

**SPEECH OF SHRI T.T. KRISHNAMACHARI MINISTER OF FINANCE
INTRODUCING THE BUDGET FOR THE YEAR 1965-66**

Sir,

I rise to present the Budget of the Government of India for the year 1965-66. On this, the first occasion in independent India, when our beloved leader, Jawaharlal Nehru, is absent from these proceedings, may I say that I miss him, as I am sure we all do. Honourable Members would permit me, therefore, to begin by paying my humble tribute to his sacred memory. For seventeen long years after independence, Jawaharlal Nehru dominated the Indian scene, giving meaning and substance to our aspirations as a nation. No aspect of our life, be it related to unity in the country, or economic planning for a better future or the maintenance of peace and goodwill among nations, escaped the mark of his unmistakable genius. Even such mundane matters as the Budget and economic policy were raised to a lofty plane, where they became instruments for advance towards a shining vision of economic independence, of prosperity with social justice. It is now left to us, to my leader the Prime Minister, to his colleagues in the Cabinet, as, indeed, to Honourable Members and to everyone else in the country, to carry forward the legacy of Jawaharlal Nehru according to our lights. And I can only hope that the Budget I am about to present will help to fulfil this obligation in some small measure.

2. This year's Budget has a unique significance in many ways. As the last budget of the current Plan period, it marks the climax of our efforts for the fulfilment of the Third Plan. It represents, at the same time, the setting of the stage for the more complex and sophisticated and indeed, difficult tasks which await us in the coming Plan period. Honourable Members are by now already familiar with our preliminary thinking on the Fourth Plan. Apart from serving the ends of our plans for development, budgetary policy must also make an impact on the immediate problems that confront us from year to year. On particular aspects of the economic situation which have caused us anxiety during the past year such as the rising prices, the difficulties in raising adequate resources for investment and the sharp decline in our foreign exchange reserves, I have made statements in the House from time to time. Like last year, the Economic Survey has also been published a few days in advance of the Budget. My task today is to that extent lightened. I shall, therefore, proceed to outline straightaway the budgetary outcome for the current year as now estimated.

3. The Budget forecast an overall uncovered gap of Rs.97 crores. It now looks as if the deficit will be somewhat smaller at about 80 crores. This has been possible in spite of sizeable increases in expenditure in certain directions, both revenue

and capital. Thus, relief and rehabilitation of refugees has claimed Rs.12 crores more. Increases of dearness allowance have raised expenditure this year by Rs.38 crores. On the capital side, apart from larger provision for the purchase of fertilizers and for the Food Corporation of India, there has been a sizable increase of Rs.85 crores in loans to State Governments due mainly to larger ways and means advances, and increased Central assistance for Plan schemes, particularly for agriculture, irrigation and power. These additional outlays have been offset by reductions in expenditure under other items and by improvement in revenue collections. The reduction in the capital outlay of the Centre relates mainly to the steel plants, defence and net outlay on food purchases. Details of variations in expenditure are given as usual in the Explanatory Memorandum.

4. Revenue collections are expected to show an improvement of Rs.49 crores under Customs and Rs.66 crores under income and Corporation Taxes. Excise receipts are expected to be about the same as budgeted. Together with a reduction in revenue expenditure of Rs.42 crores spread over many heads, the revenue surplus is now expected to be Rs.229 crores as against the Budget Estimate of Rs.83 crores.

5. Under capital receipts, collections under small savings have been encouraging this year and are now estimated at Rs.135 crores as against the Budget Estimate of Rs.125 crores. The Railway funds deposited with Government, however, show a decline in relation to Budget Estimate and receipts from foreign loans are likely to be lower by Rs.43 crores.

6. Honourable Members will see that despite substantial additional requirements for various purposes I have just referred to, such as increase in dearness allowance, refugee rehabilitation and assistance to the States, the overall deficit for the current year will be somewhat less than originally forecast. In part, this reflects the success of our efforts to bring about economics in expenditure after the presentation of the last Budget. In an otherwise difficult situation, the reduction in the overall deficit calls for some satisfaction. But with the continuance of inflationary pressures in the economy, the need for restraint on wasteful or avoidable expenditure and for efforts to get the maximum benefit from outlays already incurred remains as great as ever. Only so can we reconcile our desire for rapid economic growth and the imperative requirements of financial stability, both internal and external.

7. Honourable Members will have noticed also that the revenue surplus this year will be even larger than last year. It is, however, the overall position, taking the revenue and capital account together, which is really relevant for the health and stability of the economy as a whole. In a growing economy, with progressive increase in Plan outlays, the balancing of the capital budget cannot be done entirely by mobilisation of voluntary savings and external assistance. These have to be supplemented increasingly by public savings realised through a revenue surplus. The achievement of a sizable revenue surplus this year is, therefore, a step in the right direction.

8. Turning to developments in the economy, agricultural production recovered somewhat during the 1963-64 season from the low level in the preceding year. During the current year, there is every likelihood of total production of foodgrains and commercial crops showing a further and substantial increase. Under normal circumstances, the improvement in agricultural production should have led to a decline in prices from the high levels already reached. The prevalence of inflationary pressures at different levels in the economy and speculative withholding of supplies have, however, prevented prices from falling to the extent that they should have. The fiscal and monetary measures which we have taken and are now taking will, I hope, bring about a fall in prices to the extent economically justified. We shall, however, take care that the agencies we have created for the purchase of foodgrains will maintain prices at levels remunerative to the farmer, so that he will have a continuing incentive for producing more. These agencies will at the same time take advantage of the current improvement in supplies to build up buffer stocks so that, in future, we shall be able to deal better with any fluctuations in agricultural output.

9. Industrial production has been rising at the rate of 8 to 9 per cent per annum for the last two years. During the first half of the current year, there were some signs of a slackening in the pace of production. But industrial production is expected to recover during the second half of the current fiscal year and the increase in production for the year as a whole should be of the order of 8 per cent. Taken together with the improvement in agricultural production, the growth rate of the economy in 1964-65 should be higher than in 1963-64 when national income in real terms is estimated to have increased by about 4.15 per cent.

10. In a number of important industries such as steel, cement, aluminium, cotton-spinning, etc. further increases in production would depend on the establishment of new capacity. Programmes of expansion in the public sector in steel, machine-building, fertilizer production, etc., are making progress, and these should result in improvement in supplies over the next two or three years. Indian industry has now reached a stage, when it can, and must, branch out into new and complex lines of development. The expansion of capacity we need now, both in the public and the private sector, has to take place not only in established industries but even more so in new activities where requirements of capital and technical know-how are heavy. We have taken several measures to encourage greater ploughing back of profits for investment as well as to provide greater loan finance to private industry. It is equally important to encourage a larger flow of individual savings so as to promote a greater participation by individual citizens in the growth of industry. The new financial institutions that we have created can assist in this process, by dissemination of information and otherwise enable individuals to judge better the kind of industry that they should invest in. But the primary objective must be to raise the capacity for individual savings and to improve the performance of industry so that it is able to earn and offer an attractive return on the capital invested.

11. Efficiency in the running of enterprises, whether public or private depends to a great extent on appropriate pricing policies. On the one hand, prices paid by industry for scarce resources and materials it uses should reflect their true scarcity. At the same time, the prices charged by enterprises for their products should provide sufficient resources to industry for expansion without exploitation of the consumer. We are attempting to evolve a price structure for agricultural commodities in keeping with these general principles. In regard to industrial products also, we have endeavoured to raise the cost of capital and of imports in keeping with the scarcity of savings and foreign exchange in the economy, while permitting increases in the prices of final products wherever necessary. Despite continuing difficulties in regard to raw materials and the general upward pressure on prices the policy of decontrol initiated in 1963 has been carried forward, particularly in respect of steel products. We have also raised the prices to the extent necessary of a number of basic commodities, such as coal, from time to time.

12. Improvement in productive efficiency and appropriate pricing policies are as much important for public sector enterprises as they are for private industry. In my last Budget Speech I had drawn attention to the importance of a careful choice of projects, after a detailed examination of costs and benefits. Careful selection of projects, quick implementation, efficient working, appropriate pricing policies and adequate returns on investments are all integral parts of the process of ensuring rapid growth. It is in this sense that we have to devote increasing attention to planning in depth. Maximising the fruits of past-investment offers the best scope for further advance. Consolidation and expansion, a firm foot on the ground and sights set high, are not thus conflicting but complementary objectives.

13. In the field of money and credit, it is a matter of some satisfaction that the pace of monetary expansion which was very rapid in 1963-64 has slackened somewhat during the current year. Expansion of bank credit to Government has been somewhat less this year. I would like to draw the attention of Honourable Members to the fact that over the past few years, a part of the market loans floated by Government has had to be subscribed by the Reserve Bank. To this extent, a part of our long-term borrowing represents deficit financing rather than mobilisation of the voluntary savings of the people. This form of deficit financing must also be necessarily reduced, and indeed eliminated, if we are to make a decisive impact on the forces of inflation in the economy. For this reason, our borrowing programmes in future, both at the Centre and the States, will have to be based on a strictly realistic assessment of the flow of genuine savings. Greater efforts must be made at the same time to mobilise larger amounts from the people by way of small savings and subscription to market securities. Honourable Members are aware that we have taken steps to increase interest rates in the economy to a significant extent over the past year. I propose to introduce a new series of Small Savings Certificates with a higher rate of interest than at present. Interest on the new certificates will be taxable, unlike in the case of existing instruments,

which also will be continued. The availability of yet another instrument at a higher, though taxable, rate of return will, I am sure, provide a greater inducement for saving to people of small and medium income, whose tax liability is also of a small or medium order.

14. The expansion of bank credit to the private sector during the current busy season has been somewhat smaller than in the corresponding months of the preceding busy season. The current busy season, however, has several weeks to go yet. It is my expectation that the measures that the Reserve Bank announced ten days ago will act as a brake on the expansion of bank credit during the coming weeks. The contraction in bank credit during the slack season this year will also have to be large enough to ensure that the total increase in credit over the year is just sufficient to meet the requirements of growing production. Monetary expansion during the Third Plan period so far has kept ahead of the growth in real production. This situation cannot be allowed to continue any further. In future, expansion of bank credit both to the public and the private sector will have to be so limited that the increase C in money supply is no more than what is warranted by realistic expectations regarding the growth of output.

15. The State Governments also have an important role to play in strengthening fiscal and monetary discipline in the country. Some of the State Budgets for the coming year which have been presented so far reveal deficits. I propose to have discussions with State Governments to make sure that their operations are generally in line with our policy of curbing inflationary pressures in the economy.

16. Honourable Members are aware that proper monetary management in the country has been rendered difficult for some time by the existence of unaccounted income and wealth in the country. This unaccounted income and wealth, which is derived mainly from tax evasion and from violations of price control measures, has been responsible to a considerable extent for speculative activity and for bidding up the prices of goods and property in general. Apart from the measures we have already taken including searches, stricter enforcement and more severe penalties, I propose to take some additional measures to mitigate substantially the mischief of unaccounted incomes and wealth already in existence and to reduce the scope and incentive for their accumulation over the years to come. I propose also to take some measures to discourage excessive investment in urban property, which comes in the way of adequate resources being available for more productive purposes.

17. In my statement to the House on February 17, I had dwelt at some length on our extremely difficult foreign exchange position. I do not wish to repeat what I had already said on that occasion. I would only underline the fact that our foreign exchange reserves have been depleted to such an extent that we are unable at present to withstand any small pressure on these reserves, without running into a critical situation. Some strengthening of our foreign exchange reserves is, therefore, a matter of vital importance. We have made considerable progress in reducing our reliance on imports in a number

of fields. Our export promotion during recent years is also a matter of some satisfaction. Even so, given the necessity to strengthen the reserves and to meet the requirements of imports in a growing economy, the need for vigorous export promotion remains as great as ever.

18. We have been receiving sizeable assistance from friendly foreign governments and international institutions. Honourable Members will, I am sure, join me in expressing once again our gratitude to our friends abroad for giving us a helping hand. The Aid-India Consortium organised by the World Bank pledged a further sum of \$1028 million last year in support of the Third Five Year Plan. A significant portion of this assistance is not tied to specific projects but is intended for import of materials, components and spares in general. This kind of assistance is of special importance to us in the context of current balance of payments difficulties and I have every hope that Consortium assistance during the coming year will include even larger sums for purposes which give immediate relief to the balance of payments. Outside the Consortium, we have received generous assistance from the United States for the import of foodgrains and other agricultural commodities under the PL 480 programme. Countries which are not members of the Consortium have also provided additional assistance in 1964. More recently, we have concluded an agreement with the U. S. S. R. for the Bokaro Steel Plant. I should not fail to mention also the gift of 150,000 tons of wheat from Australia which was announced only a few days ago. This generous and timely gesture is a matter of particular satisfaction to me as, I am sure, it augurs well for increasing cooperation between our two Commonwealth countries.

19. Considerable progress has been made in the utilisation of external assistance, which has now reached a rate, when it practically equals the commitment of new assistance. Even so, a part of the assistance committed during the current Plan period will necessarily be carried over into the Fourth Plan. We are currently reviewing our foreign exchange requirements during the Fourth Plan period and we hope, during the coming year itself, to initiate discussions with friendly foreign governments and institutions to secure advance commitment for our requirements, to the maximum extent possible. It is only on the basis of such advance planning for foreign aid that we can be confident of beginning the Fourth Plan without any hiatus in the process of growth.

20. In some measure, we have also been endeavouring to assist other developing countries. Our aid to Nepal next year, for example, is estimated to be Rs.8.5 crores. Assistance for Sikkim and Bhutan will be of the order of Rs.6.2 crores. We have endeavoured also to facilitate joint ventures in a number of African countries for the establishment of industries such as sugar, cotton, textiles, cement and vegetable oil. During the next year, we propose to provide Rs.46 lakhs for technical assistance to countries in South and South-East Asia and Africa and Rs.1.43 crores by way of contribution to the United Nations Expanded Programme of Technical Assistance and the United Nations Special Projects Fund.

21. There has been a great deal of discussion in India in recent months about the role of private foreign investment in our plans for development. We have recognised for a long time that private foreign investment has a role to play not only as an essential supplement to assistance from friendly foreign governments and international institutions but also as a catalyst for the development of technical skills and enterprise among our own people. For this reason, we have encouraged private foreign investment in association both with the public and the private sector. All the incentives and facilities that we have given to Indian enterprise for promoting investment are available equally to private foreign enterprise; and we give every facility for repatriation of profits to foreign investors. This policy of hospitable and fair treatment will be continued in future; and our general policies, whether in regard to taxation, industrial licensing or price controls, must be consistent with our desire to harness every possible source of dynamism and enterprise, whether domestic or foreign, public or private, to the task of rapid economic growth.

22. The Fourth Five Year Plan will involve large investments in the public and the private sector. The first and foremost precondition for mobilisation of resources for financing these investments is the maintenance of an environment of financial and monetary stability. It is only then that voluntary savings could be encouraged and directed to productive uses. Equally important is a degree of stability in our taxation policies. It may be necessary to adjust the rates of indirect taxation from year to year in keeping with supply and demand conditions. But a greater degree of stability in regard to the structure of direct taxation is of vital importance as it has a bearing on long-term decisions in regard to savings and investment. My budget proposals this year have been designed to serve this end at least in part. I for one do not consider that the scope for additional resource mobilisation is already exhausted. But there is no reason why whatever framework we need for raising resources for the Fourth Plan should not be erected in all its essentials before we embark on the implementation of the Plan.

23. In the ultimate analysis, the resources available to the public sector and to the private sector, the resources available by taxation, by mobilisation of savings or by realisation of adequate profits, are all part of the same pool. We cannot hope to tap one particular source without affecting other sources or divert more to one particular channel without affecting what is left for other purposes. More production and restraint on consumption, avoidance of waste and efficient use of scarce resources, are the only ultimate instruments for promoting higher savings and investment. Budgetary policy, therefore, is not simply or even primarily a matter of balancing receipts and expenditures. It is no doubt of paramount importance to keep deficit financing within safe limits and, indeed, to avoid it altogether. But the level at which the budget is balanced and the manner in which this balance is secured are even more relevant to the flow of savings and investments and to the performance of the economy as a whole.

24. The budget estimates for the next year to which I shall now turn have been framed with these considerations in mind. The expenditure on revenue account is estimated at Rs.2,116 crores, which is Rs.117 crores more than the revised estimate for the current year. At existing rates of taxation, including the 10 per cent surcharge on imports I announced ten days ago, the total revenue is expected to be Rs.2,353 crores. The revenue surplus will, therefore, be Rs.237 crores, i.e. Rs.8 crores more than in the current year.

25. Of the total revenue expenditure of Rs.2,116 crores next year, Rs.749 crores will be for Defence Services. This is Rs.32 crore³ more than in the current year. But actual rupee expenditure will not increase quite so much because purchases of stores and aircraft, the full value of which is included in the expenditure estimate are being made on deferred payment terms. Expenditure under civil heads is estimated at Rs.1,367 crores, which is Rs.85 crores more than in the current year. If the amounts transferred to the Special Development Fund in respect of PL480 grants are disregarded, the actual increase in civil heads would, in fact, be greater. The major part of the increase is explained by the additional provision of Rs.38 crores for debt servicing, Rs.39 crores for grants-in-aid to States and Union Territories, Rs.9 crores for Administrative Services, particularly under Police and Rs.20 crores for Social and Developmental Services.

26. The revenue next year is expected to increase by Rs.125 crores. Here again, if PL 480 grants, which are of a self-balancing nature are left out, the actual increase would be greater. As usual, the principal heads of revenue account for most of the increase; Rs.70 crores under income and Corporation Tax, Rs.54 crores under Union Excise Duties and Rs.20 crores under Customs. In addition, interest receipts from State Governments and public sector enterprises and surplus profits of the Reserve Bank will show an improvement of Rs.39 crores.

27. The provision for capital outlay, including all loans except those to the State Governments and Union Territories, is estimated at Rs.1,114 crores, representing an increase of Rs.104 crores over the current year. This is accounted for mainly by larger provision of Rs.24 crores for roads, Rs.23 crores for food purchases, Rs.15 crores for Atomic Energy, Rs.12 crores for Defence and Rs.16 crores for the industrial Development Bank. Loans to State Governments and Union Territories are estimated at Rs.712 crores, practically at the level of the current year. Loans for Plan assistance, however, will be Rs.28 crores more, and ways and means loans correspondingly less.

28. The total Plan outlay of the Central and the States next year will be Rs.2,225 crores, Rs.241 crores more than the current year's budgeted Plan outlay of Rs.1,984 crores. The State Plans will account for an outlay of Rs.1,027 crores and the Central plan for Rs.1,198 crores. Of the total States' outlay, Rs.650 crores will be financed by Central assistance and Rs.377 crores from the resources of the States themselves. The Centre's Plan, it may be noted, will be financed partly by Rs.160 crores of contribution

from the internal resources of Railways, Posts and Telegraphs Department, Hindustan Steel and other public sector enterprises. To this extent, therefore, a provision in the estimates of the Central Government is not necessary. For the balance of Rs.1,688 crores, inclusive of Rs.300 crores on revenue account and assistance to States, provision has been made in the Budget. Honourable Members will be glad to note that the contribution of Rs.160 crores from the Railways, Posts and Telegraphs and public sector enterprises will be Rs.45 crores higher than in the current year. With more public sector enterprises coming into production and beginning to yield surpluses, they should be able to contribute increasingly to the growth of the economy without putting an additional strain on the budget.

29. I have referred earlier to the need for keeping public borrowing within the limits set by a realistic expectation of the flow of genuine savings. In keeping with this principle, I have provided for public borrowing at Rs.270 crores next year as against Rs.293 crores in the current year. For the same reason, receipts from small savings have been assumed at the level of the current year, namely Rs.135 crores. Receipts from foreign loans will however be higher and are estimated at Rs.669 crores.

30. To sum up the overall position for next year, there will be surplus of revenue account of Rs.237 crores at existing rates of taxation. The total disbursement on capital account of Rs.2,094 crores, inclusive of debt repayment of Rs.267 crores, will be met apart from the revenue surplus, by internal and external borrowings of Rs.939 crores, collections under small savings of Rs.135 crores, repayment of loans of Rs.334 crores. Investment of PL480 funds of Rs.191 crores, annuity deposits of Rs.65 crores, and receipts under miscellaneous debt and deposit heads of Rs.203 crores. In the aggregate, Honourable Members would be happy to know that for the first time in many years, the Budget for next year, at existing rates of taxation, is expected to show a small overall surplus of Rs.10 crores.

31. Honourable Members might well ask why, after having announced a small surplus for the next year, I should not let the Budget well alone and resume my seat. It is, however, necessary, particularly on the eve of the Fourth Plan, to take a good look at our tax structure as a whole and to make adjustments or changes to give desirable effects. And it is to this task that I propose to address myself in the proposals I am about to make.

INDIRECT TAXATION

32. Indirect taxation has two essential objectives: to raise revenues for the State and to serve as an instrument of price policy. Those indirect taxes which are designed primarily to raise revenue have to be adjusted not only in the light of revenue needs but also in the light of their Impact on the budgets, of individual citizens. I feel that in our present circumstances where high prices have put a strain on a section of our people, a measure of relief is called for in those areas where the supply position is such that one may reasonably expect the relief to be passed on to

the consumer. Clearly, given the needs of the State, relief in indirect taxation cannot be extensive. Nor can indirect taxes be reduced in those areas where restraint on consumption is essential from the point of view of economy in imports or releasing larger supplies for exports.

33. In a growing economy with shortages at various levels, there is also a tendency for the price structure to be distorted. It is common knowledge that excessive profits are being made in the sale of products based on scarce materials whether Imported or indigenous., and I propose to make selective increases in both import and excise duties to mop up these surplus profits. We have today arrangements for the distribution of scarce materials among priority users. We propose to strengthen these arrangements. It has to be recognised at the same time that control over distribution cannot always be carried to the point where the requirements of all end-users are met through a central agency. Nor is there any reason to eschew the price mechanism to the extent that It can be used to supplement distribution arrangements. What I have essentially sought to do therefore is to increase indirect taxation in those areas where it might correct existing distortions in the price structure and mop up some surplus profits and to use the additional revenue from these measures for providing relief to the consumer to the extent possible.

34. My proposals for concessions in regard to indirect taxation ^ relate to excise duties only. I propose to remove the excise duty on footwear, cycle parts, cycle tyres and tubes, printing and writing paper used in the publication of registered dailies including their weekly issues. The effective rates of fabric duty on price-controlled varieties of grey as well as processed coarse and medium cotton cloth are proposed to be reduced by 50 per cent, ' duty on vegetable product by about 50 per cent and on cheaper type of printing and writing paper and certain other qualities of typing and manifold paper by 30 per cent. I also propose on other grounds to reduce the duty on rayon yarn of coarser and industrial deniers, on cellulosic staple fibre and, marginally, on staple fibre yarn. Duties on a few other items such as silk fabrics, gramphones, cigars and silver are also proposed to be removed on grounds of insignificant revenue. These reductions will mean a loss of revenue of Rs.29.5 crores in 1965-66.

35. I have made these reductions in duty on articles of common consumption as I expect them to be passed on to the consumer. If this expectation is not realised, it will become necessary to reimpose the duties in the course of the year. That is why the proposed reductions are being made not by reducing the statutory rates of duty but by issuing notifications under-powers already vesting in Government.

36. In selecting the Items for concessions in excise duty, I have given careful consideration to the reduction of duty on kerosene. I have, however, come to the conclusion that we cannot afford to give relief in duty on kerosene which is an important item of import. Quite apart from this, even at present the duty on kerosene is low enough to encourage its use by lorries and for other non-domestic purposes and there is little to be gained by encouraging further diversion of kerosene to those users.

37. I am also taking the opportunity of making certain technical adjustments in excise duties mainly in respect of cigarettes and tyres. On the present pattern of production, these modifications will increase revenue by Rs.40 lakhs in the case of cigarettes and Rs.35 lakhs in the case of tyres. I am sure, It will be possible for the industries concerned to absorb these small technical increases without any overall effect on prices. I have proposed a few other minor changes in the description of goods subject to duty and in the quantum of exemptions. These changes have no significant revenue implications.

38. The profit margins on the distribution of a number of scarce materials and on the sale of their products are high and I intend to mop up a part of the present margin of profits on these Items by increases in excise duties. I propose to raise the excise duty on copper and copper alloys in crude form from Rs.300 to Rs.1000 per tonne and on circle and sheets etc., from Rs.509 to Rs.1,500 per tonne. I propose to raise the duty on steel ingots, plates and rails and sleeper bars by Rs.10 per tonne, on semi-finished products and bars, rods and structurals by Rs.15 per tonne, on black sheets and hoops by Rs.40 per tonne, on skelp by Rs.50 per tonne, on strips by Rs.90 per tonne and on galvanised plates and sheets by Rs.100 per tonne. It is also proposed to raise the effective duty on tin plates and tinned sheets from Rs.165 to Rs.225 per tonne. The increase of duty on this group will yield an additional revenue of Rs.15.75 crores.

39. I also propose to further simplify the existing scheme of compounded levy prescribed for the smaller powerloom units producing cotton fabrics. The total exemption now enjoyed by a large number of units having less than five looms each is being replaced by a small compounded levy of Rs.25 per annum per loom. The anti-fragmentation provision is also being rephrased.

40. The net loss of revenue as a result of all the changes in excise duties will be Rs.13 crores in 1965-66.

41. The revenue from Union Excise Duties has increased steadily from Rs.145 crores in 1955-56 to about Rs.773 crores in 1964-65. It is a matter of some satisfaction that, for the first time in many years, we are able to give a measure of relief to the consumer without any significant sacrifice of revenue in the aggregate.

42. Ten days back, I had announced the imposition of a regulatory Customs Duty at 10 per cent of the value of Imported goods. This duty must continue in the present circumstances. In addition, It is necessary to increase the present rates of duty in some cases where there is a very large gap between the landed prices and the current market prices. I propose, therefore, to increase the import duty on stainless steel plates and sheets from 30 per cent to 100 per cent ad valorem and the duty on steel tin plates from Rs.100 per tonne plus 5 per cent to Rs.325 per tonne, continuing the present preference of Rs.20 per tonne where It is applicable. It is also proposed to

raise the duty on non-cellulosic art silk yarn and thread from Rs.7.5 per kilogram or 55 per cent whichever is higher to Rs.10.25 per kilogram or 75 per cent whichever is higher. I propose to raise the duty on paints, colours and painters' materials not otherwise specified from 60 per cent to 75 per cent, on sodium hydrosulphite from 40 per cent to 100 per cent, on essential oils and perfumery not otherwise specified from 75 per cent to 100 per cent and on paper not otherwise specified but excluding newsprint and printing and writing paper from 50 per cent to 75 per cent. I also propose to increase the statutory import duty on raw cotton to 50 paise per kilogram in order to be able to increase the effective duty in the course of the year, if this becomes necessary. The increases in import duties along with the surcharge on them will yield a revenue of Rs.6.5 crores in 1965-66. In addition, there will be increase in revenue of Rs.8 crores as a result of the countervailing duty on steel tin plates, iron and steel products and copper. The total additional revenue from Customs will be Rs.14.5 crores.

43. The changes in indirect taxes will have immediate effect under the Provisional Collection of Taxes Act. The net effect including Customs and Excise, will be a small increase in revenue of Rs.1.5 crores in 1965-66.

EXPORT PROMOTION

44. Honourable Members are aware that we have at present a number of provisions for giving fiscal relief for the promotion of exports. Relief from the incidence of Customs and excise duties is being given by way of drawbacks. In view of the difficulties experienced by nascent export industries in a growing economy such as ours which is afflicted by shortages at various levels leading to higher cost of production, we also give a measure of relief to these industries in regard to railway freights and taxation of profits.

45. While these measures to counteract the disabilities of our export industries have had a degree of success in promoting higher exports, there are still other imposts on raw materials and components that go into the end-product that is exported which makes it necessary to provide some more, assistance to export industries on a discriminating basis. For one thing, there are a variety of taxes levied in India today such as the sales tax and octroi in respect of which relief from taxation on exports is not available at present. It is difficult to refund the fractional parts of Import Duties and Excise Duties on raw materials, components and intermediate products which enter into the production of export commodities. In general, It is necessary to mitigate the disadvantages of new export industries which have yet to achieve their full competitive position in the world markets. I propose, therefore, to take powers to issue tax credit certificates to exporters up to 15 per cent of the value of such exports. The exact quantum of assistance will vary from commodity to commodity and will be determined after a careful examination. The tax credit certificates could be used for payment of taxes or refunded in cash to the extent that their value exceeds tax liability.

46. Honourable Members are aware that the case for protecting the infant industries of developing countries from competition from abroad by levying protective import duties has been recognised by expert opinion as well as by international agencies for a long time. The case for subsidising nascent exports from developing countries is equally strong and is indeed based on the same considerations. This point of view is already gaining acceptance among economic experts as well as among international institutions. I think it is only appropriate, therefore, that we should arm ourselves with powers to give direct financial assistance related to export earnings so that our export promotion efforts could become more effective as well as efficient.

CORPORATE TAXATION

47. Honourable Members are aware that the structure of our corporate taxation has undergone many changes during the past two years. These were necessitated primarily by the paramount need of raising resources. In my last Budget I had introduced several changes to reduce the severity of our corporate taxation. I am well aware that the feeling still persists that corporate taxation in India is high and that some of its features inhibit the progress of the corporate sector. I have carefully examined the incidence of the different taxes which are now on the statute book and I have come to the conclusion that there is need for some modification of the present structure of corporate taxation without altering its essential features which are sound. The dividend tax, for example, has come in for a great deal of criticism. Experience so far has shown that it has not materially affected the distribution pattern of dividends. I cannot help feeling, however, that in the present context, when we have to do everything possible to combat inflationary pressures in the economy and to generate sufficient resources for investment in the corporate sector, there is continuing need for a degree of restraint on dividend distribution. Similarly, we have not yet had time enough to assess the full effects of the surtax and there is, therefore, little reason for making any material change in this particular aspect of corporate taxation also. However, I have decided to make a number of changes in the general scheme of corporate taxes which, I hope, will meet at least a part of the difficulties of the corporate sector.

48. Industries producing articles mentioned in Part IV of the First Schedule to the Finance Act, 1964, are entitled to certain tax benefits. I propose to enlarge that list by the addition of lime stone, flame and drip proof motors, malleable iron and steel castings, calcium ammonium nitrate and ships.

49. I had announced last year that Section 104 companies wholly or mainly engaged in the manufacture or processing of goods or in mining or in the generation or distribution of electricity or any other form of power whose whole income did not exceed Rs.5 lakhs will be liable to tax at 50 per cent on the first Rs.2 lakhs of income. I propose now to enlarge this concession. All such companies except foreign companies-will under my proposal be liable to tax at 50 per cent on the first Rs.10 lakhs of their income irrespective of the total size of their income. Under Section 104,

for certain types of companies, the penalty rate of taxation for non-distribution of profits at present is 37 per cent. I propose to reduce this rate to 25 per cent for companies other than trading companies. In the case of manufacturing companies, we have given certain concessions to enable them to build up adequate reserves. For non-trading companies, e.g., companies part of whose business is in the manufacturing field, companies providing various services and companies engaged in constructional activities, I propose to provide that the higher statutory percentage of 90 per cent for compulsory distribution of profits will be attracted only if the accumulated profits and reserves exceed twice the amount of their paid up capital and loan capital, or the value of their fixed assets. At present, where in a public company 51 per cent or more of the shares are held by another company in which the public are substantially interested or by a 100 per cent subsidiary of such a company, the first mentioned company does not qualify for being regarded as a company in which the public are substantially interested. It is proposed to change this position and to treat such a company as one in which the public are substantially interested.

51. Overcrowding has become a serious problem in many of our major cities. Some incentive is, therefore, required to induce big factories to shift from such cities. I propose, therefore, in the case of public companies to refund the tax on any capital gains made on the sale of land and buildings in these cities to the extent that the capital gains are re-invested with prior approval of Government in land and buildings including housing for the employees in a new area.

51. I had stated last year that I propose to revise the rate of development rebate under Section 33 of the income Tax Act. Honourable Members will recall that the general rate of development rebate now is 20 per cent. It has been suggested that the development rebate should be applied in a selective manner and we have already sought to do so to some extent in the case of coal mining machinery and for ships. I propose now to reduce the standard rate of development rebate to 15 per cent except in the case of industries included in a new Fifth Schedule to the income Tax Act. Industries included in this Schedule will be entitled to claim a development rebate of 25 per cent. The rebate for coal mining machinery and for ships will continue at the rate of 35 per cent and 40 per cent respectively. The undertakings for which the development rebate is now being reduced will, however, continue to enjoy the existing benefit of 20 per cent up to 31st March 1967.

52. Often it is said that the total incidence of income-tax and surtax on companies reaches very high levels having the effect of inhibiting investment. I do not think that it is so, but to allay any mis-givings on this score, I propose to provide a ceiling limit to the income-tax excluding the tax relating to bonus issues, but including the tax charged with reference to distribution of equity dividends, and surtax at 79 per cent of the total income of companies. Any excess of the aggregate tax liability in respect of these taxes over this limit will be allowed as a deduction from the surtax

otherwise chargeable from the company. This provision will apply to Indian companies and any other company declaring its dividends within India in which the public are substantially interested.

53. The various changes in taxation affecting the corporate sector that I have outlined should go some way in meeting the genuine difficulties of this sector. I also propose to take some additional powers to stimulate production and to provide resources for the expansion of industry. Given the needs of the State, I cannot do so by giving up existing sources of revenue. A part of the Improvement in revenues, however, could well be utilized for meeting the requirements of industrial expansion and for providing a stimulus to greater production from existing investments. I propose, therefore, to take powers to provide that tax credit certificates to the extent of 25 per cent of the Central Excise Duty paid by any manufacturing unit on production in addition to its production in the base year may be issued to the unit. Similarly, I propose to take powers to provide for issuing tax credit certificates for 20 per cent of the additional Corporation Tax including surtax paid by any manufacturing company over the corresponding tax paid during the base year. This would be further subject to the limit of 10 per cent of the overall tax for the year concerned. These certificates are meant to be used for purposes relevant to the expansion of the industry namely redemption of debentures or repayment of loan from approved institutions.

54. The Government had recently set up a Tea Finance Committee and that Committee had made certain recommendations for relief in direct tax for tea companies. I propose to accept these recommendations in a modified form and the necessary provisions have been included in the Finance Bill

55. I also propose to allow in the case of companies a deduction for expenditure incurred by them for payment towards family planning amongst their employees. Where such expenditure is of a capital nature, It will be allowed as a deduction over a period of five years.

PERSONAL TAXATION

56. I now come to my proposals for personal taxation. Honourable Members would recall that earlier in my speech I had referred to the need for curbing excessive investment in urban property which has been rising rapidly in value due to a variety of reasons. Without such a curb, investment in more productive directions cannot be encouraged. There has also been a demand that there should be some ceiling on vast accumulations of urban property. I have considered this problem from various angles and have come to the conclusion that the best way of dealing with it through a fiscal measure is by way of an additional wealth tax on such properties. The tax will apply to urban property in towns with a population of one lakh or more. In view of differences in urban property values in towns of different sizes, I have decided to provide for different exemption limits according as the population of the town is between 1 lakh and 4 lakhs, 4 lakhs and 8 lakhs, 8 lakhs and 16 lakhs and over 16 lakhs. The exemption

would vary from Rs.2 lakhs in the smallest of these ranges to Rs.5 lakhs in the highest of these ranges. Honourable Members will see that the classification of towns that I have adopted for this purpose is the same as is already available for purposes of granting compensatory and other allowances to Central Government employees. Urban properties in excess of these exemption limits will under my proposal, bear an additional wealth tax at progressive rates rising from one per cent to four per cent on successive slabs of the total market value of such property. It is not possible for me now to estimate precisely the revenue from this source, but as at present I would put down the additional revenue expected at Rs.1.5 crores in 1965-66. I would like to emphasise, however, that the purpose of this levy is as much to raise revenue as also to achieve wider social purposes. It may be that as a result of this measure, property owners may transfer properties to corporate bodies which are not now liable to the wealth tax or property owning companies may come up. If this tendency develops, Government will deal with it at the appropriate time.

57. I propose now to restore the exemption from wealth tax for five years for equity investment in new industrial companies. This concession will apply in respect of companies issuing capital for the first time after the 28th February 1965. The companies issuing bonus shares pay a tax of $12\frac{1}{2}$ per cent on the face value of these shares. It stands to reason that if a person pays capital gains tax on bonus shares issued to him some part of the tax paid by the company on the same issue should go to mitigate his liability for capital gains tax. I propose, therefore, to allow a rebate of 10 per cent of the face value of bonus shares from the capital gains tax on such shares but limited to the amount of such tax.

58. In the region of personal taxation of incomes, the first need is for simplification of the tax structure. For one thing, the distinction between income-tax and super-tax is something of an anachronism and the manner in which we allow for various deductions as at present is also not conducive to either simplicity or comprehension of net incidence. I have endeavoured to simplify the whole tax structure by integrating super-tax with income-tax and in other ways. This simplification will cost something to exchequer for a little while. But it will improve tax administration and help to modify the attitude of the ordinary citizen towards the tax liability.

59. Basically, I wish to provide for a system in which the present free allowance for purposes of income-tax will be discontinued, thus eliminating inter alia the element of acute discrimination against unmarried women and bachelors. Incomes in future will be chargeable to tax, subject to relief on account of personal allowance for every individual of Rs.2000 with an additional allowance of Rs.1500 for a married individual and Rs.400 for each dependent child up to a maximum of two children. For a married individual with two dependent children no tax will thus be payable up to an income of Rs.4300 as against Rs.4000 as at present. The relief byway of personal allowances will, at the new rate, amount to the same absolute sum of Rs.215 as a maximum for all assessees. The simplification will entail a loss of revenue of Rs.3.64 crores.

60. Another change in the direction of simplification that I wish to make relates to deductions in respect of contributions to provident fund, insurance premium and Cumulative Time Deposit Scheme. Apart from raising the money limit for concession relating to these items from Rs.10,000 to Rs.12,500 for individuals, it is proposed to give the concession by a straight deduction from income of 50 per cent of the amount contributed to the items eligible for the relief. This measure, I am sure, will facilitate the calculation of tax liability by each individual. I am also introducing a new provision for exempting from tax income up to Rs.2,400 on account of institutional care of handicapped dependents. In the case of non-institutional care the limit will be Rs.600. Honourable Members would agree with me that a measure of relief in this respect is justified on social grounds.

61. While streamlining the tax structure and replacing the present taxes by a revised and unified schedule, I have lowered taxes at all levels of personal incomes. In the new schedule, the highest marginal rate of taxation on earned incomes which will be reached at over Rs.70,000 will be 65 per cent. At the same time, the surcharge on earned income has also been regraded at 5 per cent for incomes between Rs.1 and Rs.2 lakhs, 10 per cent for incomes between Rs.2 and Rs.3 lakhs and 15 per cent for incomes above Rs.3 lakhs. In our scheme of taxation, we have come to regard an income of Rs.15,000 as the dividing line for various purposes. The Annuity Deposit Scheme, for example, does not apply to incomes upto Rs.15,000. I have also decided that the same limit should be considered as the free limit for purposes of the unearned income-tax surcharge. The present limit for this purpose is proposed, therefore, to be raised from Rs.10,000 to Rs.15,000. With the base for unearned income-tax surcharge being lowered by this measure as well as by the reduction in tax rates in general, there is a case for increasing the surcharge on unearned incomes. Accordingly, I propose to levy a surcharge on the tax at the rate of 20 per cent on unearned incomes between Rs.15,000 and Rs.50,000 and at the rate of 25 per cent on such incomes above Rs.50,000.

62. The Finance Bill looks very bulky as it contains a number of amendments to the Income Tax Act, 1961. This has in the main become necessary in order to give effect to this scheme of simplification of the tax structure. These amendments are, however, of a permanent nature and will not have to be repeated in future Finance Bills.

63. As I have just said the changes proposed will mean a reduction in tax at all levels of personal income. The highest marginal rate on unearned income will go down from 88.125 per cent to 81.25 per cent and that on earned income from 82.5 per cent to 74.75 per cent i.e. the peak taxation will be reached in respect of income above Rs.3 lakhs of earned income and above Rs.70,000 of unearned income. For a married individual with two dependent children, the tax on earned income of Rs.5,000 will go down from Rs.60 to Rs.35, at Rs.10,000, from Rs.685 to Rs.535 at Rs.20,000 from

Rs.2,360 to Rs.2,085, at Rs.40,000 from Rs.10340 to Rs.9,285, at Rs.70,000 from Rs.26,590 to Rs.23,585 and at Rs.1 lakh from Rs.44,615 to Rs.39,160. This has been worked out after taking into account tax benefit on the relative Annuity Deposit. Despite these reductions, our tax rates will still be higher than in countries like the United Kingdom and the United States of America at corresponding levels of income. I make, however, no apology for not reducing personal income taxation in India to the levels prevailing in other countries. For one thing, the same level of income in India and United States of America does not imply the same level of absolute well being. Much less does it imply the same relative position in society as a whole. For a country like India, an income of Rs.1 or Rs.2 lakhs, represents economic power which is much greater than that enjoyed by people of the same income in more fortunate lands.

64. The loss of revenue as a result of the reduction in tax rates and the changes in surcharges will be of the order of Rs.20.69 crores in a full year. During 1965-66, there will be an additional loss of Rs.15 crores on all types of direct taxation in respect of advance collection of taxes. I have, however, every hope that apart from giving a measure of relief to people in the lower and middle income groups the changes I have made will stimulate a greater flow of personal savings and reduce the scope and incentive for tax evasion.

65. Apart from the major changes I have described earlier, I propose to make some other changes in the income-tax provisions. I had announced on the 24th December, 1964 my intention of giving tax credit certificates to individual investors in equity issues of new industrial undertakings, of exempting interest income from funds brought to India and invested in banks in non-resident accounts and exemption of interest on Government securities from the unearned income surcharge. Provision has been made in the Finance Bill to give effect to these changes. It is also proposed to extend the rebate on donations to amounts given for renovation of places of public worship, approved in this behalf and also to exempt such gifts from gift tax. The annuity received in respect of the Annuity Deposit Scheme is proposed to be treated as earned income.

66. The present tax concession in favour of foreign technicians whose contracts have been approved by Government is for a period of three years with a grace period of two years where the employer pays the tax. For certain industries and sophisticated processes, the services of such technicians have to be retained for a longer period. It is, therefore, proposed that the second period of two years can be extended by a further period of three years with the approval of Government. During the extended period also the tax may be paid by the employer without attracting tax on tax.

67. Representations have been received from professional persons like Chartered Accountants, Architects and Solicitors for tax relief to enable them to make some provision for a superannuation scheme. Recognising the need for this, I propose to give tax relief to partners of firms engaged in the profession of Chartered

Accountants, Architects, Solicitors and Lawyers on amounts spent for the purchase of life annuities, commencing at an advanced age, under an approved annuity scheme or sum contributed by them to an approved fund for providing retirement benefits. This relief will be in the form of a straight deduction of such payments from their total income subject to a limit of 10 per cent of the total income or Rs.5,000 whichever is lower.

68. In order to provide a disincentive for repatriation of funds by foreign investors who sell out their interest in industrial holdings, it is proposed that when such persons reinvest the sale proceeds in approved industrial securities, rebate of capital gains tax, if any, due on the original investment will be allowed in proportion to the amount reinvested.

69. A change is being introduced in the basis of charging taxes on non-resident assesseees as well as resident assesseees who are not ordinarily resident. In order to remove some of the present complications and reduce the rigour of the tax burden, these assesseees will be charged to tax from the assessment year 1965-66 on their income assessable in India at the rates applicable to residents but without deduction of personal allowances for non-residents. The concept of world income is being dropped in their case. The loss of revenue in this case is not material.

70. So far as Estate Duty and Gift-tax are concerned, I propose to enlarge some of the existing concessions and also to amend certain provisions where I find that their interpretation has been causing undue hardship to assesseees. For example, when a person gifts any property during his life time, the property will be liable for inclusion in the estate on his death under certain circumstances, namely, if he dies within two years after making the gift or if he has possession or enjoyment of the property or any benefit out of it during the two years immediately preceding his death. This requires to be remedied in the light of our present rates of Gift Tax and Estate Duty. I, therefore, propose to reduce the period of two years to one year and further to provide that where Gift Tax has been paid at the enhanced rates of Gift Tax in force from 1964-65 on any gift of property to the wife, son or other close relative, there will be a total exclusion of such property from the estate of the donor if he dies after five years from the date of gift. I also propose to make a provision that if the donor stays in a house which he has gifted to his wife, son or other close relative and there is no right of residence or any benefit reserved to him under the deed of gift, or under any collateral disposition, the property will not be included in the estate if the donor dies after one year from the date of gift. Again, when a pension is given to the family of a deceased employee by Government or by some other body or out of a superannuation fund created by an employer and approved under the income-tax Act or out of a similar fund maintained by any of the international agencies, the capitalised value of the pension attracts Estate Duty. It is considered necessary to rectify the hardship arising in such cases by exempting such pension from Estate Duty. The loss of revenue

as a result of these measures will be nominal. Further, I propose to make a provision for the allowance of stamp duty paid on an instrument of gift as a deduction from the Gift Tax subject to certain limits and conditions.

71. I now come to my proposals in regard to unaccounted incomes and wealth which, as I have already mentioned, are a source of considerable mischief in the economy. The question of how to mitigate this evil is a baffling and difficult one. We have already taken a number of measures, apart from intensification of searches and the like, to encourage voluntary disclosures. Amounts so disclosed are being exempted from penalty. These measures have had some success in encouraging voluntary disclosures particularly from people who have comparatively small and medium incomes to disclose. Various suggestions have been made from time to time to encourage disclosures on a larger scale and to give an opportunity to those who wish to turn a new leaf to do so without undue harassment. I have every hope that with the reduction in tax rates that I have already proposed the scope and incentive for tax evasion in future would be reduced. The present time therefore, offers a good opportunity to enable people who have evaded tax in the past to come out and make a clean breast of it. I recognise that it is not at all an easy matter to devise a solution which would at the same time be fair to people who have paid taxes honestly in the past and reasonable enough to encourage voluntary disclosures on an adequate scale on the part of those who wish now to be relieved of their past evasion. I have attempted to devise a solution bearing in mind all the complex economic, social and moral considerations that underlie the phenomenon of unaccounted income and wealth. I can only hope that honest tax-payers will not be aggrieved by what I propose to do and that those who have been misled in the past would find in it reason enough to return to the path of civic responsibility.

72. My proposal in brief is this. Those persons who have undisclosed income to declare can make a declaration with relevant particulars and at the same time deposit in cash at the Reserve Bank of India sixty per cent of the income declared. The remaining 40 per cent of the income so declared can be taken to the assessee's books under intimation to income tax authorities. No further question of assessment in regard to the income so disclosed by this process will arise and the identity of the persons will not be revealed. This offer will be open only for three months from now, till the end of May. In order to induce people to come out quickly a rebate of 5 per cent of the tax on all incomes declared and tax paid thereon in the month of March will be given. In other words, in such cases the effective tax rate will be 57 per cent. Those who feel that their tax liability in respect of amounts to be disclosed would be less than 57 or 60 per cent would be free to resort to normal disclosure and have the income so disclosed taxed at the appropriate rates by income tax authorities after proper assessment. Appropriate provisions are being made in the Finance Bill to give effect to the scheme I have just outlined. I need hardly add that we propose to continue with-our searches. It is incumbent upon the Government to use all the legal weapons

at its command to deal with those who spurn this particular opportunity of making voluntary disclosures.

73. I also propose simultaneously to float once again the Gold Bonds. On the last occasion when we issued such a bond, the response did not come up to our expectations. The new bonds will be issued on exactly the same terms as the old bonds except in one respect. In view of the increase in interest rates since the last issue was made the new bonds will carry interest at 7 per cent per annum. Those who subscribed to the first series of Gold Bonds and thus cooperated with the Government at a time of national crisis will also be given the benefit of this higher rate of interest for the remaining years of the currency of the bonds held by them. Any of the old bonds submitted to the Reserve Bank and bearing the Bank's imprimatur will bear interest at the new rate after 1st April, 1965. I would like to add that this concession is not to be taken as one that would be ordinarily extended to all similar cases. I would appeal to everyone who holds gold, either under declaration or otherwise, to subscribe to the new bonds to the maximum possible extent. The New Gold Bond will be in the market for a period of three months, i.e. till the end of May, 1965.

SUMMING UP

74. I may now sum up the total effect of the changes that I have proposed. The overall surplus at existing rates of taxation of Rs.10 crores will be augmented to the extent of Rs.1.5 crores as a net result of changes in indirect taxation. The loss in revenue of Rs.29.5 crores as a result of reduction in excise duties on a number of items of daily consumption will be offset by revenue from technical adjustments in respect of cigarettes and tyres of Rs.75 lakhs, yield of additional excise on copper steel products and tin plates etc. of Rs.15.75 crores, and increase in Customs Duties of Rs.14.5 crores.

75. Among direct taxes, the loss of revenue on account of the introduction of personal allowances will be Rs.3.64 crores and on account of adjustments in rates Rs.2.0 crores making a total of about Rs.23.64 crores. Modifications in surcharges on earned and unearned income will involve a loss of revenue of Rs.69 lakhs. The concessions to Section 104 companies will cost to the exchequer Rs.2.73 crores. Other miscellaneous concessions amount to Rs.2.34 crores. In addition, there will be a loss of another Rs.15 crores in 1965-66 in view of the fact that all the new rates in this year will apply both in respect of income taxable during the year and income on which tax might be paid in advance. The wealth tax on urban property will yield a revenue of Rs.1.5 crores. Thus, as a result of all the changes in direct taxation, including changes in corporate taxation, the total loss to revenue in 1965-66 will be Rs.42.90 crores.

76. The estimated income under direct taxation from all sources for the year 1965-66 has been put at Rs.704.05 crores. Out of this Rs.42.90 crores will have to be deducted as a loss because of the concessions mentioned earlier. However, because of the perceptible lowering in personal taxation and improvement in tax collection, I

shall take a credit of Rs.30 crores making the total estimate of income from direct taxation from all sources at Rs.691.15 crores. This leaves a deficit of Rs.12.90 crores in direct taxation as against the budgeted figure. As against this, there is a surplus of Rs.1.5 crores in indirect taxes. Taking this into account and the effect of the States' share in excise duties, there will be a loss of revenue of Rs.6.38 crores, which together with the overall surplus at the existing levels of taxation will give a net surplus of Rs.3.78 crores,

77. I have taken no credit for receipts under the voluntary disclosure scheme. Indeed, it is my hope that the entire loss in respect of direct taxation will be more than made up during the year not only by improvement in tax collection resulting from the changes made, but also because of receipts under the voluntary disclosure scheme. It may, therefore, well be expected that we might end up next year with a larger surplus. It is with this in view that I have not estimated any diminution in the States' share of direct taxes revenue. On the other hand such increases in the States' share of income Tax revenue as would accrue would in my view more than compensate, the reduction in the States' share in the revenue from Excise Duties.

78. It is a matter of some satisfaction to me to be able to present this Budget which holds every promise of being a balanced one-if not a surplus one-taking both the Revenue and Capital accounts together. Honourable Members, I hope, will also find similar satisfaction in the fact that we have been able to present a balanced budget while providing for the needs of the Plan and giving a measure of relief in direct and indirect taxation. In conclusion I would appeal to Honourable Members and to all those affected by our tax system that they should treat the present Budget as an earnest of our desire to put the tax structure in this country on an enduring and rational basis.

(February 27, 1965)