

**SPEECH OF SHRI T.T. KRISHNAMACHARI MINISTER OF FINANCE,
ON ECONOMIC SITUATION AND TAXATION PROPOSALS**

Sir,

Honourable Members will recall that in the past I have presented a mid-year review of the economic situation to Parliament. The annual budget provides an opportunity for a periodical review of our plans and policies. Nevertheless, there are occasions when even a year's interval becomes too long for initiating remedial action to deal with emerging circumstances. The need for a mid-year review is all the greater during the current year because of the need to pave the way for the launching of the Fourth Five Year Plan. It is for this reason that I have taken this opportunity to present some supplementary proposals framed in the light of the current economic situation and the requirements of the Fourth Five Year Plan.

It is somewhat early at this stage to attempt a full picture of the likely budgetary outcome for the current year. However, there are sufficient indications that supplementary measures for raising revenue are necessary to keep to our resolve of avoiding deficit financing during the current year. Since the presentation of the Budget, the Centre has had to grant additional dearness allowances which would result in an expenditure of about Rs.25 crores during the year. Despite repeated appeals to the States to avoid recourse to overdrafts from the Reserve Bank and to consolidate their financial position, some additional assistance to a number of States has become inevitable; and this may account for an additional outlay of about Rs.40 crores. Honourable Members would also appreciate that in view of renewed hostilities at a number of points on our borders we have had to provide larger amounts for police and border security.

There are indications also that receipts on capital account would be lower under a number of heads. In view of the sluggish conditions in the money market, we had to reduce the borrowings programme of the Centre by about Rs.20 crores; i.e., from Rs.270 crores assumed in the Budget to Rs.250 crores. Trends in small savings during the past three or four months have not altogether been satisfactory; and although I expect some improvement in the coming months, it is likely that there may be a shortfall of about Rs.10 crores from the Budget estimate of Rs.135 crores. We have also to reckon with a shortfall of about Rs.15 crores under annuity deposits.

On revenue account, receipts under Customs may well be somewhat larger than we had budgeted for. A similar improvement under Excise Duties, however, does not seem likely. Receipts under income and Corporation Tax have not been buoyant so

far. It would be our endeavour to step up tax collections during the rest of the year by even more vigorous efforts. But, on the whole, it would not be safe to count on substantial additional revenue collections for offsetting the effects of additional expenditure on a number of items and the reduction in capital receipts to which I referred earlier.

As for economies and shortfalls in plan and non-plan expenditure, Honourable Members would recall that it has been my endeavour to avoid any deliberate over-budgeting of expenditures in general. It is also of the utmost Importance that there should be no slowing down in the implementation of continuing schemes-and there are several such schemes in the State sector-as it would only postpone the fruits of investments in progress. With every possible effort to secure genuine economies in expenditure, it would still be necessary to mobilize additional resources on a substantial scale.

When I reviewed the economic conditions in the country at the time of presentation of the Budget, there was a fair promise of our being able to hold the price line during the current year. Rice prices had declined by more than 10 per cent between October 1964 and January 1965-i.e., in the immediate post-harvest period. Wheat prices also declined between January and May. The index of wholesale prices came down from 161 at the beginning of January to 150 by the middle of March. This was an experience which was in sharp contrast to the trends in 1964 when the post-harvest decline in prices was negligible. Unfortunately, prices have started rising once again from the beginning of the current fiscal year. The index of wholesale prices reached a new peak of 164.8 on 24th July 1965. Apart from this overall position, there are several pockets in the country in which prices of particular foodgrains have soared very high. Some increase in prices during the summer months is perhaps a normal seasonal phenomenon. But the fact that the seasonal rise this year has not been particularly subdued despite the increase in agricultural production last year certainly warrants no complacency regarding the budgetary and monetary situation.

The Reserve Bank took a number of measures to increase the cost of credit, as the House is aware, in February last in order to check excessive creation of credit. Despite these measures, credit expansion in the last busy season was as much as Rs.407 crores as against Rs.376 crores in the 1963-64 busy season which was itself judged excessive. So far, the contraction in credit during the current slack season has been Rs.87 crores or only about one-fifth of the credit expansion which took place in the last busy season, as against a contraction of Rs.111 crores in the comparable period of last year, which represented between one-fourth and one-third of the credit expansion in the 1963-64 busy season. Honourable Members would appreciate that unless credit contraction in the slack season is adequate, it will not be possible for the banks to meet the genuine needs for credit expansion during the next busy season without excessive resort to the Reserve Bank. It is under these circumstances that It

has become necessary to supplement general measures of credit restraint by selective and direct measures; and the Reserve Bank has recently announced certain measures in respect of groundnut, wheat, cotton and vegetable oils as well as the advance deposit scheme against imports and the regulation on clean advances. I will have more to say about the deposit scheme against imports a little latter. But I would like to take this opportunity to remove some of the misconceptions regarding the ceiling on clean advances. The Reserve Bank, for example, has not put a ceiling on the clean advances to each particular party. It has merely sought to limit the total clean advances of each bank, it being the responsibility of the banks concerned to adjust the advances to individual clients in the light of their individual needs and circumstances. It should not be difficult for the banks to discharge this responsibility in the slack season when there should be a decline in many individual advances. It is in this light that the impact of the measure should be judged. As the Reserve Bank has made it clear, the position will be reviewed at the beginning of the next busy season. And the review will naturally take into account developments during the current slack season and the requirements of the next busy season.

In a growing and complex economy like ours, credit policy has to serve a number of aims; while attempting to exercise a general restraint on credit in keeping with the requirements of stability, it must bear particularly on specific points so as to discourage speculation without retarding production. Such a discriminatory approach is by no means easy. But the operation of a sound monetary and credit policy presupposes in any event that the efforts of the monetary authorities will not be neutralised by excessive credit creation on behalf of the Government.

Before leaving the subject of credit control, I would like to refer to the question of unaccounted money. The proposals regarding voluntary disclosure that I announced last February have led to disclosures of about Rs.50 crores of which Rs.30 crores are in the form of tax receipts. At the same time, the continued drive against bogus hundis and unaccounted money and its consequence of driving unaccounted money underground have necessarily their effect on the stringency of the money market. A considerable part of transactions which were earlier carried on outside the banking system have now to be financed by the banking system. In judging the recent increases in bank credit, this factor has to be borne in mind. But Honourable Members would, I am sure, agree that there cannot be any relaxation in the attempt to bring unaccounted money into the open; and some of the proposals I make later in regard to direct taxation have been intended to strengthen this attempt which has a far-reaching social and economic significance.

I had occasion, in the broadcast talk on 17th July, to refer to the continuing difficulties in regard to foreign exchange. Our reserves have reached a low level now of less than Rs.100 crores which is hardly sufficient for meeting the seasonal swings in our trade and payments let alone for providing a cushion against unforeseen

contingencies. Essentially, our foreign exchange difficulties have arisen from the fact that whereas import commitments have grown on a number of counts, the buoyancy in our exports which was witnessed during the first three years of the current plan has not been maintained since then. Exports during 1964-65, according to balance of payments statistics, amounted to Rs.803 crores i.e., roughly the same level as in 1963-64. Export shipments during April-June 1965 amounted to Rs.185 crores showing a decline as compared to Rs.196 crores in April-June 1964.

I need not dwell at length on the various measures which Government have already taken to bring about a better balance in our foreign payments position. These include import cuts, staggering of import payments, continuance of the export incentive schemes with modifications and the announcement of the tax credit scheme in respect of a number of export items. The pressure on our reserves has somewhat lessened during the past three or four weeks. On August 13, for example, our total foreign exchange reserves excluding gold stood at Rs.99 crores, i.e. at a somewhat higher level than on July 16, when they stood at Rs.96 crores. Ordinarily, there should be seasonal improvement in export receipts after October; and if we succeed in our efforts to push out all the exports that are possible, there is every likelihood of our ending the current fiscal year without any further loss of reserves. There is, however, no room for complacency in regard to our foreign exchange situation. As I have already mentioned, our reserves are already at an uncomfortably low level. The remedial measures that we have taken have been essentially of a restrictive nature, and it is clear that the continuance of the present very stringent restrictions on imports for long will have adverse effects on the growth of the economy. It should be our endeavour, therefore, to liberalise imports to the maximum possible extent; and we propose to seek the cooperation of friendly foreign countries and international institutions in support of this endeavour. In the long run, however, we have to secure a steady and sizeable increase in our export earnings in order to sustain a reasonably liberal Import policy as well as to meet the growing burden of debt charges. But a sustained dynamism in exports can be achieved only within an environment of internal price stability.

In short, the current price situation, our balance of payments difficulties, conditions in the money market and emergent trends in respect of the budgetary operations of the Government, all require a substantial additional effort at resource mobilisation during the current year. At the same time, the measures that we take now have to be consistent with the long range interests of the economy. They have in particular to form a part of the general framework of policies for securing progressively higher levels of investment and productivity in the economy with emphasis on export promotion and on encouragement to people to shift from external sources of supply to the development of indigenous substitutes.

The draft outline of the Fourth Five Year Plan is being finalised and would be submitted for approval to the National Development Council, Full details of the Plan therefore would perhaps be available to the House only during the next session.

In the meanwhile the Planning Commission has recommended tentatively that the Fourth Five Year Plan should involve an outlay of Rs.21,500 crores of which Rs.19,000 crores would be investment and Rs.2,500 crores current outlay. Outlay for the Public sector is planned at Rs.14,500 crores and that for the private sector Rs.7,000 crores. The Prime Minister at the same time has emphasised that the actual implementation of the Plan from year to year must proceed in keeping with the over-riding consideration that inflationary financing should be avoided altogether. It is also clear that additional mobilisation of internal resources of the order of Rs.3,000 crores and something more will be required during the next Plan period if the tempo of development in the economy is to be maintained at a reasonably satisfactory level.

In the ultimate analysis our objective is not so much to increase the pace of investment for its own sake as to bring about an improvement in the growth rate of the economy for assuring better standards of living to our people and, for making a satisfactory advance towards the objective of self-sustaining growth. From this point of view, the content of the Plan and the efforts that we make to increase the productivity of capital are even more important than the size of the Plan. It is again from this point of view that it is of considerable importance at this stage to give high priority to agriculture and to redouble our efforts to promote family planning so that the achievements of our Plans are not circumscribed by a rapid growth in population. As for industrial development, the priority in the coming years must necessarily be given to activities associated with agriculture as well as to the production of materials and equipment which make it possible to secure greater utilisation of existing capacity and improvement in balance of payments.

A great deal of detailed work has already been done in regard to the content of the Fourth Five Year Plan and tentative targets for a number of important areas such as agriculture, power, fertilizers, cement, steel, sugar and other basic industries have been set. The studies undertaken so far make it abundantly clear that it is both possible and imperative to rely to the maximum possible extent on the internal production of machinery and materials for securing the growth of the economy in a number of vital fields. Indian industry has taken rapid strides during the first three Plan periods and it is now at a stage where, given necessary encouragement and concentration of effort in suitable directions. It can make a sizeable contribution both to exports and to import substitution. The additional efforts at resource mobilisation that we might adopt therefore at this stage have to serve a number of objectives. Apart from contributing to the objective of raising resources for growth without inflation, these measures must be consistent with the broad objectives and priorities of the Plan. They must, in other words, take into account the emphasis we wish to place on agriculture and on higher productivity all round. They must also subserve the paramount objective of giving the maximum possible encouragement to the domestic production of machinery and materials. The measures that I propose to announce today have been designed in keeping with all these considerations.

Before I deal with the measures which I wish to submit to the House, I would like to emphasise that the Centre alone cannot bear the full responsibility for restoring and maintaining internal financial stability. In our Federal system, the State Governments also have to take their appropriate share of the responsibility of raising resources and of exercising the utmost economy in expenditure so as to achieve a balance in their budgets.

I come now to my supplementary budget proposals. My proposals relate primarily to changes in Import duties. Our Import Tariff has been amended piecemeal over several decades and is no longer in tune with the requirements of our planned development. Not only is the structure of rates inconsistent with the needs of import substitution, but there is a Very large number of administrative exemptions and modifications of rates which were granted from time to time to meet particular situations and which now result in numerous anomalies. The entire Import Tariff is proposed to be recast to secure both higher revenue and rationalisation, bearing in mind the considerable development that has taken place in our industrial structure over three Plans and the imperative need to accelerate the pace of this development.

The broad structure of the proposed tariff is as follows:

The general statutory rate for machinery will be 40 per cent, but the effective rate of import duty will be 35 per cent for the time being. Certain items of agricultural machinery and Implements will, however, be charged at 15 per cent. Basic industrial raw materials, such as prime steel, and non-ferrous metals will be charged to Import duty at the rate of 40 per cent. Most processed industrial materials will be liable to import duty at the rate of 60 per cent, Consumer goods will, by and large, be charged at the rate of 100 per cent though higher rates charged at present on certain high profit items such as betel nuts and liquor will continue. Protective rates will continue but their levels have been suitably raised where appropriate in line with the structure that I have described. GATT bindings continue to be honoured, but it is our intention to approach the countries concerned for releases in suitable cases in order to complete the rationalisation of the tariff.

There have often been complaints that the Import of equipment by projects is impeded as a result of meticulous assessment at the appropriate rates of each constituent item required for setting up the project. I now propose to introduce a new tariff Item to cover the import of equipment needed for the initial setting up of new projects or for undertaking substantial expansions of existing projects, in the fields of industry, power, mining and prospecting for minerals or oil. Not only complete equipment but also component parts and raw materials imported specifically for fabricating equipment within India for a project, and some quantity of initial stock of spare parts and other stores needed for the maintenance of the project can be imported under this item. The contract or contracts would have to be registered in advance with the Customs authorities and a provisional assessment will be made

immediately, obviating to the maximum possible extent the need for detailed assessment of individual lots, after the goods arrive. The equipment imported under the item will be charged to duty at the general machinery rate and I am confident that the administrative improvement will facilitate the smooth import of such equipment and also give some encouragement to the manufacture within India as much as possible of the equipment needed for these projects.

The present tariff contains a large number of administrative reductions of rates and exemptions, often historical survivals. Wherever possible these are being withdrawn, except when there is still special justification, as for example, in the case of raw materials needed to manufacture finished products for which rates of duty are bound under the GATT. If we are to promote import substitution on a wide scale, the imports of the finished products must bear the revised rates of duty, even if intended for a high priority purpose.

The considerable simplification of the structure of rates should result in a saving of time on assessment and reduction of the number of disputed cases. I am sure that this simplification will be of help to industry in planning production.

Among the exceptions which I have retained to the general structure of rates that I have indicated earlier I should like to mention a few. Books, fertilizers and contraceptives will continue to be imported free of duty. Sulphur, which was paying a duty of 10 per cent would be free hereafter. There will be no change in the rates of duty on certain essential drugs, baby food, milk powder and newsprint.

With these revisions of the basic rates the surcharge of 10 per cent on the amount of duty payable is being withdrawn. This also is a move towards simplification. The regulatory duty of ten per cent is, however, being retained. In view of the extensive changes in import duties, it is no longer necessary to continue the advance deposit scheme against imports which was introduced as a temporary measure to stagger imports. The Reserve Bank is, therefore, making an announcement in this regard.

The additional revenue in a full year from the revision of the Import Tariff is expected to amount to Rs.119 crores, after allowing for a fall in revenue as a result of the abolition of the surcharge and making provision for additional refunds and drawbacks.

I propose in addition to raise certain Excise Duties. In the field of petroleum products, the duty on high speed diesel oil is proposed to be raised by Rs.60 per kilolitre from the existing level of Rs.429 and on motor spirit by about Rs.50 per kilolitre from the present level of Rs.451. The duty on inferior kerosene will remain unchanged, but that on superior kerosene will go up by about Rs.52 per kilolitre. The House will appreciate that it is not practicable to raise the duty on high speed diesel oil without a corresponding adjustment in the duty on superior kerosene if diversion of kerosene to use in transport is to be avoided. In view of the plentiful supply of coal

the duty on furnace oil is being raised by about Rs.40 per metric tonne. On the other hand, the duty on light diesel oil is being reduced by about Rs.125 per tonne in order to stimulate the use of diesel engines for lift Irrigation and agricultural operations. Altogether, the additional excise and countervailing import duty revenue from the higher duties on petroleum products will amount to Rs.30.84 crores in a full year.

I propose also to raise by Rs.10 to Rs.50 per tonne the existing duties on steel and pig iron and their products. The additional revenue from these excise and countervailing import duties will amount to Rs.14.38 crores in a full year. I propose further to levy fresh Excise Duties of Rs.500 per metric tonne on unwrought lead and zinc and suitable adjustments are being made in respect of zinc manufactures. The duty on copper ingot and copper manufactures will be raised by Rs.500 per metric tonne. The additional excise and countervailing import duties on non-ferrous metals will yield revenue of Rs.9.50 crores in a full year. Thus the total revenue from the additional Excise Duties, including countervailing duties of Customs of the order of Rs.12 crores, is estimated at Rs.54 crores in a full year out of which about six crores or so will be the States' share.

Taking Customs and Excise Duties together and exclusive of the States' share, the additional revenue would thus be of the order of Rs.167 crores in a full year or just over Rs.100 crores over the rest of the current financial year.

A sizeable part of these additional duties will be borne by Government and public sector units. It is my intention to absorb the increased cost as far as possible through economies in expenditure.

The additional import duty proposed on machinery and equipment win, I hope, promote import substitution through larger output of the machinery industries in India. In order to offset the increased cost of machinery in part, while retaining the incentive for the greater use of indigenous equipment, I propose to raise the rate of development rebate in respect of certain priority industries from 25 per cent to 35 per cent. Coal mining is being added to the list of priority industries. For all other industries, I propose to extend by three years, i.e. upto 31st March, 1970, the period of operation of the general rate of 20 per cent after which the lower general rate of 15 per cent, will be operative. Similarly, in order to avoid delay in the implementation of priority schemes in progress in the private sector, it is proposed to grant additional assistance in appropriate cases through financial institutions.

Honourable Members will also recall that in keeping with the high priority for agriculture, I have proposed a lower import duty of 15 per cent for agricultural machinery as well as a reduction in the excise duty on light diesel oil. For the same reason, I also propose to remove the existing excise duty on stationary diesel engines of 10 hp and less which are generally used for agricultural purposes, as also to provide a small sum for the grant of subsidy to the actual buyers of such engines for use in agriculture.

The House will be aware that Government has announced the commodities for which tax credit certificates will be granted against export earnings, as also the rates applicable. A number of Honourable Members have made the point that the exporter should not have to wait for a period of 12 months before receiving payment of the tax credit certificates; and I propose to eliminate this waiting period.

The Finance Bill also includes amendments to the Income-tax Act, Estate Duty Act, Wealth-tax Act, Gift-tax Act and Companies (Profits) Surtax Act. Most of these amendments are in pursuance of the announcements made by me while moving the Finance Bill, 1965 for the consideration of this House. Briefly put, these amendments will have the effect of extending the operation of the existing 5-year tax holiday concession for industrial undertakings newly set up in India to such undertakings going into production any time during the 5-year period commencing from 1st April, 1966; exempting from tax the bonus received by individuals on cumulative time deposits in the post office; charging of tax at a concessional rate on the interest received by individuals on the encashment of the recently issued National Savings Certificates (First issue), and of authorising the payment of interest on these Certificates without deduction of tax at source. The Bill provides for the exemption of the recently issued 7 per cent Gold Bonds 1980 from wealth-tax and the capital gains arising on the transfer of such bonds from income-tax and enabling payment of the interest on such bonds without deduction of tax at source in certain cases in the same lines and subject to the same conditions as already apply in respect of the 6½ per cent Gold Bonds 1977. Power is also proposed to be taken for the grant of cash refund of excess annuity deposits in certain circumstances.

With a view to facilitating the economic rehabilitation of Ladakh, I propose to exempt persons other than Government employees resident there from tax on their income from sources in Ladakh and outside India, upto and inclusive of the assessment year 1969-70. It is also proposed to write off arrears of outstanding tax from such persons for assessment years prior to 1962-63. The amount of such arrears of tax is about Rs.40,000 only.

Among the other amendments proposed to these Acts I would only mention the following, namely, a provision to exempt from income-tax the commuted value of pension, exemption of professional associations like Bar Councils from income-tax on their enrolment fees and subscriptions, power to the Commissioner of income-tax to waive or reduce the minimum penalty leviable under the Wealth-tax Act in cases of voluntary disclosure of wealth and immunity from prosecution in such cases, increase in the rate of simple interest chargeable on delayed payments of tax and payable by Government on delayed refunds under the Wealth-tax Act and Gift-tax Act from 4 per cent to 6 per cent and a provision enabling the Central Government to enter into agreements with foreign Governments for avoidance of double taxation of income in relation to surtax. Donations made for a charitable purpose qualify for a rebate of

income-tax. Recently, a High Court has taken the view that a charitable purpose may also include a religious purpose. This is, however, not in accordance with the intention underlying the provision. It is, therefore, proposed to clarify that a charitable purpose will not include a purpose which is wholly or mainly religious in nature. This amendment will have effect in respect of donations made on or after 1.4.1964. Similar amendments are proposed to be made in the Gift-tax Act and the Estate Duty Act. I would mention that there are independent provisions in the income-tax Act and in the Gift-tax Act for rebate of income-tax and exemption from Gift-tax in respect of donations or gifts to temples, mosques, churches, gurdwaras, etc. These provisions are not being changed by the proposed amendments.

Honourable Members will recall that in regard to the voluntary disclosure scheme under the Finance Act, 1965, which was in operation for three months upto 31st May, 1965, it had been suggested in this House that the period allowed for payment of the tax should be extended. Under the structure of that scheme, it was not possible to meet this suggestion except to a very limited extent. I now propose to introduce a fresh scheme for voluntary disclosure of unaccounted income which will be in operation from today until the 31st March, 1966. One of the distinctive features of this scheme is that tax will be charged on the whole of the disclosed income taken as a single block, at the rates prescribed for personal income or corporate income by the Finance Act, 1965, and not at an ad hoc concessional rate. Further, facilities will be allowed for payment of the tax in appropriate instalments extending over a period not exceeding four years, subject to a down payment of not less than 10 per cent of the tax due and furnishing of security in respect of the balance. Income which has already been detected on materials available prior to the date of the disclosure will, however, be assessed under the regular provisions of the income-tax Act and not under this scheme. Any admissions made by a person in the declaration filed by him under the scheme in respect of such income will not be used against him in assessing that income under the Income-tax Act. Under this scheme also, the disclosed income will not be subject to any further proceedings of assessment. The identity of the declarant will not be revealed and he will also be immune from penalty and prosecution for the past concealment of the disclosed income.

Mr. Speaker, Sir, I am well aware that my proposals represent a formidable fare for a supplementary budget. But the exigencies of the situation demand nothing less. Our current needs, the claims of the Fourth Plan and the ever-increasing threat to our national security add up to a challenge which has to be met squarely and with a resolute heart. I can only hope that I have succeeded in presenting proposals which carry forward the process of rationalising our tax-structure while responding to the paramount need for raising progressively higher revenues for sustaining the dynamism and soundness of the economy.

(August 9, 1965)