

# THE INCIDENCE OF COMPANY TAX IN INDIA : SUGGESTED HYPOTHESES

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## I. INTRODUCTION

### A. *Hypotheses in Theory*

IN THEORY there are various hypotheses regarding the incidence of company tax. The two major conflicting hypotheses are, first, that the company tax is shifted forward to the consumers in the form of higher prices and, second, that the company tax does not fall on consumers; instead it falls on the return on capital.

The hypothesis that the company tax does not fall on consumers is based on the assumption that the pricing in the company sector is the marginal-firm pricing, which is the static partial-equilibrium price theory of the classical economists in a purely competitive setting. Extension of this price theory to the conditions of monopoly and imperfect (or monopolistic) competition is the theory of marginal pricing whereby price is determined at the point of equality of marginal revenues to marginal costs. This theory of pricing is also based on the assumptions of static analysis and constant demand conditions. Both the marginal-firm and the marginal-price theories justify the theoretical hypotheses that the price remains unchanged by non-market forces and that the company tax is not shifted forward. Also, the classical theory of wages, according to which wages are determined by the marginal productivity of labour, justifies the conclusion of the classical economists that the company tax is not shifted backward either. Consequently it is hypothesised by many writers that the company tax is borne by the stockholders or the companies' retentions, in either case it is borne by the capital on which it is intended to fall.

The opposing hypotheses that the company tax is shifted forward to consumers in the form of higher prices is based on the assump-

\* The author is grateful to Alembic Chemical Works, Baroda, for providing the financial help for this research.