in India out of its income taxable under the Act. Section 194 of the Act specifies the procedures for declaring and paying dividends within India.

**Foreign Company: u/s 2 (23A) "Foreign Company** or foreign corporations" means a company which is not a domestic company. Thus, a company, (a) which is not an Indian company; or (b) which has made prescribed arrangements for the declaration and payment of dividends within India, is a foreign company[1]. In other words any foreign company is one that is not of Indian origin and has some part of control and management of affairs located outside India. The current corporate tax chargeable as per research availability on the basis of;

i). Certain range of the income or upto certain gross turnover on domestic corporate is chargeable 25% - 30% whereas foreign corporate is chargeable 40% which is based on as per tax slab avail on the previous year's income in the assessment year.

ii). For the second category, royalties or fees earned from the government or an Indian concern for technical services rendered prior to April 1, 1976 and approved by the central government are taxed at 50%.

iii). Any other kind of income is chargeable 40%.

The three above categories are liable to pay taxes with addition of surcharge as well as health & educational cess is 4% too. Minimum Alternate Tax (MAT) is applicable for both whether domestic or foreign corporate. Companies are liable to pay Minimum alternate tax If, the total applicable payable tax of a company on the total income is less than 18.5% of the profit which is recorded in their books with addition to surcharge, educational cess and SHEC. However, Minimum alternative tax can also be carried forward and adjustments can be made against regular tax forward for 10 subsequent years. Whereas dividend distribution tax has to be paid by companies on the dividend that is distributed to the shareholders every year is 20.56%. In the shareholders' hands, this dividend is exempted up to Rs.10 lakhs in the year 2019-20. For the computation of corporate tax on the income of a company it is necessary to add first all factors make up the total income of any company.

- Income from business or profession
- Income from property
- Capital gains

- Other sources of income, such as foreign dividends, interest, and so on

**Modern Period:** Before 1991 India's overall tax structure had been broadly inefficient and quite inequitable. By international standards, the income tax rates had been high, and there was no value added tax at the central level, except on a selective basis from the mid-1980s. The consumption tax base was narrow, with services excluded, and customs duties were high but rife with complicated exemptions. State sales taxes resulted in heavy excess burdens at the sub-national level because input taxes were built into the prices of final goods, resulting in tax-on-tax, or cascading. Changes in India's tax structure are widely acknowledged to have had a positive impact. There has been ramification of Economic reforms 1991 towards growth and development of Indian Economy through pace of corporate sector i.e., a new stardom of corporate regime in new business scenario. There are certain new factors become the part of new regime that has responsible to brought changes are as follows;

1. **Fiscal Reforms:** The restoration of fiscal discipline was a critical component of the stabilization effort. The data reveals that fiscal deficit during 1990-91 was as large as 8.4% of GDP. The budget for 1991-92 took a bold step in the direction of correcting fiscal imbalance by reducing in fiscal deficit by nearly two percentage age points of GDP from 8.4% in 1990-91 to 6.5 % in 1991-92. The budget aimed to reduce government spending while increasing revenues, as well as reversing the downward trend in the share of direct taxes in total tax revenues and curbing extravagant spending. The recommendations of Raja Chelliah Committee aimed to raise revenue through better compliance in case of income tax and excise and customs duties, and make the tax structure stable and transparent. The Central government has continued fiscal Policies Comprising;
   - Balance structure of direct and indirect taxation based on moderates tax rates with minimum exemption covering wider class of tax payers
   - An expenditure Policy that aims to restrain the growth in non developmental expenditure and adequately provide for pressing social and infrastructure need for developing economy.
2. **Monetary and Financial Sector Reforms:** Under monetary and financial reforms Interest rate distortions are being eliminated, and the structure of lending rates is being rationalized. The new policy tried in many ways to make the banking system more efficient and effective for financial sector. The framework of monetary policy made a phased shift from direct instruments of monetary management to an increasing reliance on indirect instruments. Concurrently, the main objective of the financial sector reforms in India initiated in the early 1990s was to create an efficient, competitive and stable financial sector that could then contribute in greater measure to stimulate growth. Some of the measures undertaken were:

- **Competitive measures of enhancement**
  - Operational autonomy to public sector bank
  - Public ownership reduction in public sector bank (Public sector bank can raise paid up capital from equity up to 49%)
  - Norms are transparent related to entry, foreign and joint venture banks, merger amalgamation and governance issues for Indian private sector and Non Banking Financial Corporation's and insurance companies
  - Permission for foreign investment in financial sector in the form of FDI as well as portfolio investment
  - Authorization of banks to diversify product portfolio and business activities
- **Measures for enhancement role of market forces**
  - Determination of market pricing for government securities
  - Sharp reduction in pre-emption through reserve requirement
  - Suspension of administered interest rates
  - Enhanced disclosure and transparency norms to facilitate market discipline
  - Introduction to pure inter-bank call money market and developing market for securitized assets
  - Auction based repos and reverse repos for short term liquidity management and improved payments and settlement mechanism
- **Prudential measures**
  - Standardized approach for credit risk and basic indicator approach for operational risk
  - Migrate to the internal rating based approach after development of adequate skill
  - New and innovative fund options i.e., redeemable cumulative preference shares, perpetual debt instruments & non cumulative preference shares, and hybrid debt instruments

- **Institutional and legal measures**
    - Setting up of Lok adalats, assets reconstruction companies, settlement advisory committees, debt recovery tribunal, corporate debt restructuring mechanism etc.
    - Proliferation of securitization and reconstruction of financial assets and enforcement of securities Act 2002 with the amendment of creditors right
    - Setting up of clearing corporation of India limited to act as counter party to facilitate payment and settlement of securities and money market other instruments
    - Setting up of credit information Bureau of India limited for information sharing on defaulters
- **Supervisory measures**
    - Financial supervision Board as apex supervisory authority for risk based supervision
    - Introduction of Capital adequacy, Management, Earning Liquidity, quality of Assets, system and control of finance
    - Consolidated supervision of financial conglomerates
    - Strengthening of corporate governance
    - Fit and proper test of directors along with enhance due attentiveness on important shareholders
- **Technological measures**
    - INFINET as the communication backbone for the financial sector
    - Negotiated dealing based system for screen based trading in government securities
    - Real time gross settlement system[3,4]

3. **Capital Markets Reforms:** The Narasimham Committee's recommendations were implemented in order to reform capital markets, with the goal of eliminating direct government control and replacing it with a regulatory framework based on supervisory and transparency disclosure by an independent regulator. Some of the measures undertaken were as followed:

- **Institutional Measures**
    - Administered interest rates on government securities were replaced by an auction system for price discovery.
    - New phased than of Automatic monetization of fiscal deficit through the issue of ad hoc Treasury Bills.
    - For the government securities Primary Dealers were introduced as market makers in the market. The trading in government securities ensure transparency, Delivery and Payment settlement system was introduced.
    - The Liquidity Adjustment Facility was introduced, subsequently for repurchase agreement or repo rate was introduced as a tool of short-term liquidity adjustment.
    - Liquidity Adjustment Facility operates through repo and reverses repo auctions and provides a path for short-term interest rate for banks.
    - Market Stabilization Scheme has been introduced, which has expanded the instruments available to the Reserve Bank for managing the enduring surplus liquidity in the system.
    - Banks have been permitted to undertake primary dealer business while primary dealers are being allowed to diversify their business.
    - Short sales in Government securities is being permitted in a calibrated manner while guidelines for 'when issued' market have been issued recently.
- **Increase the Instruments in Government Securities Market**
    - Floating Rate Bonds, Zero Coupon Bonds, Capital Indexed Bonds were issued and exchange trading with OTC interest rate derivatives like IRS/ FRAs were introduced.
    - 91-day Treasury bill was introduced for managing liquidity and benchmark.
    - Outright sale of Central Government dated security that are not owned have been permitted,
    - Repo status has been granted to State Government securities in order to improve secondary market liquidity.
- **Enabling Measures**
    - Foreign Institutional Investors are allowed to invest in government securities but at certain limits.
    - The beginning of automated screen-based trading in government securities through Negotiated Dealing System.
    - Setting up of risk-free payments and settlement system in government securities through Clearing Corporation of India Limited.
    - In this phase introduction of Real Time Gross Settlement System (RTGS).

- Allowing non-banks to participate in the repo market by allowing government securities to be traded on stock exchanges in order to promote retailing of such securities.
- Recently measuring includes introduction of NDS-OM and T+1 settlement norms[5].

- **Industrial Policy Reforms:** In order to consolidate the gains already achieved during the 1980s, and to provide greater competitive stimulus to the domestic industry, a series of reforms were introduced in the Industrial Policy announce on 24 July 1991. These policies aimed to significantly de-regulate industries in order to encourage the development of a more effective and competitive industrial economy. The following are the goals:
  - To liberalize the industries from the regulatory devices such as licenses and control.
  - To ensure running of public enterprises on business lines for cutting their losses.
  - To ensure rapid industrial development of public enterprises in a competitive environment.
  - To enhance support to small scale enterprises.
  - To Increase competitiveness of industries for the benefit of the common man.
  - To provide more incentives for industrialization in the backward areas.
  - These policies encouraged disinvestment of government holdings of equity share capital of public sector enterprises.
- **Trade Policy Reforms:** Under trade policy reforms, the main focus was on greater openness which was essential of an outward-orientation. New initiatives were taken in trade policy to create an environment which would provide a stimulus to export promotion while at the same time reducing the degree of regulation and licensing control on foreign trade. The following are the main features of the new trade policy as it has evolved since 1991:
  - The rationalization of tariff structure and reducing tariff
  - To decentralization of the management system
  - The free import and export policies
  - To labialization of the exchange rate administration
  - To setting up of the trading houses, Special economic zones and export promotion industrial parks
  - The various exemption under export and import policies to boost export & import and make the trade policy regime transparent and less burdensome[12]

4. **Promoting Foreign Investment:** The government took several measures to promote foreign investment in India in the post-reform period as a part of modern taxation policies. Some of the important measures are as follows:
   - • In 1991, the government announced a list of high-tech, high-investment priority industries for which automatic permission for foreign direct investment (FDI) up to 51 percent of foreign equity was granted. The limit foreign direct investment of was raised to 74 % and afterward to 100 % for many of these types of industries.
   - The Foreign Investment Promotion Board has been set up to negotiate with international firms and approve direct foreign investment in select areas too.
   - There were several steps also taken from time to time to promote foreign institutional investment in India during the period of modernisation.
5. **Rationalization of Exchange Rate Policy:** One of the important measures undertaken to improve the balance of payments situation was the devaluation of rupee. The rupee was devalued by approximately 20% in the first week of July 1991. The purpose was to bridge the gap between the real and the nominal exchange rates that had emerged on account of rising inflation and thereby to make the exports competitive. Later on the introduction of demonetization of Indian currency takes place in 2016. Some of the measures undertaken were:
   - **Exchange Rate Regime**
     - Evolution of exchange rate regime from a single-currency fixed-exchange rate system to fixing the value of rupee against a basket of currencies and further to market-determined floating exchange rate regime.
     - The adoption of convertibility of rupee for current account transactions with acceptance of Article VIII of the Articles of Agreement of the IMF[6].
   - **Institutional Framework**
     - The replacement of the earlier Foreign Exchange Regulation Act (FERA), 1973 by the market friendly Foreign Exchange Management Act. 1999.
     - To delegate of considerable powers by Reserve Bank of India by Authorized Dealers to release foreign exchange for a number of purposes.
   - **Instruments of the Foreign Exchange Market increase**
     - To develop of rupee-foreign currency swaps market.

- T introduce of additional hedging instruments like foreign currency-rupee options. Authorized dealers permitted to use innovative products like cross-currency options, interest rate swaps (IRS) and currency swaps caps/collars and forward rate agreements (FRAs) in the international foreign exchange market.

- **Liberalization Measures**
  - The authorized dealers are permitted to initiate trading, borrow and invest in overseas market by the following certain specifications and endorsement by respective Bank's Boards.
  - To permit the various participants in the foreign exchange market, including exporters, Foreign Institutional Investors, Indians investing abroad, to avail forward cover and enter into swap transactions without any limit subject to genuine underlying exposure.
  - Foreign Institutional Investors and Non resident of Indians are permitted to trade in exchange-traded derivative contracts up to certain conditions.
  - The foreign exchange earners are permitted to maintain foreign currency accounts. The residents are permitted to open such accounts within the general limit of US $ 25, 000 per year[4].

**Traditional Period:** A corporate tax, also known as a corporation tax or a business tax, is a direct tax levied by a jurisdiction on the profits or capital of companies or similar legal entities, such as a company or corporation.As per u/s 2(17) Income Tax Act 1961 by the residential status of the company may be domestic or foreign or non-domestic companies are liable to pay taxes with sur-charge in progressive nature that has introduce 1964 , as on the computation of gross total income of their productivity or turnover by deduction of certain provisions, deductions, carry forward and set off losses from the gross total income i.e., net profit with other modifications that implemented year after year which define jurisdiction of taxation system in India., whereas u/s 80VVA Minimum Alternative Tax MAT) or Alternative Minimum Tax (AMT) has introduce in India by the Finance Act 1987 vide section 115J of the Income Tax Act 1961, to facilitate the taxation of Zero taxation Companies i.e., those Companies which show zero or negligible income to avoid tax. Under MAT, such companies are made liable to pay to the government by deeming a certain percentage of their book profit as taxable income. MAT is an attempt to reduce tax avoidance that contains the practices followed by certain companies to avoid the payment of income tax, even though they had the "ability to pay". MAT is applied when taxable income calculated as per the normal provision in the Income Tax Act is found to be less than 18.5% of the book profits with other taxes on domestic and foreign companies. As the exceeding of profit than the limit sur-charge will be added on the computation of tax labiality by the corporate tax or MAT as per the slab of the prevailing taxation system in the previous year.

Sir James Wilson was the first to introduce a tax. India's First "Union Budget" Introduced by Pre-independence finance minister, James Wilson on 7 April, 1860 which has amended many times year after year enforced to meet the losses sustained by the government on account various financial challenges and shaping of Economy till to the current Income tax law is governed by the 1961 Act consists of 298 sections. There are four schedules that went into effect on April 1, 1962, which apply to the entire country (including Jammu and Kashmir). Entry 82 of the Union List of the Seventh Schedule to the Constitution of India, which empowers the central government to tax non-agricultural income, governs income tax in India. Income Tax Rules 1961, Notifications and Circulars issued by the Central Board of Direct Taxes (CBDT), annual Finance Acts, and judicial pronouncements by the Supreme and high courts[6]. The government levies taxes on certain income of different assesses like individuals, Hindu Undivided Families (HUF's), companies, firms, LLPs, associations, bodies, local authorities and any other juridical person etc. Tax is chargeable as per residential status of the assesse? Whereas tax slab and rates always fluctuates due to considering economical conditions, economical system and economical Policies for various assesses whether corporate sector or non corporate sector assesses for their benefits and growth especially for domestic Companies and foreign companies too.

**Components of taxation policies for Corporate:** There are number of ways that provide corporate assesses to use the various elements and techniques for the benefits tax avoidance as legal entity are as follows;

**A. Factors affecting of taxation Policies by legal amenities and provisions as per tax structure**

1. **Tax Concessions:** It is the exemptions of certain income of corporate assesses are exempt from tax year y year i.e., these incomes are neither included in a company's total income nor any tax levied on them[7]. Followings are the tax concessions available to a corporate assesses;
   - Tax paid by Indian Concern or government on certain incomes of foreign companies u/s 10(6A).

- Technical fees or royalty received by foreign companies u/s 10(6C).
- Interest on certain securities u/s 10(15).
- Income by way of dividends or long term capital gains of venture capital fund or a venture capital company u/s 10(23FA).
- Income of Scheduled tribe schedule caste corporation or body etc. companies u/s 10(26B) etc. [7].

2. **Tax Incentives:** The tax incentive is the deductions from the gross total income. Certain incomes earned by a company are deducted from its gross total income and thus, tax liability of company is reduced. Therefore, a company should take such decisions that it may avail the following deductions or incentives ;
   - Deductions in respect of donations to ascertain funds, charitable institutions etc. u/s 80 G.
   - Under section 80 GGA, certain donations for scientific research or rural development can be deducted.
   - Deduction in respect to contributions given by companies to political parties 80-GGA.
   - Profits and gains from industrial undertakings or enterprises engaged in infrastructure development, etc. can be deducted under section 80-IA.
   - Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of Special Economic Zone u/s 80 IAB etc.[8].
3. **Carry forward and Set off of Losses:** Where the loss of any previous year cannot be set off against the income of the previous year, the loss not so set off is carried forward to be set off against income of the subsequent year or years. This is term as "carry forward and set off of losses. The provisions relating to carry forward and set off looses and allowances following points are worth noting;
   - Accumulated loss and unabsorbed depreciation in certain cases of amalgamation u/s 72A
   - Accumulated loss and unabsorbed depreciation in certain cases of succession of a firm or a proprietary concern by a company u/s 72A (6)
   - Set off losses of discontinued business u/s 41 (5)
   - Losses in speculation business u/s 73 (2)
   - Carry forward and set off losses of specified business u/s 73A
   - Unabsorbed capital expenditure on scientific research u/s 35 (4)[9]
4. **Deduction in respect of depreciation:** Depreciation is real and allowable loss which is deducted while computing the profits of a concern. Income tax is levied only such profits which are ascertain, computed or arrived at after deducting the allowance for depreciation. Depreciation is regulated by u/s 32 (1) on tangible and intangible assets. There are certain condition for granting depreciation are as follows;
   - Assets must be used for business or profession
   - The assessee must be the asset's owner.
   - Depreciation on the total written-down value of all the assets of a block
   - Aggregate depreciation in case of succession, demerger or amalgamation etc[10].

**B. Factors affecting taxation Policies from company weightage**

5. **Capital Structure of the Company:** Capital structure of a company refer to the company's mix of capital which consist of combination of short term and long term funding of permanent nature that supports a company's growth and related assets i.e., debt, preference and equity. It is depend on the choice and decision of the company for keeping of view of objectives to ascertain for sustainability and stability for the longer period of time in the market.
   - High debt financing and no equity
   - Optimum mixture of debt and equity financing
   - Low debt financing and high equity financing
   - No debt financing and high equity financing
6. **Business Reorganization:** Business reorganization means the rearrangement of the affairs of an undertaking relating to trade, commerce and industry. It includes restructuring, rearranging and resetting of the assets, liabilities and resources of a business undertaking. There may be amalgamation or demerger.

According to u/s 2 (1B) Amalgamation means merger of one or more companies with another company or merger of two or more companies to form one company.

- Allowances to the deduction in respect of capital expenditure on acquisition of patents or copy rights incurred before April1,1998 u/s 35A (6)
- Amortization of preliminary expenses by amalgamated company u/s 35D (5)

- Granting exemptions of new undertaking established in FTZ, special economic zone and hundred percent export oriented undertakings u/s 10A 10B
- Allowances of deduction u/s 80-IAB, 80-IB, 80-IC or 80-IE

Demerger is a new phenomenon in the Indian public sector. There are no specific in the companies Act 1956 take place through the schemes of compromises or arrangement u/s 391 to 394 by a "demerged company"[11]. The company whose undertaking is transferred, pursuant to a demerged, to a resulting company.

- Tax benefits to demerged company
- Tax benefits to the shareholders of demerged company
- Tax benefits to the resulting company

**Taxation Polices and the dividends:** Divided is a certain amount share with shareholders or investors of a company or mutual funds on regular basis i.e., monthly, quarterly, or annually. It is likely a bonus or reward a company or fund house doles out to its investors. It can be given in the form of liquid cash or benefits or even stock. When a corporation's profits are distributed, most taxation systems impose an income tax on its shareholders.

Some jurisdictions' company law prohibits companies from distributing money to shareholders unless it is a distribution of profits. Company law principles or tax principles may be used to calculate such profits. Exceptions are routinely made in such jurisdictions for the distribution of company shares, the winding up of the company, and a few other cases. Other jurisdictions treat distributions as earnings distributions that are taxable to shareholders if earnings are available, but do not prohibit distributions in excess of earnings. Other jurisdictions allow companies to designate, within certain parameters, whether a distribution is a taxable distribution of earnings or a return of capital[15].

Most of the income tax systems levy tax on the corporation and, upon distribution of earnings (dividends), on the shareholder. This results in a dual level of tax. Most of the systems require that income tax be withheld on distribution of dividends to foreign shareholders, and some also require withholding of tax on distributions to domestic shareholders. A shareholder's withholding tax rate may be lowered as a result of a tax treaty.

## III. RESEARCH METHODOLOGY

The purpose of the research is to contribute a very significant aspect of financial management towards the contribution of taxation policies in financial leverage of dividend declaration from traditional to modern era. Here, the concern research focus on the relationship of assumed cited traditional to modern taxation policies towards dividend declaration, affects the profitability, structure of security portfolio management and affect of the other different components positive or may be negative on the growth of the various companies according the availability of data which are enlisted and prevailing in stock market [1–3] in today's business scenario. This section discusses investigate the research tools for the firms and variables included in the research, the distribution pattern of the data and applied statistical techniques in investigating the relationship.

The tax is always financial charge imposed by the government on every type of assesse whether corporate or non corporate directly or indirectly for the earning of the particular year. The present study is analytical in nature which is based on various available published data in various places. The available data has been presented in table and bar diagram form which help to analyze the relationship between traditional to modern taxation policies towards dividend as well as the impact of its components effects of taxation towards dividend. The correlation and variables are helps to assess the validity of the hypothesis as per the objectives of the paper.

**Hypothesis**

1. There is possible positive relationship between traditional taxation policies to new taxation policies for the dividends that has expected to pose high level of efficient growth of capital investment of the company.
2. The impact on components of taxation Polices towards dividend between the two periods.

A hypothesis is a proposed explanation for a phenomenon, use for evaluation through scientific ways to investigate the pre decided objectives. As per first hypothesis of the research it is assume that the exits relationship between traditional to modern period of taxation policies for the dividend may be positive which has given a significant pivot role for the growth of the capital investment of the company as well as increase the flow of capital and enhance the potential of each financial requirement of the company with the development of the capital market too. On the other hand the other hypothesis searches that how the components impacts of taxation Policies in two different periods. The two hypothesis are exist on the transformation of taxation Policies in three decades of each whether traditional taxation policies or the modern taxation policies from the beginning of its legal frame work in laws till the coverage of 2019-20.

In India there are various Acts has implemented before the introduction of the Income Tax Act with the provision of the coverage of the various heads of income through various sources for knowing the net income for the companies must be added together for computation of taxable income. No doubt 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 were existing on Corporate. 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, The companies Act 2013 etc. were the apart of Taxation Policies and few amended during this period. The collected data proved itself how the taxation polices impact on the corporate sector during three decades of traditional period.

| **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% |

**Table 1:** Sources: 1909-2001: World Tax Database, Office of Tax Policy Research, Oct 17, 2002

During the modern period the cess has introduce with other types of taxes added and some Acts again amended as per the need of business environment for corporate because of the time of bring economic policies and the reform for liberalization, Privatization and globalization of Indian Economy like 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.[15] .

The 1991 economic reforms were focused primarily on the formal sector that that impact on different assesses, have seen significant boom in those areas that were liberalized. Sectors such as telecom, banking, manufacturing & trade and civil aviation have benefited greatly from deregulation and subsequent reforms. The slow growth and stagnation in informal sectors which have not seen any reform further highlights the significant role of the 1991 reforms in helping India's economy become what it is today.

The tax rate applicable at the fiscal level on various types of companies whether domestic or foreign companies but different rates are applicable on non-resident/ foreign-owned companies. Provincial and local governments may levy additional taxes. In addition, the effective corporate tax rate may be higher due to the imposition of corporate level taxes on dividend or other distributions which are shown available data in table.

| **Years** | **Tax Rate** | | **MAT** | **Sur-Charge** | **Edu. Cess** | **SHEC** |
|---|---|---|---|---|---|---|
| | **Domestic Co.** | **Foreign Co.** | | | | |
| **1991-93** | 50% | 65% | --- | --- | --- | --- |
| **1993-94** | 50% | 50% | --- | --- | --- | --- |
| **1994-96** | 40% | 55% | --- | --- | --- | --- |
| **1996-97** | 40% | 50% | --- | --- | --- | --- |

| | | | | | | |
|---|---|---|---|---|---|---|
| **1997-98** | 35% | 48% | 30% | **Abolished** | --- | --- |
| **1998-99** | 35% | 48% | 30% | 10% | --- | --- |
| **1999-02** | 35% | 48% | 7.50% | 10% | --- | --- |
| **2002-03** | 35% | 48% | 7.50% | 15% | --- | --- |
| **2003-04** | 35% | 48% | 7.50% | 2% | --- | --- |
| **2004-05** | 35% | 40% | 7.50% | 5% | 2-4% | --- |
| **2005-06** | 35% | 40% | 7.50% | 2.50% | 2% | --- |
| **2006-07** | 30% | 40% | 7.50% | 2.50% | 2% | 1% |
| **2007-10** | 30% | 40% | 10% | 10% | 2% & 3% 2010 | 1% |
| **2010-11** | 30% | 40% | 15% | 10% | 3% | 1% |
| **2011-12** | 30% | 40% | 18.50% | 7.50% | 3% | 1% |
| **2012-13** | 30% | 40% | 18.50% | 10% | 3% | 1% |
| **2013-15** | 30% | 40% | 18.50% | 5% | 3% | 1% |
| **2015-17** | 30% | 40% | 18.50% | 7-12% & 2-5% Foreign Co. | 2% | 1% |
| **2017-19** | 25% | 40% | 15% | 7-12% & 2-5% Foreign Co. | 4% | 1% |
| **2019-20** | 25% | 40% | 15% | 7-12% | 4% | 1% |

**Table 2:** Corporate tax rate Structure : MAT wit Edu. Cess and SHEC

The corporate tax structure in modern period found becomes more and more complicated from assumed traditional period to modern period. The taxation system has change many times year after year as per the requirement of the Indian Economy. Some time it is seen that many amendments have taken place in various Acts in same year, new Acts introduce and some other Act has replaced during six decades. That has a proof which shows corporate tax rates and slabs change on regular basis in the cited tables. But as per the last year (2019-20) of the modern period of tax system has found completely swift all change together in corporate tax structure are as follows;

| **Particulars** | **Tax (%)**[1] | **MAT (%)** | **Surcharge (%)** | **EC (%)**[2] | **S & H Cess(%)**[3] | **Effective Tax (%)**[1+2+3] |
|---|---|---|---|---|---|---|
| A. Domestic Companies<br>with total turnover upto 400 Cr<br>Exceeds 400 Cr | 25<br>30 | 15 | Nil | 2 | 1 | 25.75 |
| Domestic Companies with total Income more than 1 Cr but exceeds 10 Cr | 30 | | 7 | 2 | 1 | 30.9 |
| Domestic Companies with total Income exceeds 10 Cr | 30 | | 12 | 2 | 1 | 33.063 |
| Other Domestic Companies | 30 | | 12 | 2 | 1 | 34.608 |
| Foreign Companies with total Income less than 1 Cr | 40 | 15 | Nil | 2 | 1 | 41.2 |
| Foreign Companies with total Income more than 1 Cr but less than 10 Cr | 40 | | 2 | 2 | 1 | 42.024 |
| Other Foreign Companies | 40 | | 5 | 2 | 1 | 43.26 |

**Table 3**: Previous year corporate effective tax structure **(2019-20)**

For knowing of exist relationship from traditional to modern period of various components of taxation policies for the second research objective EBIT-analysis technique is used for checking correlation and variances. The financial leverage of EBIT (Earring Before Interest and Tax) analysis technique helpful for understanding the impact of taxation policies from traditional to modern period and the effect of different components of taxation policies during the six decades continuously. The EBIT technique used by company for the computation of EPS (earnings per share). It is also give significant result to decide the shareholders earning and give more return to the shareholders without increase their investment. The degree of financial leverage measures the impact of change in operating income on the change in earning on equity capital or on equity shares.

## IV. ANALYSIS

The analysis process always makes the complex topic into simplest by breaking into small parts in order to better understand of it. The technique has been applied in the study of mathematics and logic since before Aristotle (384–322 B.C.), though analysis as a formal concept is a relatively recent development[13].

In India, the corporate tax rate refers to the highest effective rate for corporate income for domestic companies which are higher as compare other countries. The amount charge is based on the net income of the companies obtain while exercising their business activity, normally during one business year/ accounting year/ financial year. The corporate tax rate generates a significant amount of revenue for the Indian government. In traditional period it is found that high corporate tax impose on corporate sector especially on domestic companies more than the half of the net income in 1961-62 where as in next subsequent coming year reduce at stagnant rate continuously which can be a good sign of government policies to understand the requirement of the Company. In 1968-70 are the only years where corporate tax rate were again high. Last three decades since 1970-90 found continuously tax rate decline at a higher rate can be seen in bar diagram. Where the main taxation policies has change with the decreasing tax rate impose by the government with the introduction of other taxes like surcharge, Cess etc additional charge with them with the increasing of net profit of the company as per above the sanction tax slab.

On the other side government introduce Minimum alternative Tax for giving the tax benefits of the other corporate as the increasing of the total income of the company. Different tax rates apply on non-resident or foreign-owned companies. Provincial and local governments may levy additional taxes. In addition, the effective corporate tax rate may be higher due to the imposition of corporate level taxes on dividend or other distributions. The exemption has been seen many times before independence from above cited assumed traditional period.

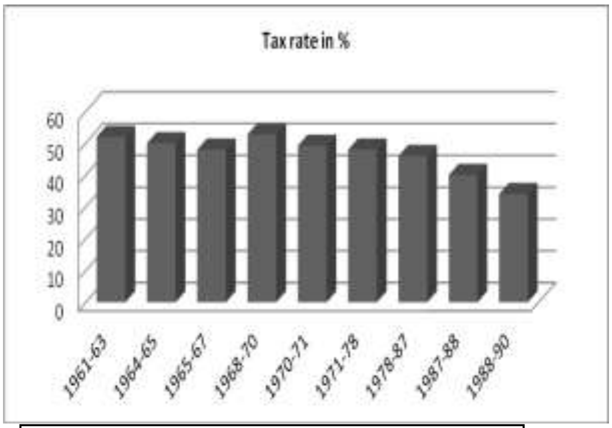


Figure1: Traditional Corporate structure

In modern period of the taxation coverage of three decades become full fledges of the corporate tax structure as it now the part of the tax system. This is possible time where the Indian economy has liberalized, privatized and reached to the globally which has more vibrant and open economy than ever before till to reached to the completion of modern period by the recommendations of various above cited committees like fiscal reforms, monetary reforms and capital market reforms affect Indian Companies whereas industrialization reforms, trade policy reforms, foreign exchange reforms and promoting foreign investment has impact on foreign companies too. As per data of table shows the structure of taxation policies covered domestic and foreign company's tax rate with surcharge, educational cess, SHEC and MAT have found at flexible rate. Whereas it is also seen that minimum alternate tax had many times remove, cut off, newly implemented on other ways and priority went with the basic corporate rate of domestic company or the foreign companies as per the prevailing available data. It has also been seen domestic corporate tax rate less stable and slightly decreasing year after year during the period of three decades as compare to the foreign corporate tax. The surcharge has also levied subject to 2.5% whereas additional surcharge 2% implement as per the tax slab in the progressive form of the corporate tax rate for both domestic and foreign company too. The educational cess found constant 2- 4% in last previous succeeding fifteen years of the modern period of the research but secondary higher educational cess remain same during the modern period. All the above scheduled data and diagrammatic presentation has the evidence of truth of the cited statements.

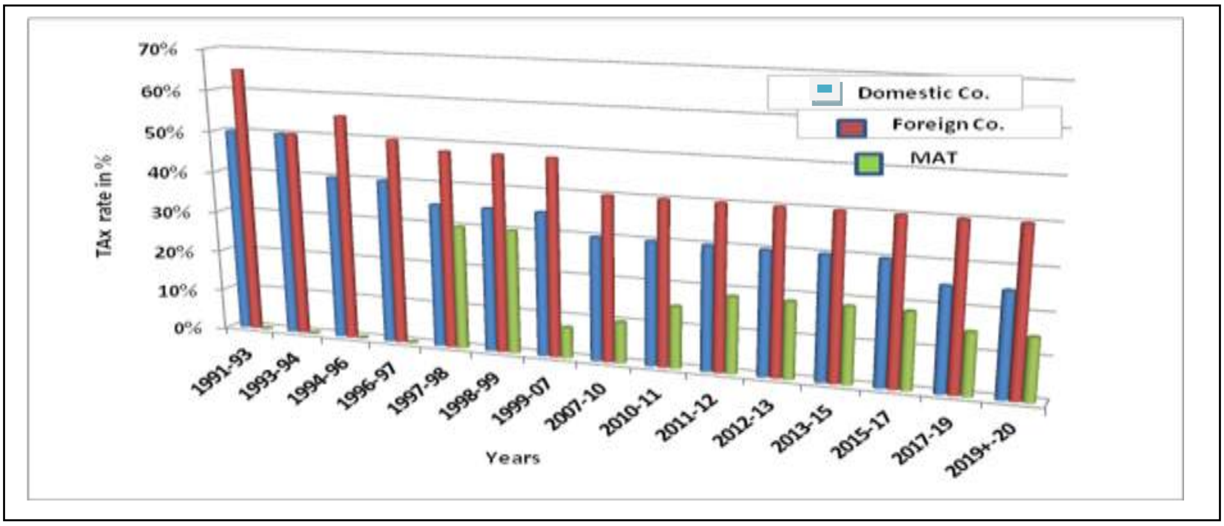


Figure2: Modern Corporate structure

It has seeing in the introducing year of economic policies tax rate was high imposing on both types of companies (i.e., domestic and foreign company) which was as high as the beginning of assumed traditional period. The corporate tax rate found the gap between of them was 15% at the initial year of the modern period. Whereas next three year the tax rate has decrease by 10% on the domestic Companies but in case of foreign companies first two years decrease by 15% than 5% again decrease by 5% three subsequent years. In 1997-98 the surcharge has abolished from taxation policies and the period where tax rate for domestic companies has become 35% at a constant rate till to 2005-06 and after that it become 30% till 2016-17 after that it has found 25% in next two subsequent years and than 22% on domestic companies. In case foreign companies from 1996-97 till 2003-04 the tax rate has reduced by only 2% i.e., from 50% to 48%. Whereas from 2004-05 to till date it has always seeing that corporate tax rate remain constant rate of 40% till 2019-20 for foreign companies. The surcharge has also levied with the increasing of gross income or profit as progressive nature than the increase of limit of taxation implement new tax rate with the additional rate of surcharge subject to a educational cess and additional cess implemented with prevailing available rates. It is also found that that rate of surcharge differ for both domestic and private company. Minimum alternative tax has given facility of tax avoidance for their decreasing gross total income of corporate tax structure.

In case of the components of the taxation policies have directly impact for taxable amount and affect dividend distribution that has set up for the reducing tax liability for the benefit of corporate legal entities. These factors are directly connected for the decline of taxable income of the corporate whether for the domestic or may be foreign companies. There are various components tax concession, tax incentives, carry forward and set off losses, deduction in respect of depreciation, capital structure of the company and business reorganization etc. have cited and briefly explain thoroughly in above paragraphs. That components have shaped and modified from year after year by the government as per the changing requirement business environment, various new forms of business, expansion from traditional to modern concepts and various ventures have been take place from traditional period to modern period has directly impact on taxation policies towards dividends.

In case of dividend payout always a biggest challenge for the management to fulfill the promise of the investors or try to pay more of them by paying all liabilities even taxation too. It is not a single liability towards of a party i..e, investors but at the same time liable of internal and external parties together to maintain and fill the gap towards financial strength and enjoying long term sound financial stability in the market. As per initial BSE SENSEX of thirty well established financial sound companies April 1979 in tradition taxation period consider 100 points that reached 129 points in 1980, in 1985 was 354 points increased by 44.24%, in 1990 was 781 points increased by 9.45%, in 2000 was 5001 points increased by 33.73%, in 2010 was 17,528 points increased by 80.54% and in 2020 was 46,373.34 points increased by

164. 57% within decade as high as above all limits. Whereas 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 14 sectors like Financial services, IT, Oil and gas, Consumer goods, Automobile, Pharma, Construction, Metal, Cement & Metal products, Telecom, Power, Services and Fertilizers & Pesticides of free float of capital has reached lowest 7,511.10 to highest 15,431.78 with the average 11,749.86 by the change in 27.75%.. Both Index of BSE and NSE has witness that economic policies has greater impact during the two periods of taxation policies placed a great significant role in the succession of business as we are seeing today in various sectors and their paying capacity to the investors as dividend increased a lot.

## V. CONCLUSION

India being one of the largest democracies has a very complex taxation structure featured with a large number of taxes & cess, excessive and complex tax literature (rules and laws), inefficient administration etc. Before the existence of tax as a legal entity of Act levied compulsory on various types of persons to pay fines, duties and different other forms directly or indirectly to the government at various levels by corporate or non - corporate. The different types of assesses are liable to pay number of taxes on certain amount at a certain rate on the previous year's income which has covered under income tax Act 1961. It is well define structure of taxation system with complete aspects which are clearly mentioned with full provisions that has covered under different sections and sub sections. But corporate tax has found existence in India in 1909 charged at the rate of 1% that had increased continuously year after year and reached to 52% till to 1960. When we see the history of the corporate tax it is found that the differences in tax rates in decades after decades are 1%, 10%, 12%, 24%, 42% and 52% of corporate tax at a progressive rate. The assumed traditional period has covered wider ranges of tax rate that fluctuate year after year had affectively reached as 52% - 52.8% in first decades, 52.8% - 46% in second decades and 46% - 34% in last third decade by reducing the tax liability for increasing the revenue of the government.

The assumed modern period tax liability has also found 50% - 35% in first decade, 35% - 30% in second decade and 30% - 22% at a decreasing rate in third decade by the following provisions which reduce tax liability that has also found same trend in the traditional period too. But the tax structure become more complicated with the implementation of other Acts, new amendments and provisions by reducing corporate tax rate in its structure and additions of surcharge, educational cess and SHEC by the subject of the following prevailed various tax slab. Minimum alternate tax has also implemented with addition of surcharge and other additional taxes, educational ess and SHEC as the same prevailing rates are liable by the following corporate tax on the net profit of the company may be domestic or foreign corporate.

As per the objectives of the research paper that has establish positive relationship between traditional taxation policies to new taxation policies for the dividends that has expected to pose high level of efficient growth of capital investment of the company proof that hypothesis consider true, authentic and fully valid. No doubt with the decreasing tax rates within six decades of study has the time period from the beginning of various forms of other taxes, the additional cess implementation (educational cess and secondary higher educational cess) and the provision of surcharge that has decrease the affective corporate tax rates. That, not only increase the taxable amount which enhance the revenue of the government by taxation policies, with the increasing taxable income reduce the remaining profit for the company to fill the responsibility for the paying of the other parties as per the pre decided schedule of accounting standard at a fixed amount by their credibility. After paying of all the parties by the following their priorities the remaining amount of the shareholders for their distribution as dividend is also reduce apart of the owner's funds. So, it become the responsibility of the company to analyse the risk in the new phase of business environment and take challenges in optimistic manner by providing high dividend to their stakeholders than before through the modification capital structure but as per considering legal formalities of memorandum and article of association. To keep the requirement of the companies, they are focus on capital restructure by the changing mixture of proper ratio of funds of both borrower's and owner's funds with ploughing back profit will increase the remaining profit for the shareholders to pay them dividend. That need of the market to make pose high level of efficient growth of capital investment of the company. These decisions can be taken by analyse of EBIT technique. The avail indices are the evidence of the prevailing stocks has reaching towards maximizing range day by day is the proof of positive correlation of hypothesis with the research objectives.

As per other objective of the research paper of the second impact different types of components of taxation policies from traditional to new taxation policies has placed pivot role for reducing tax liability through legal amenities called tax avoidance. The other for the changing capital expansion that has increase the dividends payout played well significant role for the development of capital market whether Primary or secondary, that exist the impact positively and correlate to each other in positive manner. The hypothesis also becomes authentic, legal and valid by the following of the research objective. In the new scenario of business environment represent clear black & white figures and transparency make the business on a scale of full fledge. It will give the stability to the various new forms of business for the longer period of existence that was beyond the imagination for the today's businessmen. That happened possible through innovation, expansion, restructure of capitalization, various other forms of business (merger, demerger, amalgamation, joint venture, franchisee and so many others) has leaded the business in new height during the period of economic policies and assumed modern period. Companies are always a miles stone for changing the shape of economy from the slow to the stagnant and stagnant to the dynamic position. When an open economy vibrating is a symbol of growth and going to the phase of innovation and development too at a wider scale. By considering of the same facts government has giving more priorities to the industrial sector and changed various legal provisions, sections and sub sections for giving more benefits to the companies for their expansion to fill its objectives too. When that was not sufficient as per changing and shaping new business environment some new Acts introduce and few Acts merge in a new way and some Acts completely remove during the modern period from taxation Polices because of the benefits of the companies as well as shaping of new economy.

Dividend policy, on the other hand, is concerned with financial policies that include paying a cash dividend now or increasing the dividend later. Whether or not to pay dividends, and how much to pay, is largely determined by the company's excessive profit (cash on hand) and affected by its long-term earning power. The distribution of the amount of the dividend is also depending on the need of the capital requirement of the company. When a cash surplus exists and the company does not require it, management is required to pay out some or all of the surplus earnings as cash dividends, repurchase the company's stock through a share buyback programme, or keep the surplus earnings. While determining the nature and quantum of the dividend payout, including amending the suggested payout range as above, the Board of Directors would take into account the internal as well as external factors affecting the profitability and chances of enhancing to increase more profitability and high yield of return in effective manner. In the analysis section of the research paper mention indexes has an evidence of the cited information are right and correct. The study of the two research objectives and their hypothesis are positively correlate to each other and found truly authentic and positively impact long lasting ever.
**s**

## VI. LIMITATIONS AND SCOPE OF THE STUDY:

The present study borrows data from Income tax Acts, Books, Various research papers, and world data base research, Government reports, Articles and digital published data, working paper on Impact of Taxation Policies from Traditional to modern period towards dividend with respect to India. Hence, the validity of the data may be questioned because of lots of amendment and coverage of longer period of research. The paper is based on the assumption of traditional period covered from the period before liberalization, privatization and globalization of the Economy before new economic policies and modern period that made the current tax structure has not evolved since then. It is always topic for the keen research from longer time with the connection of various challenges and issues that has always found by critics and researchers to study more and more. Due to this controversial nature of taxation policies towards dividend it is often called the dividend puzzle. Again various models have been developed to help firms analyze and evaluate the perfect dividend policy in different modes of time. Lots of exposure has taken placed many times during the longer existence of research coverage which has played significant role but applicable only that period not found good in other period. There is no agreement between those schools of thought over the relationship between dividends and the value of the share or the wealth of the shareholders in other words.

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