

SPEECH OF SHRI SACHINDRA CHAUDHURI MINISTER OF FINANCE INTRODUCING THE BUDGET FOR THE YEAR 1966-67

Sir,

I rise to present the Budget of the Government of India for the year 1966-67. But before I do so I must pay homage to our late Prime Minister, Shri Lal Bahadur Shastri. His life was given, as indeed it had been lived, in the cause of our country and our people. With him he had brought a deathless spirit and in Me death he has made a gift of this spirit to the nation. With this heritage we have to proceed in the service of our people, well guided by our beloved Prime Minister and companioned by our esteemed colleagues. With the Honourable Members I share this task.

2. The Budget of the Government of India is a major instrument for implementing our plans and policies. It has to be framed, therefore, in response to current-economic trends as well as the long-term requirements of the economy. Recent trends in the economy have been outlined in the Economic Survey which was presented to Parliament a few days ago. I shall, therefore, refer only to a few major developments which have a bearing in the formulation of the next year's Budget.

3. In many ways, the year that is now drawing to a close has been a very difficult one. Some of the difficulties such as the inadequate performance of the economy, the sluggishness of the capital market, the pressure on the balance of payments and the rise in the prices of essential commodities have been with us now for a number of years; and it is imperative that budgetary and indeed all economic policies are framed with a view to reversing these adverse trends. At the beginning of the current fiscal year, it was our hope that the substantial Improvement in agricultural production and national income which had taken place in 1964-65 would make It possible to bring about a corresponding improvement in the general economic situation. This expectation, however, has not been realised as a result of a number of unforeseen adverse happenings. Apart from the unprecedented failure of monsoons during the current year, we have had to reckon with hostilities on our borders and a pause in foreign aid.

4. Honourable Members will recall that the Budget for the current year as presented in February last had forecast a small overall surplus. In the early part of the year itself, however, it became apparent that supplementary measures for raising revenues were necessary to keep to our resolve of avoiding deficit financing. Accordingly, the supplementary budget presented last August provided for additional revenue measures with a yield of over Rs.100 crores for the rest of the current financial year. Since then, the budgetary outlook has become worse. On present indications, the current year will close with a large deficit of about Rs.165 crores. As compared with

the original Budget estimates, taken together with the effect of the supplementary budget, the revenue account is now likely to show a shortfall of Rs.53 crores. The major deterioration of about Rs.112 crores, however, is likely to be on capital account. I do not propose to burden Honourable Members with details of the variations that are likely to occur on the revenue and capital account in relation to our earlier estimates. I shall, therefore, mention only those changes which have some relevance for the future.

5. Under revenue, receipts from income and Corporation taxes are now expected to show a shortfall of the order of Rs.73 crores. On the other hand, Customs receipts are likely to be Rs.31 crores more and Excise revenues Rs.16 crores more; total tax receipts will, therefore, fall short by Rs.26 crores.

6. As for revenue expenditure, Honourable Members will appreciate that the hostilities in our borders that were started last August have made it necessary to increase the outlay both on defence and border security. Revenue expenditure on defence is expected to show an increase of Rs.20 crores over earlier estimates, grants to States for border security, Rs.6½ crores, and payments for Police Battalions raised by the States for the Centre, Rs.11 crores, making a total increase in expenditure under these three items of Rs.28 crores. The net result of these and other variations on the revenue account is that the estimated revenue surplus of about Rs.335 crores will now be reduced to Rs.282 crores.

7. On capital account, the major developments are a shortfall of Rs.43 crores in respect of external assistance and an addition of Rs.100 Crores by way of loan assistance to the States which will not be recovered during the current year itself. In response to the general weakness of the budgetary position of the States as well as the need to enable the States to undertake special agricultural programmes on an emergency basis, Central assistance by way of loans to the State Governments for their Plans had to be increased by Rs.40 crores. In addition, it is estimated that loans of the order of another Rs.45 crores will be needed over the year to strengthen the budgetary position of some of the States. An additional amount of Rs.10 crores was given to the States as loans for the purchase and distribution of fertilizers. Loans to the States in respect of Small Savings will be larger by Rs.5 crores. The requirements of the public sector concerns, notably the Heavy Electricals, the Indian Oil Corporation, National Coal Development Corporation and Noyveli Lignite are also likely to be higher. On the other hand, some savings in capital expenditure on a number of heads may reasonably be expected.

8. Honourable Members will note that the net deterioration of Rs.112 crores on capital account is really explained by two major factors, namely, additional loan assistance to the States and the shortfall in external assistance. The decline in Central tax receipts of the order of Rs.26 crores represents less than 11 per cent of total tax receipts. Further, considering the gravity of the situation that we had to contend with,

the increase in revenue expenditure on defence and border security has been modest. The shortfall in respect of external assistance is naturally a matter which is largely beyond our control. But for the additional liability of Rs.100 crores by way of loan assistance to the States, not recoverable within the year itself, the overall deficit in the Centre's Budget this year would have been only Rs.65 crores. Even so, Honourable Members, I am sure, will agree with me that the developments during the current year are a matter of concern and call for a greater degree of realism in budget-making as well as greater sense of determination in restraining expenditures, whether revenue or capital, whether Plan or non-Plan, whether by the Centre or by the States.

9. I cannot emphasise too strongly that the weakness of the financial position of the States and the tendency on the part of some of them to resort to unauthorised overdrafts from the Reserve Bank are matters which have to be remedied. The responsibility which we have assumed so far to clear these overdrafts inevitably strains the Centre's budgetary position. But this strain is bound to be reflected in turn in the Centre's ability to help the States in respect of their Plans. Unauthorised overdrafts and deficit budgeting by some States inevitably have repercussions on other States which are better able or more willing to manage their affairs on a more realistic basis. Both the Centre and the State Governments taken as a whole, therefore, have to share the responsibility for ensuring that unsatisfactory budgetary practices such as budgeting for deficit and unauthorised overdrafts from the Reserve Bank are avoided in future by adopting common standards of discipline. We propose to devote urgent attention to the problem in consultation with the Planning Commission and the State Governments to ensure that the present unsatisfactory situation in regard to financial management by some States does not continue.

10. The Budget of the Government of India for the year 1966-67 will necessarily have to be framed in the light of the budgetary developments during the current year which I have just outlined. As mentioned at the outset, it must also take into account recent trends in the economy and the continuing requirements of defence and development. The year 1966-67 is the first year of the Fourth Five Year Plan. The Budget for 1966-67, therefore, should give to the Fourth Plan as good a start as is possible consistent with the immediate need to restore a greater measure of monetary and price stability. Honourable Members will also appreciate that while It has always been our policy to restrict expenditure on defence to the maximum extent possible so as to conserve all possible sources for securing the well-being of our people, we cannot afford to take any chances with the security of the nation, devoted though we are to the cause of peace.

11. Honourable Members are already familiar with the major strands in the country's economic situation. The substantial improvement in agricultural production that took place in 1964-65 could not be sustained in the current year on account of adverse weather conditions. Although no precise estimates of agricultural output in the current year are yet available it is clear that there would be a substantial decline in

the output of foodgrains as well as a reduction, in varying degrees, in the outturn of commercial crops such as jute, mesta, oilseeds, tobacco, tea and cotton. Honourable Members would, I am sure, like me to take this opportunity to express our gratitude to friendly countries and international institutions, and particularly to the Government and the people of the United States, for agreeing to supply to us substantial quantities of foodgrains at a time of need. Even with this help, however, the availability of essential foodgrains and agricultural raw materials during the coming year would be considerably restricted so that it becomes more necessary than ever to restrict the expansionary impact of Government expenditure in general.

12. The growth in industrial production has also slackened during the current year. During the first six months of 1965-66, industrial production increased by 7.3 per cent over the corresponding period of 1964-65. During the second half of the current fiscal year, however, industrial production is expected to increase by only 5 per cent so that over the year as a whole we are likely to have an increase of about 6 per cent in industrial production. Our continuing developmental efforts are showing results. Capacity in a number of industries such as those producing finished steel, aluminium, engineering goods and chemicals has been increasing steadily and can be expected to increase further in the coming year. On the other hand, the shortage of domestic raw materials and our inability to compensate this by larger imports has seriously contributed to the sluggishness of industrial production in recent months.

13. Superficially, it might appear that our balance of payments position has shown some improvement during the current fiscal year. In 1964-65, for example, our foreign exchange reserves declined by Rs.72 crores. By contrast, it may well be possible for us to avoid any decline in foreign exchange reserves during 1965-66 with the help of a net drawing from the International Monetary Fund of Rs.11.9 crores. But we have been able to stem the decline in our already depleted reserves during the current year only on the basis of a highly restrictive import policy. Fresh licensing for imports for the maintenance of the economy during the current year has been on a very restricted basis; and this is already beginning to affect industrial production despite a substantial decline in the inventories of imported materials and components within the country.

14. Over the months to come, our needs for inescapable imports of foodgrains and agricultural raw materials will increase as a result of the drought. It will also become even more difficult than before to maintain the exports of some of our agricultural products in the face of a decline in production. Difficult as the foreign exchange situation has been and, indeed, is likely to be over the months to come, I think it would be self-defeating to intensify or even to maintain the present severity of our import restrictions. What we need, indeed, is a significantly larger flow of maintenance imports over the coming months so that inventories within the country are restored to normal levels and capacity already created is utilised as fully as possible. It is only on the basis of a more liberal import policy that we can hope to give a fresh momentum to industrial production and greater regard for efficiency all round in the

immediate future. Situated as we are at present, it is not possible for us to undertake a more liberal licensing of essential imports of raw materials and components without external assistance in suitable forms. But Honourable Members may be sure that it will be the constant endeavour of this Government to seek the cooperation of international institutions and friendly foreign governments to reduce the severity of our present import restrictions.

15. Over a period, however, our ability to maintain imports at satisfactory levels and to meet external obligations such as those for the repayment of debt will necessarily have to turn on our own efforts to increase our foreign exchange earnings not only by higher exports but also by way of increase in invisible receipts from tourism, remittances, shipping and the like. During the first three years of the Third Plan period, there was a rapid increase in our exports which was all the more gratifying for the reason that it took place despite the fact that the growth of production within the country failed to come up to expectations. The same momentum in exports, however, has not been maintained during the past two years; and we are confronted in the immediate future with the patent possibility that the drought might affect adversely some of our agricultural exports.

16. Fundamentally, we cannot give a continuing impetus to our export effort without increasing production and productive efficiency all round and without a check on general inflationary pressures within the country. While efforts in these directions are required on a continuing basis in the interest of higher export earnings as, indeed, of development along sound lines, we have not hesitated to adopt a number of measures to give specific incentives for promoting higher exports. The Tax Credit Certificate Schemes introduced during the year and the Import entitlement schemes which have been in operation for some time are examples of the inducements we offer at present to promote higher exports. More recently we introduced the National Defence Remittance Scheme and I am happy to say that the response to the scheme has been encouraging. It is in view of this that the scheme has been extended now by another three months though a second look may have to be taken to lower the rate of benefit inherent in the scheme. We shall continue to review, modify and extend the export promotion measures that we have designed in the light of our needs and experience to make sure that they continue to provide a strong, stable and comprehensive basis for a vigorous export drive.

17. With the best will in the world and the utmost effort we are capable of, we still cannot dispense with foreign aid in the near future. We in India have always recognised that foreign aid can at best supplement our own efforts to raise both internal and external resources. No self-respecting nation can ever look upon external assistance as a substitute for reasonable effort on its own part or as a continuing feature of its economy. It is also both natural and unavoidable that the willingness of our friends abroad to assist us will depend on the confidence that we are able to inspire in our ability to grapple with our problems and to put such aid as we get to the best possible

use. Only so can we hope, before long, to dispense with extraordinary forms of external assistance altogether. We are hopeful that the Consortium organised under the leadership of the World Bank will approach the task of mobilising external assistance for our Fourth Plan in the same constructive way as it has done in the past for our Second and more particularly for our Third Plan. At the same time, Honourable Members will appreciate that the Plan itself and our policies in support of the Plan have to be consistent not only with reasonable developmental goals but also with a greater determination on our part to rely increasingly on our own strength and resources.

18. I would like to refer, in particular, in this connection, to the need to reduce our dependence on assistance under the United States PL 480 programme for the import of foodgrains and other agricultural commodities. Honourable Members will have, I am sure, every opportunity to review the measures that we have set in motion for achieving a substantial increase in agricultural production during the Fourth Plan period. I have to emphasise in particular the fact that our budgetary position also has come to lean heavily on the import of agricultural commodities under the PL 480 programme. We cannot possibly regard a large accretion of resources to the Budget from PL 480 transactions as anything but a fortuitous counterpart of our difficulties on the agricultural front. The fact that we depend today to such a large extent on the PL 480 programme for supplementing our budgetary resources emphasises once again the need for caution in regard to governmental expenditure as well as for exploring every available opportunity for raising more internal resources.

19. More and more, the possibility of raising additional internal resources will depend on the growth and dynamism of the Indian economy itself. Whichever way we look at it, therefore, it is of paramount importance to improve the performance of the economy by raising productivity both in agriculture and industry. From this point of view, I attach importance to strengthening and maintaining the confidence of the private sector as also to the more efficient working and management of our growing family of public enterprises. It is not necessary for me to dwell at any length on the malaise of the capital market which has continued now for more than three years. While we have endeavoured to meet the genuine requirements of private industry for investment by greater assistance from financial institutions, there cannot be any doubt that the revival of the capital market and a greater flow of private savings to industry in the form of equity investment are desirable in the larger social interest. A democratic society desiring rapid development both in the public and the private sector but averse to concentration of wealth and economic power has all the more reason to make investments in the private sector as widespread as possible. Growth of private industry in such circumstances must depend more and more on the equity participation of a growing number of people drawn from different strata of society. More widespread equity participation would also facilitate stricter control on management in the private sector.

20. In the monetary field, till recently, a great deal of stringency has been felt

despite the fact that the supply of money has continued to increase at a much faster rate than the supply of goods and services. Given the developments in the budgetary field to which I referred earlier, it is not surprising that money supply has increased at a faster rate than what had been envisaged. But clearly, the combination of monetary stringency and a rapid-increase in money supply is an indication of the fact that genuine savings have not increased adequately and that a part of these have been diverted to less desirable forms of investment. We cannot relieve monetary stringency by continuing to increase money supply at the same rapid rate as we have done over the past few years. To do so would only aggravate the inflationary situation in the country. Honourable Members are well aware that the general price level in the country has shown a significant increase of 7.6 per cent during the 12 months ending January 1966. While the Reserve Bank will continue to deploy flexibly the instruments of monetary policy in keeping with the genuine requirements of credit for achieving higher levels of production, we shall have to make sure that the expansion of credit for legitimate purposes takes place increasingly on the basis of growth of deposits and at the expense of credit expansion for less desirable social purposes. Indeed, quite apart from these considerations, It is essential to ensure that lending by the banking system is directed towards socially desirable objectives such as greater economic opportunity to a wider spectrum of producers and the prevention of undue concentration of wealth and economic influence.

21. I may now sum up the main considerations which have guided me in framing the next year's Budget in the light of the developments, to which I have referred so far. First and foremost, the Budget has to be production oriented, creating a better psychological climate for a greater regard to savings and efficiency all round. Secondly, while investments in progress have to be completed as speedily as possible in the interest of better performance of the economy and while the claims of national security have to be met, every effort has to be made to restrain Government expenditure, particularly in general administration and in new schemes of development with a long gestation period. With the restraints just indicated It is proper to state that it is the intention of this Government to establish progress and press on with such enterprises in the public sector as are beneficial to the country. The Bokaro Steel Plant made possible with the assistance of the USSR to whom we are grateful is one such project. I have also endeavoured to estimate revenue and capital receipts on as realistic a basis as possible.

22. Coming now to the estimates of next year's revenue expenditure, Honourable Members would appreciate that certain increases are almost automatic in the sense that they result from decisions already taken in the past or from Constitutional obligations. Transfers to States on the basis of the recommendations of the Fourth Finance Commission will, for example, lead to increase in expenditure of Rs.77 crores under Statutory Grants and Rs.67 crores under States, share of Union Excise duties. The cost of servicing debt will increase by Rs.42 crores and export promotion measures

and the various tax credit schemes already adopted will result in an increase in expenditure of another Rs.24 crores. If these special items and certain self-balancing items such as PL 480 Grants, Emergency Risks insurance Scheme and write back of Capital Grants are excluded, revenue expenditure next year will show an increase of only Rs.46 crores. While Plan expenditure in revenue account is less by Rs.36 crores, the increases are accounted for by Rs.29 crores under Defence Services, Rs.14½ crores under Police, mainly for requirements of border security, Rs.111 crores under grants for drought relief and Rs.6 crores to Union Territories to cover their budgetary gaps. Administrative Services proper, excluding Police, would cost Rs.99 crores next year as against Rs.93 crores this year and Rs.83 crores last year. The increase of Rs.9.6 crores next year includes Rs.21 crores in account of next year's election expenses. The balance of the increase in revenue expenditure after excluding reductions under subsidies and aid, namely, Rs.18 crores, occurs mostly under non-Plan developmental heads, and includes committed expenditure arising out of the completed Third Plan Schemes. Honourable Members would appreciate that the small increases I have just mentioned represent a considerable effort at economy and restraint. Most of the increases are in respect of obligatory expenditure or items like Defence expenditure and border security which in view of the circumstances that we have to contend with, cannot but be regarded as absolutely unavoidable.

23. Disregarding certain self-balancing items, next year's revenues should show an increase of Rs.191 crores as compared to the revised estimates for the current year. Customs duties are estimated to yield Rs.29 crores more mainly because the increases in duties already made would yield results now over a full year. Receipts from Excise duties are expected to increase by Rs.108 crores mainly in response to larger production and clearances of petroleum products from the new refineries as also of cement and iron and steel. Considering the experience this year and the fact that the current year's receipts include a considerable portion of tax from voluntary disclosures, I have assumed that receipts from Corporation and income taxes next year will be higher by only Rs.20 crores.

24. Taking into account the factors that I have mentioned and a number of other miscellaneous items, total revenue receipts next year at existing levels of taxation are estimated at Rs.2617 crores and expenditure on revenue account at Rs.2407 crores. The revenue surplus of Rs.210 crores next year will thus be Rs.72 crores less than the revised estimates for the current year.

25. On capital account, I have assumed external borrowings of Rs.460 crores as against Rs.490 crores in the current year. This is exclusive of fresh accretion of PL 480 funds of Rs.230 crores. Market loans have been assumed at Rs.280 crores, about the same as in the current year. However, since repayments next year are substantially higher, the net Market borrowing at Rs.86 crores next year would be Rs.22 crores less than that during the current year. It is, therefore, my hope that the target for market borrowing next year will be fulfilled without any significant support from the Reserve

Bank over the year as a whole. Honourable Members would recall that since last October, we have floated emergency market loans on tap. In view of the consolidated market borrowing programme now proposed for the next year, the emergency loans on tap will be discontinued at the end of March.

26. On Small Savings and Annuity Deposits, I have assumed no net increase over the anticipated outcome of the current year. After taking account of receipts under repayment of loans, accretions under miscellaneous debt and deposit heads and the revenue surplus of Rs.210 crores, the total budgetary resources in sight for total capital outlay next year, both Plan and non-Plan, would be of the order of Rs.1835 crores.

27. I have considered whether the capital outlay next year could not be restrained within the limits set by resources in sight to which I have just referred. Unfortunately, while total capital outlay next year, excluding the notional adjustment of PL 480 loans, and loan disbursements, would show a significant reduction over the current year's level, it has not been possible to restrict the outlays within the strict limits set by resources in sight. Here again, there are a number of items such as debt repayments where an increase in outlay is unavoidable. Debt repayments next year at Rs.314 crores would be larger by Rs.45 crores in relation to the current year. While there is practically no increase in defence capital outlay next year, an additional provision of Rs.20 crores is required for giving loans for the purchase and distribution of fertilizers, seeds and pesticides and Rs.12 crores for loans for drought relief. The provision for contribution to financial institutions will also be larger by Rs.7½ crores.

28. In regard to Plan schemes also, expenditures on continuing schemes have to be provided for in the interest of speedy implementation, especially when foreign exchange provision for their import requirements has already been made. Some of the important increases that have been proposed in the next year relate to the Bokaro Steel Plant and the development of Atomic Energy which have been allotted Rs.13 crores and Rs.18 crores more respectively. On the other hand, Plan assistance to the States and the Union Territories by way of loans has been curtailed by Rs.135 crores and capital outlay in Railways has been reduced by Rs.59 crores. On balance, and after taking into account a number of miscellaneous items, total capital outlay including loan disbursement and debt repayment next year will amount to Rs.1952 crores thus showing a reduction of Rs.296 crores as compared with the current year.

29. In terms of Plan outlay, the Centre and the States next year are expected to spend Rs.2081 crores, that is, Rs.144 crores less than the current year's budgeted Plan outlay of Rs.2225 crores. The State Plans excluding that of Nagaland will account for an outlay of Rs.926 crores and the Central Plan, an outlay of Rs.1155 crores. Of the States' outlay, Rs.505 crores will be financed by Central assistance and Rs.421 crores from the resources of States concerned. The Centre's Plan will be financed to the extent of Rs.189 crores from the internal resources of the Railways, the Posts and

Telegraphs Department, the Hindustan Steel, the Indian Oil Corporation, the Oil and Natural Gas Commission and other public sector enterprises, including the foreign exchange resources to be mobilised by them directly. For the balance of Rs.1471 crores, inclusive of Rs.505 crores of Central assistance to the States, Rs.56 crores for the Union Territories and Rs.4 crores for Nagaland, as also Rs.143 crores for the Central Plan on Revenue account, provision has been included in the Budget.

30. The distribution of the Plan outlay under different heads takes into account the higher priority that needs to be given at the present stage to quick yielding programmes of agricultural development and to the speedy implementation of projects already in hand. To a certain extent, a comparison between the Plan outlay next year with the Plan provision for the current year is misleading in the sense that a part of the outlay included in the Plan during a Plan period becomes committed and gets treated as non-Plan outlay from the beginning of the next Plan period. Even so, there is no denying the fact that the exigencies of the budgetary situation have made it necessary to exercise the utmost caution in regard to both Plan and non-Plan expenditure during the coming year. The gap between resources, in sight and total provision for expenditure in the Centre's Budget to which I will now turn has to be judged in the light of this consideration.

31. The overall budgetary position for the next year may now be summarised in conventional terms as follows. The revenue account will yield a surplus of Rs.210 crores. The total disbursement on capital account, excluding the notional adjustment of PL 480 Loans, will be Rs.1952 crores. This will be met, apart from the revenue surplus, by internal and external borrowings of Rs.744 crores, collections under Small Savings of Rs.135 crores, fresh accretion to PL 480 Funds of Rs.230 crores, Annuity Deposits of Rs.44 crores, repayment of loans of Rs.370 crores and receipts under miscellaneous debt and deposit heads of Rs.102 crores, leaving an overall deficit of Rs.117 crores.

PART B

32. In the light of what I have said earlier, Honourable Members would have gathered that I would have very much liked to avoid a deficit by the simple method of containing revenue expenditure and capital outlays within the resources available. I have explored this possibility to the maximum. Revenue expenditure has been held down. In the case of Plan outlays, however, it is necessary to provide for what is required for securing essential and productive development, particularly in regard to agriculture and other continuing schemes. Consistent with this, Plan outlays have also been kept down to the minimum. A further reduction would retard agriculture and jeopardize the growth of the economy.

33. It is, therefore, Imperative for me to cover the deficit by raising additional resources. This I have sought to do by methods which cause minimum disturbance and hardship and ensure maximum simplicity. Honourable Members would recall that in presenting the last Budget my predecessor had emphasised the importance of stability and simplicity in the tax structure in the interest of providing a proper climate of expectations for orderly growth. ' The supplementary budget introduced last August took this process a step further, particularly in regard to the rationalisation of import duties. I have kept these basic objectives clearly in view in proposing measures for raising additional resources. Even in so doing, I have sought to carry the process of simplification a step further by proposing a number of changes and reliefs. I shall now explain my proposals in detail.

34. Starting with indirect taxes, I propose to leave customs duties alone as they were rationalised and raised only a few months ago. I, however, propose to increase the excise duties on a few commodities, not simply for raising revenue but also for restraining consumption where this can be done without too much hardship and increasing exportable surpluses. Two commodities, namely, optical bleaching agents and synthetic detergents will be subject to duty for the first time.

35. The excise duty on crystal sugar will be raised from Rs.28.65 to Rs.37 per quintal. Correspondingly, the duty on khandsari will also be raised. Taken together, these will bring in additional revenue of Rs.21.93 crores. Assuming the duty is passed on fully to the consumer, the incidence will be only 8 to 9 paise per kilogramme of crystal sugar. As supply is expected to be adequate to meet demand, there is some prospect that the whole of the duty may not be passed on to the consumer.

36. The duty on cigars and cigarettes, as well as on unmanufactured tobacco for use in the manufacture of cigarettes and pipe mixtures, will also be raised by about 25 to 30 per cent. These increases are expected to yield additional revenue of Rs.9.01 crores. The incidence of this increase will be about 5 paise per packet of expensive cigarettes and 1 to 2 paise per packet for the relatively cheaper ones.

37. The excise duty on diesel oil not otherwise specified, that is, light diesel, is proposed to be raised by Rs.60 per kilo litre in order to bring it in line with duties on other petroleum products, so as to avoid undesirable mixtures. The additional revenue expected is Rs.5.35 crores.

38. In order to restrain consumption of finer qualities of cloth which require imported cotton, I propose to increase duties on cotton yarn and cotton fabrics selectively. There will be no increase in the case of coarser counts of yarn. In the case of fabrics, the increase will be only in respect of processed products such as mercerised shrink-proof and organdie processed varieties. The additional revenue from increases in the duty on yarn is expected to be Rs.7.23 crores and on fabrics Rs.6.3 crores. Correspondingly, the duties on rayon and synthetic yarns are also being slightly raised and the revenue yield will be Rs.50 lakhs.

39. The excise duties on a few other items, namely, sodium silicate and carbon dioxide are also being raised and the slab concessions on paper boards are being reduced. The additional revenue expected from these three Items is Rs.1.46 crores. The new duties on optical bleaching agents and synthetic detergents are expected to bring in Rs.58 lakhs. In order to give some relief to small establishments which manufacture motor vehicle trailers, the ad valorem duty of 5 per cent on such trailers as are manufactured in establishments employing not more than five workers will be abolished. Altogether, the additional yield from the changes in excise duties proposed together with corresponding increase in countervailing duties, will be Rs.52.86 crores of which the States' share will be Rs.10.07 crores. The Central resources, therefore, will be augmented by Rs.42.79 crores.

40. I shall now turn to direct taxes. In the field of personal taxation, I propose to increase the existing limits of total incomes not chargeable to tax by Rs.500. Similarly, I propose to raise by Rs.500 the existing personal allowances on which tax relief is given to resident individuals and Hindu undivided families. Thus, the exemption limit in the case of individuals will be raised from Rs.3,000 to Rs.3,500 the personal allowance of an unmarried individual, from Rs.2,000 to Rs.2,500 and the personal allowance of a married individual with more than one dependent child, from Rs.4,300 to Rs.4,800. The effect of these will be a reduction in revenue by Rs.3.5 crores. The principal reason is to provide a measure of relief to a class of tax payers who merit their burden being lightened. But these measures will also accelerate the performance of the task of the tax authorities by eliminating a large number of small assessments and thereby enabling them to devote more and swift attention to tax collections from higher incomes.

41. For similar reasons, I also propose to raise the exemption limit for annuity deposits from Rs.15,000 to Rs.25,000. By this measure, the number of people required to make annuity deposits will be reduced sizeably from 1,76,000 to 80,000, while the reduction in receipts will only be of the order of Rs.7 crores, after taking into account the corresponding gain to income-tax of Rs.2.42 crores. I have, however, provided that even those in the income range of Rs.15,000 to Rs.25,000 who desire to make annuity deposits, will be enabled to do so and obtain the consequent tax relief on the amounts so deposited. Another small change which I propose to make is to provide that persons on attaining the age of 70 will hereafter be allowed to opt out of the Annuity Deposit Scheme, irrespective of whether they were liable to make annuity deposits before or not.

42. Having given these reliefs, I propose to levy a flat special surcharge of 10 per cent of the amount of income-tax and surcharge in respect of earned income and unearned income, payable by all non-corporate assessees. The additional revenue from the special surcharge will be Rs.25.6 crores.

43. In regard to other personal taxes, I propose to abolish the expenditure tax. I do so for administrative reasons. The yield from this tax is very little, namely, Rs.60

lakhs or thereabouts which has not been commensurate with the burden it puts on the administration and the inconvenience it causes to the assesseees. I recognise that on purely economic grounds, it would be a very sound principle to replace the income-tax increasingly by a tax on expenditure, so that the maximum incentive is provided for savings. Given the substantial contribution made by income-tax to our revenues and the administrative difficulties and inconvenience to assesseees involved in the assessment of expenditure, it is, however, not possible to attempt this substitution on any significant scale at the present stage.

44. I also propose to revise the rates of gift tax in order to bring them more closely in line with the rates of estate duty. In the process, the rates applicable to different slabs of value of gifts are also being reduced. Thus, the exemption limit is being raised from Rs.5,000 to Rs.10,000, the 'rate on the slab from Rs.10,000 to Rs.25,000 is being reduced from 8 per cent to 5 per cent and the rates on subsequent slabs, up to Rs.15,00,000, by varying percentages. The present maximum marginal rate of 50 per cent will, however, remain unchanged, but it will operate on the slab beyond Rs.15 lakhs. I also propose to delete the provision for the aggregation of the value of gifts to the same donee over a number of years. This provision was designed to prevent avoidance of estate duty as well as gift tax at higher rates. But it is a measure whose practical utility is not established, specially if the time and trouble it involves on the part of both the administration and the assesseees are taken into account. But to some extent to balance this measure, I propose to provide, by amendment of the Estate Duty Act, that gifts made within two years of death will be treated as part of the estate. At present the relevant period is one year. I have also taken this opportunity to raise the rates of estate duty on certain intermediate slabs, namely, Rs.1 lakh to Rs.2 lakhs, from 8 per cent to 10 per cent, Rs.31 lakhs to Rs.5 lakhs, from 15 per cent to 25 per cent and from Rs.5 lakhs to Rs.10 lakhs, from 25 per cent to 30 per cent. The loss in revenue as a result of changes in the gift tax will be Rs.1.71 crores, whereas the additional revenue from the changes in the estate duty, which will go to the States, will be approximately Rs.70 lakhs.

45. I propose to make another change in respect of estate duty. Honourable Members will recall that my predecessor had assured this House that the estates of members of police forces killed in action in defending the borders of the country would be exempted from estate duty in the same manner as members of the armed forces. I have made a provision for this. I feel this is a recognition, though small, of the courage and determination of members of this force in defending our country.

46. Finally, I would like to refer to one change in regard to personal taxation which will also serve as a transition to my proposals in regard to corporate taxation. Honourable Members are aware that at present when an equity shareholder is allotted a bonus share, he is liable to pay income-tax on the notional capital gain accruing to him. I propose to discontinue this provision and to provide that liability for tax will arise only when the capital gain is actually realised. The loss to revenue from this measure will be only Rs.7 lakhs.

47. I shall now turn to corporate taxation. Here again, as in the case of personal taxation, I propose to provide certain reliefs which I consider necessary for providing a suitable climate for growth. At the same time, I propose to increase the general rates of tax on corporate incomes by approximately 10 per cent. I shall now explain these proposals in some detail.

48. The existing tax of 12.5 per cent, levied on domestic companies with reference to the amount of their bonus issues will be discontinued. The loss to revenue will be only Rs.9 lakhs.

49. At present, the dividend tax of 7.5 per cent on companies to which it is applicable is, ordinarily, leviable on the whole of the dividends declared or distributed during the previous year. I propose now to provide that this tax will be leviable only on that part of the equity dividend declared or distributed which is in excess of 10 per cent of the paid-up equity capital. The loss to revenue on this account is estimated at Rs.4.8 crores.

50. I also propose to reduce the rate of surtax provided under the Companies (Profits) Surtax Act, 1964, from the existing level of 40 per cent to 35 per cent. The loss to revenue on this account is estimated at Rs.2.5 crores.

51. As already mentioned, I propose, simultaneously, to raise the effective rates of the basic corporate tax on companies. Thus, the rate of tax on profits from life insurance business will be raised from 47.5 per cent to 52.5 per cent. In the case of domestic companies in which the public are substantially interested with a total income not exceeding Rs.25,000, the rate of tax is being raised from 42.5 per cent to 45 per cent, and the rate of tax on such companies with higher incomes, from 50 per cent to 55 per cent. In the case of closely-held domestic companies also the existing general rate is being increased from 60 per cent to 65 per cent, and the concessions rate applicable to industrial companies on the first rupees ten lakhs of their income from 50 per cent to 55 per cent. In the case of foreign companies, royalty and technical service fees under certain approved agreements will bear the, same effective rate of 50 per cent as at present, but their other income will be taxed at 70 per cent, as against 65 per cent at present. Similarly, some fiscal encouragement needs to be given to our industries to encourage them to provide technical "knowhow" and technical services to newly developing countries. I propose, therefore, to provide for a concessional rate of tax on dividends received by an Indian company from a foreign company on shares allotted to the Indian company in consideration for supplying technical "know-how" or rendering technical services. This concessional rate will be 25 per cent. A similar concessional rate of tax of 25 per cent will also be charged on royalties, commissions, fees, etc., received by an Indian company from a foreign company for supply of technical "know-how" and technical services. The net gain to revenues as a result of the changes in the basic rates of corporate taxation is estimated at Rs.43.46 crores, after allowing for the consequent reduction of Rs.5.6 crores under surtax.

52. Honourable Members are aware that at present we have separate schedules of priority industries, one for qualifying for development rebate at the higher rate of 35 per cent and the other for a concessional treatment in respect of the basic corporate tax. I propose to extend the list of priority industries for the purposes of the development rebate by inclusion of three more industries, namely, of the manufacture of tea, newsprint and printing machinery. The same schedule will also apply for purposes of concessional treatment in the rate of tax. As a measure of simplification, however, I propose to modify the form of the concession. At present a special rebate on income-tax and surtax is granted to companies on their income from priority industries. I propose to replace this by a straight deduction of 8 per cent of the profits from priority industries in computing the total taxable income of the companies concerned. This direct manner of giving a rebate should greatly simplify the computation of the tax liability.

53. At present, 75 per cent of development rebate actually allowed is required to be put into a reserve. In the case of the shipping industry, I propose to reduce this requirement to 50 per cent, in order to provide an incentive for fresh investment in this industry where levels of profitability are relatively low.

54. In order to provide a further incentive for the extension and renovation of our tea plantations, I propose to liberalise the existing provisions in the law in regard to the grant of development allowance. Firstly, the rate of development allowance for new planting will be increased from the existing quantum of 40 per cent, of the actual cost of planting to 50 per cent thereof and, for replanting, from 20 per cent to 30 per cent. Secondly, I propose that the allowance may be granted in two stages, first, for the year following the year in which the land is prepared for planting or replanting, with reference to the expenditure incurred up to that year, and, as to the balance, for the fourth year. This will replace the existing provision under which the whole of the allowance is granted only for the fourth year.

55. The rate schedule of depreciation allowable in respect of buildings, furniture, plant, machinery, etc., has become highly complicated. It is necessary to review the position in the light of recent developments and to make appropriate changes so that the schedule may be both rational and simple. I propose, therefore, to initiate a complete review during the next few months. The recommendations of the Working Group on Plantations Labour Housing will also be taken into account during this review. Meanwhile, I propose to provide that the cost of small items of plant and machinery costing not more than Rs.750 per unit may be allowed to be depreciated in full in one year. I also propose to allow initial depreciation of 20 per cent on the cost of new buildings erected by employers and occupied or used by employees drawing remuneration upto Rs.7,500 per annum. At present, this is allowed only in the case of buildings occupied or used by those drawing remuneration upto Rs.200 per month.

56. At present when development rebate is allowed, the plant and machinery concerned is required to be retained in the possession of the assessee for a period of 8 years; otherwise, the rebate already allowed is liable to be withdrawn. When such

plant, however, is transferred in the course of amalgamation, including merger of a subsidiary company with the parent company, the development rebate is not withdrawn. This is, however, subject to the qualification that the merged subsidiary company is an Indian company. I do not see any reason for the exclusion of a foreign subsidiary as it comes in the way of merger of such companies with their parent companies. I, therefore, propose to withdraw this disqualification.

57. At present, approved financial corporations which are engaged in providing long term finance for industrial development in India are entitled to deduct, in the computation of their profits, an amount up to 10 per cent of their total income carried to a special reserve account. In order to enable relatively small financial corporations to build up their financial resources at an accelerated pace, I propose to increase this deduction from 10 per cent to 25 per cent of the total income, in cases where the paid-up capital of the corporation does not exceed Rs.3 crores. This will benefit mainly those financial corporations which are engaged in fostering industrial development on a regional basis.

58. I propose to make a number of changes relating to closely-held companies. Firstly, in determining whether a company is to be regarded as closely-held, I propose that for such of them as are mainly engaged in certain manufacturing activities or in ship-building, the test of the public being substantially interested should be regarded as satisfied if 40 per cent of the equity is held by the Government, public corporations or members of the public, etc., instead of 50 per cent, as at present. Secondly, companies, which are mainly engaged in ship building will not be compelled to distribute their profits upto the statutory percentage. Companies which are only partly engaged in manufacturing activities will also not be required to make a compulsory distribution of their profits relating to such activities. Finally, certain types of expenditure incurred by a closely-held company for earning its income are at present not allowed for purposes of determining the tax liability. I see, however, no reason why such expenditure should not be allowed as a deduction in computing the distributable income of such a company. I propose to provide for this.

59. Honourable Members are aware that certain fiscal concessions have already been announced in respect of the National Defence Remittance Scheme. Thus, capital gains arising on the sale of bank certificates obtained under the Scheme would be liable to tax at the concessional rate of tax applicable to long-term capital gains, even though such certificates may have been transferred by the holder within a period of 12 months from the date of receiving the certificates. Non-residents who make a gift of foreign exchange to a resident in India by making a remittance under the Scheme would also be exempt from the gift tax. I have made provisions for these concessions in the relevant Acts.

60. With a view to encouraging small savings, the requirement of deduction of tax at source will be waived, subject to certain conditions, in the case of small investments in Government securities. Similarly, the interest on the new series of

National Savings Certificates to be issued through the State Bank will bear the same concessional treatment as the existing series of National Savings Certificates. In the case of income from units of the Unit Trust of India, income upto Rs.1,000 will be excluded from total income for purposes of tax assessment in the case of all assesseees irrespective of the amount of their other income. This should make for simplification as well as greater incentive for investment in the Unit Trust.

61. Finally, I would like to mention some other changes that I have proposed essentially in the interest of simplification or better administration. I propose that the total income of assesseees should be rounded to the nearest multiple of ten rupees and that the amount of tax, penalty, refund, etc., should be rounded to the nearest multiple of one rupee. As a measure of curb on ostentatious consumption, I propose that for the calculation of depreciation on motor cars acquired for the purposes of a business or profession, purchase price above Rs.25,000 will be ignored. Those who are responsible under the law for deducting tax at source will be charged, in case of default in fulfilling these obligations, simple interest at the rate of 6 per cent per annum for the period of the default. Another amendment relates to exemption of the income of charitable trusts and institutions from income-tax. It is being provided that a charitable trust or institution will forfeit the right to exemption if any part of its income or property is used or applied directly or indirectly for the benefit of those who might be closely associated with the trust or foundation as authors, substantial contributors or their relatives.

62. Before I sum up the effect of the tax proposals which I have explained so far, I would like to make two proposals designed to raise resources for the benefit of the States. The first is to increase from 2 per cent to 3 per cent the rate of Central Sales Tax leviable on inter-State sales. This will come into effect from 1st July, 1966. This increase will yield an additional revenue of Rs.19 crores to the States in a full year and Rs.9.5 crores in the year 1966-67. Since the new rates will become effective from 1st July, 1966 and since collections are carried over from one quarter to the other, the additional yield during the next financial year will accrue only during two quarters of the year. Similarly, collections in the Union Territories which form part of the Consolidated Fund of India will increase by Rs.1 crore in a full year and Rs.50 lakhs in 1966-67.

63. The second proposal is to raise from 2 per cent to 3 per cent the ceiling prescribed in respect of sales tax on goods declared to be of special Importance in inter-State trade or commerce. This is a permissive amendment and would enable the States to raise the rates of local sales tax on coal, cotton, cotton yarn, hides and skins, Iron and steel, jute, and oil seeds within the ceiling of 3 per cent if they so desire. If all the States raise their local sales tax rate to the permissible ceiling of 3 per cent from the prescribed date of 1st July 1966, it would give them an additional revenue of Rs.7.5 crores in the next financial year. During a full year, however, the additional revenue would be Rs.15 crores.

64. I shall now sum up the effect of my proposals. The additional yield resulting from the changes in the excise duties proposed will be Rs.52.86 crores of which the share of the States will be Rs.10.07 crores. The gain to the Central budget will, therefore, be Rs.42.79 crores. The net effect of the changes in regard to personal taxation would be again to revenue of Rs.22.14 crores. The additional yield from corporate taxation, after taking into account the concessions in regard to the dividend tax and surtax and the elimination of the tax on bonus issues, will be a gain to revenue of Rs.36.07 crores. The changes in the inter-State sales tax which I have referred to will bring in an additional revenue of Rs.50 lakhs to the Centre. The total revenue effect of my tax proposals is an addition of Rs.101.51 crores. On the capital account, there will be a reduction in the yield of annuity deposits of Rs.9.39 crores. The total additional resources thus available for reducing the deficit of Rs.117 crores will, therefore, be Rs.92 crores, leaving an overall gap of Rs.25 crores.

65. Honourable Members will note, however, that the changes I have proposed will also augment the resources of the States to a significant extent. Apart from their share of Rs.10.07 crores in union excise and additional yield of Rs.69 lakhs in respect of estate duty, they will get Rs.34 crores in a full year from the two changes that I have proposed in respect of the sales tax.

66. In conclusion, may I say that I am keenly aware that by the compulsion of circumstances I have had to propose additional resource mobilisation on a considerable scale. The underlying budgetary position with which we end the current financial year is itself not very satisfactory. This alone has required maximum restraint on both Plan and non-Plan expenditure. At the same time, there are minimum claims of defence, development and drought relief which we cannot disregard without peril. In distributing the additional burdens, however, I have endeavoured to make the spread equitable among the different sections of the community and to put the strain where it can best be borne. I have also incorporated a number of reliefs and changes which are designed considerably to simplify the tax structure and which, I hope, will provide a better climate for orderly growth. Honourable Members would also appreciate, that, in presenting my budget proposals, I have kept clearly in view the need to make the economy stable. To this end, I would have liked to avoid deficit financing altogether and to budget for some surplus. If I have left a deficit of Rs.25 crores, it is only because of my firm belief that a greater degree of resource mobilisation would be self defeating as it would come in the way of the buoyancy of production and revival of confidence which are so urgently required. I cannot conclude my presentation of the Budget without sharing with you, Sir, and the Honourable House a sentiment of optimism in this that we are together and determined to change our fiscal climate for the better. In whatever walk of life, in field or farm, factory or workshop, in offices or Parliament, Sir, I earnestly invite every citizen of our country to share with us in this House the task of building a more prosperous and happier India, truly free from fear and from want.

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