

**SPEECH OF SHRI RAJIV GANDHI PRIME MINISTER AND MINISTER
OF FINANCE INTRODUCING THE BUDGET FOR THE YEAR 1987-88**

PART A

Sir,

I rise to present the Budget for the year 1987-88.

2. Twenty nine years ago, presenting the country's budget, Jawaharlal Nehru told this House:

“The times we live in and the problems that our country has to face do not permit a static or complacent approach or any avoidance of the burdens which inevitably accompany an attempt to advance with some speed..... We have to strive with all our strength for our planned development by conserving all our resources, increasing production and trying to ensure progressively a more equitable distribution, and thus to raise the standards of the great mass of our people.”

These are our objectives today.

3. When we came into office, we were fortunate in inheriting from Indiraji an economy that was sound. After the devastation of 1979-80, the inflation rate was brought down sharply. The growth rate was stepped up, and the infrastructure restored to health. We have built on these successes and initiated a process of reform in areas requiring urgent attention. This, I believe, we have been able to accomplish in large measure.

4. Our principal objectives are the elimination of poverty and the building of a strong, modern, self-reliant, independent economy. In these two years we have sharpened the focus on poverty alleviation. Direct outlays on anti-poverty programmes were substantially increased in the last Budget. The 20-Point Programme (1986) was announced in August. Taking advantage of high stocks of food, rural employment programmes were expanded. Two million tonnes of cereals were made available in tribal areas at highly subsidised rates. We launched an important scheme to enlarge employment opportunities for the urban poor. I have extensively toured and seen the work being done in the most backward and remote villages of our country. Talking to the people face to face, I know how much more needs to be done. I am also convinced that we are making progress in our struggle against poverty.

5. Agriculture is the bedrock of our economy. Growth in this sector is also crucial for the removal of poverty. Our farmers, farm technologists and scientists have

turned India from a net-importer of foodgrains living at the margin of survival to self-sufficiency. We are proud of them. We congratulate them.

6. We have reinforced the policies that have proved so successful. We are committed to providing remunerative prices, and increased availability of water, power, seeds, fertilizers and credit to our farmers. Foodgrain production will exceed 150 million tonnes despite a poor monsoon. We have increased incentives to our farmers to reduce our dependence on imports of sugar and edible oils. They have responded magnificently.

7. I am, however, concerned about the situation of agricultural labour. They are subject to exploitation. Government will appoint a National Commission on Rural Labour. It will look into the working conditions of this vulnerable section of our society and the implementation of social legislation for their protection .

8. Industry is forging ahead. Major initiatives for modernising industry and stimulating industrial investment were taken in the Sixth Plan. Our strategy in the Seventh Plan is to build on these initiatives to strengthen industrial performance. We are encouraging economies of scale in production, induction of modern technology and greater competition to increase production, reduce costs and improve quality. We have enhanced the incentives for small scale units. There is clear evidence now that these policies are having the expected impact on the economy.

9. Our industrial base has widened. New industries have developed . The small scale sector has expanded rapidly. A large number of new jobs has been created. In the three years beginning 1984-85, the growth rate in industry is expected to exceed 8 per cent per annum on average - this has not happened in the last twenty years.

10. We have given high priority to the important task of tax reform. Our tax laws and rules had become complex. There was widespread evasion. Reform was vital. Our reform of the fiscal system, undertaken in the past two years, has been thoroughgoing. We have made tax rates and the tax structure reasonable. We have simplified laws and procedures. We have enforced these laws vigorously without fear or favour. This has helped the honest tax payer, and yielded more revenue than ever.

11. The public sector is the core of our industrial economy. I am also convinced that our public sector enterprises can be made as efficient as any in the world. I am glad to say that the infrastructure industries in the public sector are showing distinctly better performance. There has been a significant improvement in productivity in coal, power and railways. The improvement in thermal power generation is particularly striking. The plant load factor in the current year is the highest since 1976-77. The improvement in the functioning of infrastructure has been brought about by a change in the management culture, and better performance on the shop floor.

12. Government will further improve the working of public sector enterprises. We will enhance their autonomy, and make them accountable for results. Government will bring before Parliament a White Paper on the public sector.

13. As a nation, we have good reason to be satisfied with our economic performance. During a period when growth rates in many developing countries have declined sharply, we have been able to accelerate growth and increase per capita incomes. We have avoided debt problems, and have kept inflation under control. Our food stocks and foreign exchange reserves are comfortable. These are important strengths. But we cannot afford to be complacent. The world environment, both political and economic, continues to be unfavourable. There are also important domestic problems that demand our attention.

14. The rapid growth in Government expenditure is exerting mounting pressures on our fiscal balance. In the recent period, we have been compelled to increase defence expenditure. We shall spare no effort nor shrink from any sacrifice where our national security is concerned. At the same time, there are pressing requirements for development. Any slackness in critical investments now will cost us heavily in the future. It is a social imperative to spend on programmes which directly benefit the poor and to provide food subsidy. We have had additional commitments arising out of implementation of the Pay Commission's Report. Higher relief and grants had to be provided to several States severely affected by drought and flood.

15. Even so, some hard choices have to be made to keep our expenditure within our means. Government is determined to make them. The situation requires a thoroughgoing review of our expenditure policy. Mere scratching the surface will not help. Ad hoc and across the board cuts of the past, while providing temporary relief, have not yielded enduring results. There is no room for waste, ostentation or unproductive expenditure. We have to pull together and work harder than ever before to realise national goals.

16. We have a good record in price management. However, it will be a mistake to take too complacent a view of the price situation. The demand and supply balance in a developing economy is always delicate. Any external or internal disturbance can create difficulties. It is essential, therefore, to keep a careful watch on the price situation.

17. The balance of payments has been under pressure. We had anticipated this and initiated a range of measures to curb the growth of imports and increase exports. These have yielded results. Exports increased by 17 per cent while imports increased by only about 2 per cent in the first nine months of the current year. The trade deficit is lower than last year by Rs. 1,000 crores. But there is much more to be done. Part of the improvement is due to the fall in oil prices and we cannot count on this. Government will remain fully vigilant on the external front.

18. The results of policies initiated in the last two years show that our direction is correct. I propose to use this year's Budget to provide a new thrust in selected areas which will strengthen the economy and further our Seventh Plan objectives. First among these is education.

19. The New Education Policy has been adopted by Parliament after extensive discussions. It has been evolved from a national consensus. It is a powerful weapon to fight poverty. It gives to the socially and economically weaker sections the means to realise equality of opportunity guaranteed by our Constitution. It will help us preserve our heritage and release the creative energy of our youth. It will bind together people speaking different languages, professing different faiths and belonging to diverse cultural traditions that are part of the composite culture of India. It aims at excellence in all fields - science, technology, the arts, humanities and philosophic thought.

20. To give a good start to the new Policy, I have allocated as much as Rs.800 crores for education as compared with Rs.352 crores in 1986-87. This massive increase is a measure of our resolve to bring about an educational transformation in our country.

21. State Governments have the primary responsibility for education. These resources will supplement the efforts of State Governments.

22. The momentum of anti-poverty programmes will be maintained. In 1985-86, one million tonnes of foodgrains was provided to States as grant for extending the coverage of the National Rural Employment Programme (NREP) and the Rural Landless Employment Guarantee Programme (RLEGP), resulting in the creation of 62 million mandays of additional employment. In 1986-87, the additional allocation was increased to two million tonnes, leading to additional employment of 128 million mandays. I propose to continue the Programme of allocating additional foodgrains for employment.

23. The Integrated Rural Development Programme will be strengthened further. This year, more than 3.2 million families are likely to benefit. In the coming year, an outlay of Rs.310 crores is being provided. Combined with matching allocations of States and credits from the banking sector, the total flow of funds under this Programme will be 4 to 5 times greater than this allocation. Total Plan outlay for the Department of Rural Development will exceed Rs.2,000 crores in 1987-88. This compares with the total Sixth Plan expenditure of about Rs. 3,600 crores.

24. Housing is high on our list of priorities. It is a basic need. It also generates employment. We propose to launch a comprehensive programme for housing development, particularly housing for economically weaker sections.

25. The Central Government has again earmarked Rs.125 crores in 1987-88 for the Indira Awaas Yojana. Under this scheme, one million houses will be built during the Seventh Plan period for the Scheduled Castes and the Scheduled Tribes. We have decided that State Governments would be free to use the amounts allocated to them under this Programme as seed capital for launching Indira Awaas Yojana Societies for housing loans for the Scheduled Castes and the Scheduled Tribes.

26. A new financial structure will be created to provide funds for housing. At the apex level, a new national housing bank will be set up by the Reserve Bank of

India with an equity capital of Rs.100 crores. This bank will promote housing institutions at both local and regional levels. The Reserve Bank will be announcing the details separately.

27. The National Commission on Urbanisation, in its Interim Report, has suggested several changes in the laws affecting housing, including the Urban Land (Ceiling and Regulation) Act, 1976. This important social legislation aimed at using surplus lands in urban areas for the common good. However, the results achieved have been disappointing. Although 10 years have passed, less than one half of one per cent of the land declared surplus has actually been used for construction. Meanwhile, scarcity of land has pushed up rents and speculative profits in urban areas. The worst sufferers have been the poor. This is not acceptable. I have asked the Ministry of Urban Development to work out suitable legislative proposals taking into account the recommendations of the Commission, and place these before the House for consideration.

28. The Commission has also recommended certain changes in the Rent Control Acts which would give protection to the economically weaker sections, while also providing sufficient incentive for new constructions. These changes should, over time, bring down rents by improving the availability of housing. The report of the Commission will be commended to State Governments.

29. Later, in my speech, I shall be announcing certain incentives for income tax payers in respect of housing loans taken from specified institutions.

30. In the last two years, Government has taken a number of measures for workers' welfare. These include legislative changes to protect workers' dues, introduction of a new stock option scheme for workers, increase in eligibility limit for bonus payments, increase in the rate of DA for public sector employees, tax concession for investment in workers' housing, increase in the interest rate on workers' Provident Funds and removal of ceiling of house-rent allowance for exemption from income-tax. As a further step, I propose to make certain legislative changes in the Income-tax Act to protect the dues of workers by way of Provident Fund, ESI and gratuity.

31. We have achieved remarkable success in mobilising small savings. An expert group, appointed by Government last year, has pointed out certain problems with the present scheme of tax incentives on personal savings. An important lacuna is that fiscal concessions are currently available for gross savings, with no penalty for dissaving. It has, therefore, recommended shifting to a system which gives incentives for net savings.

32. I propose to introduce a new savings scheme based on the net saving principle. To avoid any transitional problems, this scheme will be, for the present, in addition to the existing tax concessions available under Section 80C of the Income-tax Act for National Savings Certificates and other instruments. Under the new scheme,

50 per cent of deposits upto a maximum of Rs.20,000 will be eligible for deduction. However, in the year of withdrawal, 50 per cent of the amount withdrawn will be added to the taxable income. Receipts under the scheme will be shareable with States. The full details of the new savings scheme, which will be introduced in the next financial year, are being announced separately.

33. The capital markets in India have shown tremendous growth in the last few years. Approvals for capital issues have exceeded Rs.5,000 crores in 1986-87. They were only about Rs.500 crores in 1980-81. For a healthy growth of capital markets, investors' rights must be fully protected. Trading malpractices must be prevented. Government have decided to set up a separate Board for the regulation and orderly functioning of Stock Exchanges and the securities industry.

34. Last year, the UTI had set up a Mutual Fund for investment in equity to attract small investors. In order to widen their choice, the State Bank of India will set up a similar Mutual Fund. I shall also be announcing certain measures later which should contribute to the development of capital markets.

35. I have referred to the acceleration in industrial growth. Government's main thrust is to modernise India's industrial structure. Efficiency and productivity have to be increased. Existing technology has to be upgraded. New technology has to be absorbed and further developed indigenously. Costs must be reduced. All these objectives can only be realised in a medium term time frame.

36. Government have been carrying out an intensive review of individual industries. New policy measures have been announced in respect of several important industries, such as, textiles, jute, sugar, drugs, electronics and software. We have also set up the Textile Modernisation Fund and the Jute Modernisation Fund. These will facilitate modernisation of these traditional industries which provide substantial employment. Another special development fund is being set up for jute. This will benefit growers and workers and promote diversification and research and development.

37. Government will continue to undertake systematic reviews of the total policy framework for selected industries, and take necessary steps to stimulate growth and modernisation.

38. The capital goods industry is central to our efforts for achieving self reliance. It needs immediate attention. I propose to introduce a package of measures to further accelerate the growth of this industry. First, import duty rates for machinery, including general project imports, are being adjusted. Second, in order to reduce costs of domestic manufacture in certain critical sectors, such as, power, heavy equipment and textile machinery, cost of certain special types of imported steel is being reduced. I will have more to say on these proposals later.

39. Third, a special programme of technological upgradation for selected capital goods industries will be launched by financial institutions for the three year

period upto the end of this Plan. This will cover in the first instance electrical machinery, including power equipment and electric motors, foundries and machine tools. The objective of this programme will be to induct the latest technology in these sectors, improve indigenous R & D facilities for constant upgradation, and reduce costs. The details will be announced separately by the Industrial Development Bank of India.

40. Industries linked to agriculture have a special role in our development. They provide markets for agricultural produce and generate higher incomes for our farmers. I have already referred to the measures taken for modernisation of two of the most important agro-based industries, namely, jute and textiles. Last year's budget had provided important tax incentives for use of certain indigenous oils in vanaspati. I shall be announcing certain proposals to encourage the food processing industries. This will benefit the farmer and the consumers. There are other proposals to benefit cotton and wool.

41. In the past year, Government have taken a number of measures to support export industries. New schemes of cash compensatory support and customs duty drawback have been introduced. Import duties on capital equipment for selected export industries have been reduced. Interest rates have been lowered. Specified raw materials are being provided at international prices. Fiscal incentives have also been extended. Exports are now doing better. In this Budget, I shall be proposing some further measures for increasing export production.

42. Mr. Speaker, Sir, these and other budget proposals will strengthen the productive forces in our society. The fundamental assumption of the Seventh Plan, as indeed of all our Five Year Plans, is that growth and development are the real antidotes to poverty. Direct measures for alleviation of poverty are indispensable in our society. However, such measures can be sustained only by rapid development. This was the message that Jawaharlal Nehru gave to the country while introducing the Second Five Year Plan in this House :

“We have, therefore, to lay great stress on equality, on the removal of disparities, and it has to be remembered always that socialism is not the spreading out of poverty. The essential thing is that there must be wealth and production....”

43. We can grow faster only if we use modern technology. This is the only way to deal effectively with the problems of unemployment and poverty. Those wise men who decry the use of modern technology in the name of social justice would do well to listen to Panditji, who in the course of the same speech, said,

“Do not imagine that minus technological progress we are going to deal with the problem of unemployment... If India is to advance, India must advance in science and technology, and India must use the latest techniques,

always keeping in view, no doubt, that in doing so, the intervening period, which always occurs, must not cause unhappiness or misery. “

44. This then is our basic strategy - a framework of sustained growth on the basis of rapid modernisation of India's agriculture and industry. I am committed to planning for socialism in India, socialism which fits in with our genius but nevertheless socialism in its basic meaning of removing disparities and providing equality of opportunity. This is the yardstick by which I want to judge all policies and programmes.

45. Let me now turn to the Revised Estimates for 1986-87 and Budget Estimates for 1987-88.

REVISED ESTIMATES 1986-87

46. Budget Estimates 1986-87 provided for a total expenditure of Rs.52,883 crores. The expenditure in the current year is likely to exceed the original estimate by Rs.7,445 crores owing to a number of post-budget developments.

47. I do not propose to take the time of the House by going into details as they have been explained in the Budget documents. I shall only refer to certain major items.

48. Non Plan expenditure is expected to be higher by Rs.5,508 crores including expenditure arising from the recommendations of the Fourth Pay Commission. To reduce the cost of carrying the buffer stock, the Food Corporation of India is being provided loans of Rs.1,200 crores on soft terms. This will replace equivalent bank financing. For reasons well known to the House, we have increased defence expenditure by Rs.1,466 crores. Interest payments will be higher by Rs.800 crores.

49. Plan expenditure is likely to be Rs.1,937 crores higher than the original estimates. Budgetary support for the Central Plan is expected to increase from Rs.13,617 crores to Rs.14,792 crores. The increase of Rs.1,175 crores is mainly in Telecommunications, Railways, Petroleum, Mines, Textiles and Atomic Energy sectors. Central assistance for State and Union Territory Plans will be Rs.762 crores more mainly because of additional Rs.510 crores of advance Plan assistance to States affected by natural calamities. Taking Plan and Non-Plan together, natural calamities assistance to States will be Rs.640 crores higher than the Budget Estimate of Rs.150 crores.

50. Coming to receipts, net tax revenue is likely to increase by Rs.1,564 crores compared with the Budget Estimate of Rs.22,643 crores. This is a large increase, made possible by vigorous implementation of our tax laws. Non tax revenue and capital receipts including the contributions from the oil sector are estimated at Rs.27,836 crores against the Budget Estimate of Rs.26,537 crores. The total receipts are placed at Rs.52,043 crores and the total expenditure at Rs.60,328 crores. Inclusive of Rs.1,200 crores on account of replacement of bank credit for buffer stock by Government loans, the current year is expected to end with a Budgetary Deficit of Rs.8,285 crores.

51. The deficit is high and I do not like it. I have decided that the deficit in the Budget Estimates for 1987-88 shall not be exceeded. Some supplementary demands are unavoidable; I am instructing the Ministries and other Central Government organisations to ensure that additional demands are offset by equivalent savings or through measures to raise more resources. We will review the financial performance of public sector units to ensure that targets for internal resource generation are met. I am constituting a Cabinet Committee on Expenditure to monitor the implementation of these measures.

52. The overall economic situation is good. Our foodstocks and foreign exchange reserves are quite satisfactory. We have been able to keep the overall price situation under control through judicious demand and supply management. Along with expenditure control, we will continue to take anticipatory action to reduce excess liquidity and increase supply of sensitive commodities, particularly foodgrains, sugar and edible oils.

53. Following the report of the Committee on the working of the monetary system, in consultation with the Reserve Bank of India, it has been decided that henceforth the Budget documents should show the budgetary deficit as well as the net change in the Reserve Bank of India credit to Central Government. The latter presents a more accurate measure of the monetary impact of the Government's fiscal operations. According to the present information, it is estimated that the change in the net Reserve Bank of India credit to Central Government in 1986-87 will be Rs.7,250 crores, which is lower than the budgetary deficit.

BUDGET ESTIMATES 1987-88

54. For 1987-88, in the present situation, I have given the highest priority to maintaining the tempo of the Plan. I have provided an outlay of Rs. 24,622 crores for the Central Plan of 1987-88, of which Rs.14,923 crores will be provided as budgetary support. With this order of outlay, in the first three years of the Plan, we would have fulfilled about 63 per cent of the Seventh Plan outlay. This is a record.

55. However, we now have to make greater efforts to achieve more for every rupee of investment that we make. Achievement of physical targets is far more important than just spending the money. Government must be more cost effective. The cost of delivery of our programmes must be reduced.

56. The Government has, therefore, given a high priority to implementation of projects in time, avoidance of time and cost over-runs in projects, and the use of innovative methods and new technologies. A monitoring system has been set up for projects under implementation.

57. Revised accounting classification to bring about one to one correspondence between heads of accounts and heads of development used for Plan purposes is being introduced from 1.4.1987 in consultation with the Comptroller and Auditor General of

India. This will strengthen the planning process and help better monitoring. Equally important is obtaining timely feed-back from grass root levels regarding implementation of programmes and flow of benefits therefrom.

58. In the Central Plan, a high priority has been given to programmes which have an impact on alleviation of poverty in the rural areas. As I mentioned earlier, particular emphasis has been given to education, the NREP, the IRDP, the RLEGP, rural water supply, and the use of food stocks for creation of additional employment opportunities in the rural areas.

59. Agricultural development has a major impact in alleviating poverty. In the Central Plan, the accent in the agricultural sector continues to be on increasing productivity by increasing the area under high yielding and improved varieties, accelerated transfer of new technology, increasing crop intensity, diversifying the cropping pattern and control of pests and diseases. Some of the important programmes under implementation are : Special Rice Production Programme, National Oil-seeds Project, National Watershed Development Programme and National Pulses Development Project. These projects are designed to solve specific agricultural problems, and are already making an impact in our rural areas.

60. Irrigation and fertilizers are two major components of programmes for increasing agricultural productivity. In irrigation, a high priority is being given to the completion of on-going projects and for bridging the gap between irrigation potential and its utilisation. Fertilizer production in the current year will increase to nearly 7 million tonnes from about 5.7 million tonnes last year. The fertilizer plant at Paradeep has commenced production during the year. In the next year, the fertilizer plants at Vijaipur and Aonla - each with a capacity of 7.2 lakh tonnes of urea are expected to be commissioned.

61. In terms of financial outlays, infrastructure sectors, namely, energy, transport and communications will account for more than 54 per cent of the total Central Plan. In 1987-88, taking the Centre and States together, we will be commissioning 4880 MW of additional power capacity. In coal, the output per man-shift has improved by 11 per cent. The target for coal production in 1987-88 is 183.5 million tonnes as against 165 million tonnes in 1985-86.

62. In the Sixth Plan, we were able to increase our crude oil production nearly three-fold. In the current Plan, production is likely to show a slower increase and it is necessary to accelerate investment in exploration and development of new oil fields. The total outlay for the petroleum sector as a whole is Rs.3,265 crores next year.

63. In order to save the time of the House, I have mentioned only a few of the highlights of the Central Plan for 1987-88. In several other areas, such as, women and child development, health and family welfare, youth affairs and sports, art and culture, science and technology, environment, social forestry and information and broadcasting,

this Government has taken several new initiatives to make the Plan more meaningful to our people. These programmes are being strengthened. Necessary provisions have also been made for industrial projects, including those in heavy industry, steel and mines.

64. I am also happy to inform the House that the total Plan outlay of States and Union Territories for 1987-88 has been fixed at Rs.19,537 crores representing an increase of 17 per cent over the current year. We have taken care of the requirements of Arunachal Pradesh and Mizoram on being elevated to Statehood. A provision of Rs.8,754 crores has been made next year for Central assistance for State and Union Territory Plans as against Rs.8,140 crores in the current year's Revised Estimates.

65. The Budget Estimate for defence is Rs.12,512 crores in 1987-88. This has naturally cast a heavy burden on our budgetary resources, but the House will agree with me that no compromise is possible where country's defence is concerned. The strength and morale of our Armed Forces are high. On behalf of this House, I assure our Jawans of the unstinted support of the entire nation.

66. Interest payments next year are estimated at Rs.10,650 crores against Rs.9,550 crores in the current year. Food and fertilizer subsidies including arrears, are placed at Rs.3,910 crores as against Rs.3,893 crores in the current year. Next year's Budget includes a lump provision of Rs.500 crores to cover likely increases in additional dearness allowance to Government employees and also the increases in pensionary charges arising out of the recommendations of the Fourth Pay Commission. This Government - ever sensitive to the difficulties of pensioners- has decided to increase the minimum pension and minimum family pension to Rs.375 per month. This will benefit nearly six lakh pensioners.

67. The total Non Plan expenditure in 1987-88 is estimated at Rs.39,266 crores. Tax revenue next year net of States' share is estimated at Rs.25,689 crores against Rs.24,207 crores in the current year. Non tax revenue and capital receipts are placed at Rs.31,243 crores against Rs.27,836 crores in the current year. The total receipts at existing rates of taxation thus amount to Rs.56,932 crores against the total expenditure of Rs.62,942 crores, leaving a gap of Rs.6,010 crores.

68. I shall now turn to my tax proposals.

PART B

69. In the 1985-86 Budget, we initiated a process of major tax reform. The broad direction and strategy for this reform was set out in the Long Term Fiscal Policy (LTFP). We will be introducing a detailed Amendment Bill on Direct Taxes separately in the Budget Session. This Bill will implement wide ranging changes aimed at simplification and rationalisation.

70. The basic thrust of my few Direct Tax proposals is to provide incentives for savings to promote investment and to support housing. I propose to strengthen some welfare measures. I have also included some measures to enhance revenue.

71. I do not propose any changes in the rate structure for Personal and Corporate Taxes. This is in line with the Long Term Fiscal Policy.

72. In order to conserve foreign exchange and to raise revenue, I propose to levy a modest tax of 15% on foreign exchange released in India for foreign travel. Foreign exchange released for medical treatment and education abroad will be excluded. This tax will be applicable for travel from a date to be notified. The revenue yield from this measure is expected to be Rs. 60 crores.

73. Those who can afford to patronize high class hotels should also be afforded the further pleasure of contributing to the national exchequer. A separate legislation will be brought forward for levy of a tax on expenditure in expensive hotels. This tax, to be levied at 10% of expenditure, will not apply to payments made in foreign exchange. It will become effective after passage of the necessary legislation.

74. I have already mentioned the decision to introduce a new National Savings Scheme based on net savings. Necessary legislative changes are being included in the Finance Bill.

75. I propose to provide a fiscal incentive for channelising savings into the housing sector. Repayment of loans and payments made to the extent of Rs.10,000 in a year towards the cost of any new residential property will qualify for deduction on the same lines as life insurance premia or contribution to provident fund under Section 80C of the Income-tax Act. This exemption will be within the existing limit of Rs.40,000.

76. Capital gains arising from the sale of a residential house are exempted in case such gains are utilised for acquiring another house. This was hitherto applicable only to individuals. It is now being extended to Hindu Undivided Families.

77. I understand that for the purpose of taxation of income from houses, our tax laws make a distinction between a real owner who is not a legal owner and a legal owner who is not a real owner. Following the well-established revenue tradition, when it comes to taxing, we tax both the real owner who is not a legal owner and the legal owner who is not a real owner. Concessions available to a house owner are, however, given only to a real owner who is also a legal owner. I propose to simplify the law by clarifying that the real owner, even if he is not the legal owner, will pay the tax and avail of the concessions available to the legal owner. I hope this proposal is abundantly clear to the Hon'ble Members.

78. In cases where the compensation for acquisition of a property is enhanced, or where a new residential house is not acquired within the specified time after selling

the old house, the completed tax cases for the past years have to be modified to tax the capital gains accrued earlier. Certain procedural changes are being made in the law to remove this complication.

79. Several important changes have been introduced in the corporate tax structure in the last two years. With effect from April, 1987, a liberalised set of depreciation rules is being introduced. Depreciation will be allowed in respect of blocks of assets instead of the present system linked to individual assets. There will be only three rates of depreciation for plant and machinery, namely, 100%, 50% and 33-1/3%. Apart from simplifying assessment, this will enable industry to replace and modernise capital equipment faster.

80. It is only fair and proper that the prosperous should pay at least some tax. The phenomenon of so-called "zero-tax" highly profitable companies deserves attention. In 1983, a new Section 80VVA was inserted in the Act so that all profitable companies pay some tax. This does not seem to have helped and is being withdrawn. I now propose to introduce a provision whereby every company will have to pay a "minimum corporate tax" on the profits declared by it in its own accounts. Under this new provision, a company will pay tax on at least 30% of its book profit. In other words, a domestic widely held company will pay tax of at least 15% of its book profit. This measure will yield a revenue gain of approximately Rs.75 crores.

81. The capital markets have shown remarkable buoyancy. I propose to make some changes in the Tax Laws which will support healthy development of the capital markets. The existing provision of allowing deduction in respect of investment in equity shares of certain categories of new companies was to be withdrawn with effect from 1st April, 1987. In view of the need to continue support for issues of new companies, I propose to extend this concession for 3 more years. I also propose to reduce the holding period of these shares from 5 years to 3 years.

82. At present shares have to be held for a period of 36 months before capital gains on their transfer qualify for the concessional treatment allowed for long term capital gains. It is proposed to reduce the holding period to 12 months. This will provide greater flexibility to investors and also improve the mobility of capital invested in shares.

83. Concentration of industries in many of our urban areas poses serious problems of congestion, pollution and hazards. In order to encourage industries to shift out of such areas, I propose to exempt capital gains made on the sale of land and buildings in such areas provided these are reinvested in approved relocation schemes.

84. The provisions regarding additional income-tax on undistributed profits of closely held companies have lost their relevance after the reduction in tax rates effected in 1985-86 Budget. These are being deleted. Because of some court decisions, the capital gains on transfer of goodwill of a concern or transfer of assets from a firm to a partner and vice-versa escape the tax net. Such gains will be explicitly taxable.

85. A tax holiday to newly established undertakings in Free Trade Zones has been provided. It is being clarified that this will also extend to units which develop software as also those which assemble or process components for exports.

86. A tax concession is available to the Indian companies earning income from a foreign Government or a foreign enterprise for imparting technical knowhow. This tax concession will now be available only if the foreign exchange earned is repatriated to India. It is also being clarified that an Indian resident cannot be treated as a foreign enterprise for this purpose.

87. It is proposed to exclude computers and machines for transmission and reception of messages from the list given in the Eleventh Schedule of the Income-tax Act as these industries are no longer non-priority.

88. At present Indian citizens earning remuneration in foreign currency for services rendered abroad are allowed 50% exemption under Section 80 RRA of the Income-tax Act subject to certain conditions. This is being further liberalised. The exemption will now be allowed to the extent of 50% of the remuneration, or 75% of the remuneration repatriated in convertible foreign exchange, whichever is higher.

89. In order to improve coverage and prevent tax evasion, it is proposed that tax at specified rates should be deducted at source in respect of all payments beyond certain prescribed amounts of fees for professional and technical services, royalty, rent, commission or brokerage and payments for goods supplied to Government, etc. This will apply to payments made by all persons, excepting individuals and Hindu Undivided Families.

90. Let me now come to measures for the welfare of workers, members of armed forces and the handicapped. There are a number of cases where the employers do not credit their own contributions nor those of the employees to the Provident Fund and the State Insurance Fund. It is also unfortunate that a separate fund is not being kept by some employers in respect of gratuity of workers. To prevent this anti-labour practice, we propose to penalise such delinquent employers by providing that the contributions of the employees to these funds will be taxed as the income of the employer and allowed as a deduction only when they are made over to the separate accounts relating to these funds within the time allowed under the statute.

91. Any compensation received by a workman at the time of his retrenchment is exempt from tax. Similar exemption is being extended to payments made under voluntary retirement schemes for public sector employees.

92. Regimental Funds or Non-public Funds are utilised for purposes such as providing assistance to widows of armed personnel killed in action, as also to disabled soldiers. The contributions will enjoy similar tax concessions as other funds of national importance like the National Defence Fund.

93. I am increasing the special deduction allowed to the physically handicapped persons and the totally blind from Rs.10,000 to Rs.15,000.

94. There are other procedural proposals in the area of Direct Taxes including those to ensure better functioning of the Settlement Commission which are in the Bill.

95. For the Members of Parliament, I propose to introduce a general exemption in respect of Constituency Allowance without reference to any monetary ceiling.

96. The above proposals will give a net revenue gain of Rs.145 crores.

97. Let me now turn to Indirect Taxes. The tariff regime for capital goods will be restructured and rationalised. I propose to extend MODVAT to most of the remaining areas. Excise and Customs duties for certain industries are being adjusted to stimulate growth. There is a package of reliefs for the common man.

98. As I mentioned earlier, the capital goods industry needs special support.

99. At present, there are two tariff rates for import of machinery: 101% for import of general machinery and a concessional rate of 55% when machinery is imported for a new project. The low duty rates for project imports have provided a strong encouragement for unnecessary imports. The differential between the general rate and the project rate also discriminates against modernisation of existing units, and favours sickness. These anomalies must be corrected.

100. I propose to equalise the two rates at 85%. The rate of duty applicable for components will be 15% below the applicable tariff rate.

101. At present, fertilizers, power and electronics are allowed concessional import duty on their capital goods imports. These rates are being adjusted upwards. The duty on import of equipment for the electronics industry is being raised from 25% to 30% and for fertilizer plants, it is being increased from zero percent to 15%. In the case of power, plants of above 50 MW capacity will continue to be imported at 25%. Plants of 50 MW and below will pay a higher duty of 35%.

102. Further concessions are needed to encourage upgradation of technology in specified capital goods sectors.

- (i) At present, domestic capital goods manufacturers have to pay very high import duties on import of special steels. The duty rate is being reduced to 85% on steels such as boilers-pressure-vessels-quality plates, sheets or coils, turbine blade flats and stainless steel plates.
- (ii) The textile machinery industry will be allowed supply of imported stainless steel at concessional duty of 65% instead of the prescribed rate of 245% at present.

- (iii) In order to encourage modernisation of foundries, import duty on specified capital goods is being reduced from 101% to 55%.
- (iv) Caustic soda plants presently based on mercury-cell technology should be encouraged to convert into membrane-cell technology. The new technology saves energy and reduces pollution. Specified equipment required for this conversion will be allowed imports at concessional duty of 35% instead of the present 101%.

103. The MODVAT introduced in the 1986-87 Budget was a major innovation. We covered 38 chapters of the Excise Tariff last year. I now propose to extend MODVAT to all the remaining chapters except those relating to textiles, tobacco and the petroleum sectors. MODVAT will now be extended to cover food products, mineral products, leather and travel goods, footwear, paper and paper-board, wood and cork products, asbestos cement products and precious metals.

104. Last year, in order to ensure revenue neutrality, the introduction of MODVAT was accompanied by an increase in the duty on the final product to balance the set-off being given of the duty paid on inputs. This year, keeping in view the nature of products, the duty on the final product is not being increased except in a few items. This will reduce the effective duty on a large number of items.

105. In the case of food products, for example, the total number of items covered by MODVAT will be over 100. The duty increase for revenue neutrality is being done only in case of cheese, malt preparations and aerated soft drink. The effective rate of taxation on other food products, such as biscuits, skimmed milk powder, butter, jams and jellies, and confectionery will be significantly reduced. Farmers and horticulturists are benefited by the expansion of the market of value-added food products.

106. Some increase in the final duty is necessary in five of the items which were covered last year where we have found that set-off given last year was very much larger than initially estimated. These are zinc-oxide, adhesives based on synthetic resin, organic surface-active agents, electric motors and primary batteries.

107. A number of important procedural changes are also being introduced to simplify the operation of MODVAT. Some of the concessions are:

- (1) Refund in cash of input duty credit if the final product is exported by the manufacturer in certain circumstances.
- (2) Availability of credit of duties in respect of inputs lying in stock.
- (3) Adjustment of input duty credit if additional duty is demanded from input manufacturers in case of change in classification of inputs.
- (4) Receipt of inputs directly by the job-workers will be permitted for all items under the MODVAT scheme.

108. With these measures, we will have successfully eliminated the cascading effect of excise duty and given a measure of excise relief.

109. Our comprehensive policy package has made electronics one of the fastest-growing industries. It has generated substantial employment. I propose to make certain changes which will strengthen the basic design of the existing policy.

110. For computers, the following reliefs and rationalisations are being carried out:-

- (i) Import duty on electronic sub-assemblies is being reduced from 308% to 150%.
- (ii) The list of peripherals is being enlarged and a uniform rate of import duty of 60% is being specified.
- (iii) Import duty on specified data-communication equipment is being reduced from 140% to 100%. Duty on mechanical parts of data-communication equipment is being reduced from 140% to 55%.
- (iv) The present notification regarding exemption of import duty on computer peripherals for Research Institutes is being extended by 3 years.
- (v) Duty on computer systems imported under OGL is being reduced from 150% to 140% (basic and auxiliary).
- (vi) Import duty on specified electronic parts of computers is being increased from 25% to 75% in order to give appropriate protection for indigenous production. The import duty on mechanical parts of computer peripherals is also being increased from 5% to 75%; and this is being extended to mechanical parts of CNC system.

111. The Indian computer industry achieved a turnover of Rs.225 crores last year. It has passed its infancy and is healthy and vigorous. Now that the industry has arrived, can the tax- collector be far behind? It is proposed to levy an excise duty of 10% on computers and peripherals. With MODVAT, the effective incidence of duty will be much lower.

112. The research and development base of the electronics industry is crucial for its long-term success. I, therefore, propose to reduce the duty on specified equipments required for R&D from 140% to 55%.

113. We must also encourage domestic production of capital goods required for the electronics industry. At present, mechanical components required for manufacture of such capital goods attract a duty of 140%. I propose to reduce this duty to 45% in the case of components required for nearly 300 specified machines.

114. In the field of general electronics, a concessional duty structure of 30%, 45% and 75% is allowed for imports of raw materials, piece-parts and components, respectively. We are expanding the coverage of this concessional duty structure by adding some more items.

115. I propose to abolish the excise duty on the production of poly-silicon in all forms as a measure of support for the domestic industry. The customs duty for the import of silicon, solar cells and photo-voltaic systems is being fixed at 30%, 45% and 75%, respectively. I propose to increase the duty on the import of poly-silicon to 75% for electronics industry in the interest of domestic production.

116. Production of television sets has increased rapidly in line with targets. A thriving and competitive industry has been set up. I propose to make two changes:

- (i) As an anti-avoidance measure, it is proposed to impose an excise duty or countervailing duty of Rs.150 on black and white tubes meant for sets of size above 36 cms. and to impose an excise duty or countervailing duty of Rs.600 on all colour television tubes. Under MODVAT, this input duty would be fully rebated to duty-paying manufacturers with no additional duty burden on the consumer. It will, however, help to check unlicensed production.
- (ii) The excise duty on colour television sets exceeding 36 cms. size is presently Rs.1,500 irrespective of the value of the set. I propose to increase the duty on costlier sets to Rs.1,750 per set. This will apply to sets cleared at assessable value higher than Rs.5,000 which corresponds to a retail price of about Rs.7,500. The excise duty for sets cleared at assessable value of Rs.5,000 or below will remain at Rs.1,500. The costlier sets can bear the extra duty.

117. These proposals relating to the electronics industry will involve a net loss of revenue of Rs.19.30 crores. There will be a revenue gain of Rs.40 crores in excise duty and a loss of Rs.59.30 crores in customs duty.

118. Important developments have taken place in the automobile industry in the past few years. New technology has been introduced, production has increased and indigenisation is taking place. Government have been reviewing these and other developments and will be announcing a comprehensive policy. For the present, I have the following tax proposals for automobiles:

- (i) At present, a concessional rate of customs duty of 50% is allowed for imported sub-components required for the manufacture of components for fuel-efficient trucks, cars, and two-wheelers. I propose to enlarge the list of components eligible for concessional import of sub-components. This will encourage indigenisation.

- (ii) Excise duty on fuel-efficient motor vehicles with engine capacity not exceeding 1000 c.c. is proposed to be increased from 20% to 25%. This sector can bear the additional duty and it will still benefit from a lower rate than the rest of the industry.
- (iii) For handicapped individuals, I propose to provide for total exemption from customs duty in respect of automatic transmission and other special equipment to be fitted into fuel-efficient cars of engine capacity not exceeding 1000 c.c.
- (iv) The rate of duty on import of spares for meeting the after-sales or warranty of fuel-efficient motor vehicles is being increased from 50% to 75%.
- (v) Excise duty on tractors will now be fixed on engine capacity instead of Power-Take-off-Horse-Power . This is an anti-avoidance measure with no revenue implication.

119. Plastics are widely used by the common man. They also have a tremendous potential for use in farms and factories. Our plastic prices are high. Government propose to initiate measures to reduce costs in this important area.

120. I propose to reduce the basic customs duty on PVC resin (general-purpose suspension-grade) from Rs.10,500 per metric tonne to Rs.7,500 per metric tonne. These resins are used in the manufacture of cheap footwear, pipes for agricultural application and as insulation for wires and cables.

121. I also propose to reduce the basic customs duty on Low- Density - Polyethylene (LDPE) from 100% to 75%. LDPE is used as a base for production of a wide range of packaging materials. LDPE film has a big potential use in the lining of canals and farms and field-channels.

122. The excise duty on products of regenerated cellulose, which includes the cheap packaging material-cellophane, is being reduced from 40% to 20%. Excise duty is being similarly reduced on cellulose acetate moulding granules which is used for spectacle-frames, umbrella handles, tooth-brushes and on sodium carboxy-methyl cellulose which is used in oil-drilling, textiles processing and detergents.

123. Excise duty on certain varieties of industrial plastics i.e., acrylic and vinyl resin emulsions is being reduced from 40% to 20%.

124. Over the past year, we have taken a number of steps to strengthen our export performance through fiscal and other means. I propose to give the following additional incentives.

- (a) For the gem and jewellery industry, customs duty on 46 additional items of tools, machinery, etc. is being reduced to 35%.

- (b) For the marine products industry , 3 additional items will be allowed concessional import duty of 40% (basic and auxiliary).
- (c) For the leather industry -
 - (i) 31 additional items of machinery required for leather industry will be allowed concessional duty of 35%.
 - (ii) polyurethane film/foil used for improving finished leather will have lower countervailing duty of 40%.
 - (iii) polyurethane leather required for the manufacture of football for exports will be exempted from duty.
- (d) The import duty on tyre moulds required for export production is being reduced to 25%.
- (e) Export duty on mica products is being abolished except for mica waste and scrap.
- (f) Import duty on flax and ramie fibres is being reduced from 80% to 40%.

125. I also propose to make some adjustments which will further benefit the common man:-

- (1) In August 1985, Government introduced a scheme of fiscal relief for the manufacture of inexpensive blended fabrics -Sulabh fabrics. Under this scheme, NTC mills are supplied raw material free of excise duty for the manufacture of suitings of value upto Rs.45 per metre and shirting of value upto Rs.20 per metre. This scheme has made a good start. It is now proposed to have a similar scheme for manufacture of Sulabh sarees. This will make available good-quality sarees at reasonable prices.
- (2) At present, footwear of Rs. 45 per pair is exempt from excise duty. I propose to raise the limit to Rs.60 per pair of assessable value which corresponds to footwear retailing at about Rs.100 per pair. To off-set the revenue loss, excise on footwear exceeding this assessable value is being increased to 15% for leather footwear and 20% on footwear of synthetic resins.
- (3) Janata soaps of value not exceeding Rs.10,000 per metric tonne bear a lower rate of excise duty of 5%. I propose to raise the value limit to Rs.12,000 per metric tonne. This should reduce the cost of cheaper toilet and laundry soaps. Soaps of value between Rs.12,000 per metric tonne and Rs.25,000 per metric tonne will continue to pay duty at 15% but expensive soaps, whose value exceeds Rs.25,000 per metric tonne, will be charged 25%.

- (4) Complete exemption from excise duty is available in respect of shoddy wollen fabrics of assessable value not exceeding Rs.40 per sq. mtr. I propose to raise this limit to Rs.60 per sq. mtr. Shoddy blankets are already fully exempt from excise duty.
- (5) Excise duty on fluorescent tubes is being reduced to the specific rate of Rs. 2 per tube. The other fittings and parts of such tubes will also pay reduced excise duty at the rate of 10%.
- (6) I also propose to exempt, from excise duty, bio-gas appliances such as stoves, hot plates and lights. This would encourage greater use of bio-gas.
- (7) Specified life-saving equipment is presently fully exempt from customs duty but import of spares needed for such equipment attracts duty. This is an unnecessary burden on our hospitals and clinics. I propose full exemption also for spares and accessories of such life-saving equipments.
- (8) Items like note-books, letter-pads, blotting pads, registers, account books, file covers are being exempted from excise duty altogether.

126. I have two proposals for cotton textiles:-

- (i) I propose to liberalise the Small-Scale Scheme for hand-processed fabrics by increasing the full exemption limit from 36 lakh sq. mtrs. to 50 lakh sq. mtrs. in case of hand-processed cotton fabrics.
- (ii) The excise duty structure on cotton fabrics in the power- processing sector is being rationalised. Specific rates of excise duty are being provided in respect of fabrics of value upto Rs.25 per sq. mtr. This will involve a revenue loss of Rs. 15 crores.

127. I propose to remove excise duty on wool tops altogether. However, I propose to increase the customs duty on raw wool, woollen rags and wool waste from 20% to 30% and reduce the customs duty on synthetic rags from 80% to 30%. Excise duty on polyester-wool-blended yarn is also proposed to be reduced from Rs.30 per kg. to Rs. 15 per kg. This will benefit cheaper varieties of woollen textiles.

128. The present rates of duty on viscose staple fibre and viscose filament yarn have not been revised for a number of years. As a revenue measure, I propose to increase the excise duty on viscose staple fibre from Rs. 5 per kg. to Rs. 7 per kg. Similarly, excise duty on viscose filament yarn is also being increased by about 12.5% of the existing rates. These measures together will give us an additional revenue of Rs. 29 crores.

129. As the House is aware, there is a scheme which has replaced sales-tax on sugar, tobacco and textiles by an Additional Excise Duty (AED). The proceeds of

AED go entirely to the State Governments. The AED is required to be raised to reach the agreed level of tax incidence. The rate of duty on costlier fabrics of assessable value exceeding Rs.100 per sq. mtr. is being increased to 20%. The total revenue gain of AED will be Rs. 40 crores and will be passed on wholly to State Governments.

130. I now propose to deal with some other industries which require relief:Ð

- (1) As a result of recent policies, cement production has grown rapidly benefiting the consumer and converting a sellers market into a buyers market. The newer units in the industry need some support in view of their high capital costs. I, therefore, propose a rebate of excise duty at the rate of Rs.50 per metric tonne in respect of portland cement manufactured by units commencing production of such cement on or after 1.4.1986. This rebate will be available for a period of three years from 1.3.1987. The levy quota in respect of such units is also being reduced from the existing 30% to 15%. The excise concession will be available only to those units whose aggregate production is not less than 30% of the licensed capacity.
- (2) I propose to allow imports of specified machinery for improvement in productivity and quality of solvent-extracted oils and oilmeals at concessional duty rate of 55%. Last year, we introduced a system of rebate in excise duties for vanaspati and soap linked to larger use of minor oils. This has had the desired effect and production of rice-bran oil as well as its use in vanaspati and soap have increased considerably. The rebate scheme is being continued this year. There are some procedural changes and the ad valorem duty on vanaspati is being changed to a specific duty.
- (3) Better food-packaging and food-processing can contribute greatly to raise the income of our farmers. I have already made some proposals in plastics which will help. I further propose to reduce the import duty on specified items of machinery and aseptic packaging from 101% to 50%.
- (4) I propose to exempt 36 more drug intermediates used either exclusively or predominantly in the manufacture of drugs from additional duty of customs. In addition, I propose to lower the customs duty to 70% on two specified drug intermediates required for the manufacture of pyrazinamide, an anti-TB drug.
- (5) Customs duty on specified raw materials for refractories is being reduced.
- (6) It is proposed to reduce excise duty on unwrought aluminium of CG-grade from 13% to 11%.
- (7) I propose to reduce excise duty on feature films, including dubbed feature films by about 10% of the existing duty leviable.

- (8) Denatured-ethyl-alcohol of specified strength, when imported for use exclusively for industrial purposes, is being exempted from customs duty in excess of 60% ad valorem.
- (9) It is proposed to merge the two existing SSI schemes for the refrigeration and air-conditioning appliances and machinery industry into one and to liberalise it. Full exemption from excise duty will now be available for clearance upto Rs. 5 lakhs. Thereafter, 50% of the excise duty leviable will be applicable for clearance between Rs. 5 lakhs and Rs. 15 lakhs. Subsequently, the unit will pay the normal duty but eligibility limit for retaining exemption and concessions for the unit will be Rs. 40 lakhs.
- (10) I propose to extend the concessional rate of customs duty of 20% in respect of HBI (Hot Briquetted Iron)/ sponge iron and melting scrap of steel available to electric arc furnace units to induction furnace units also.
- (11) Customs duty on fluorspar (natural calcium fluoride) used for manufacture of aluminium fluoride is being reduced from 110% to 75%.
- (12) I also propose to reduce customs duty to 25% for plant and equipment needed for manufacture of family-planning apparatus and appliances and also of equipment using non-conventional energy sources. The same low-duty rate is being applied for certain specified sophisticated fire-fighting equipment for fire-fighting services administered by Central/State/U.T. Governments and local bodies.

131. In looking for more revenue, I have to fall back on the ever dependable and reliable friend of Finance Ministers and the certified enemy of Health Ministers. Lately, I am told, the friendly relationship has been marred by disputes and litigation. I now propose to restore amity between the two by moving over to a new and more rational system of levying excise duties.

132. The existing scheme of excise duty on cigarettes is based on the printed retail price. I propose to move over to an entirely new scheme of specific excise duty based on the length of the cigarette. This is the system prevalent in many countries. It ensures unambiguous determination of the excise duty, avoiding all problems of determining either assessable value or sale value.

133. It is proposed that for non-filter cigarettes of size upto 70mm, the excise duty would be Rs.150 per 1000 cigarettes. In case of filter cigarettes, the excise duty will be in four slabs namely, upto 70 mm, over 70 upto 75 mm, over 75 upto 85mm, over 85 upto 100mm. The rates of duty per 1000 filter cigarettes in these slabs will be Rs.200, Rs.300, Rs.400 and Rs.600, respectively. The tariff rate for cigarettes is Rs.700 and, therefore, non-filter cigarettes beyond 70 mm length and filter cigarettes beyond 100 mm length will pay the tariff rate.

134. This scheme will be a major simplification and rationalisation measure. Incidentally, it will also yield additional revenue to Government of Rs.200 crores!

135. I will now mention some other measures largely of rationalisation:Ð

- (1) Denudation of our forests is causing serious damage to our environment. The tax structure must also make a contribution towards preservation of our forest wealth. With this objective in view, we have rationalised the duty structure on wood products. I propose to levy a uniform rate of excise duty of 20% on wood products based on waste wood such as particle-board, insulation and hard- boards and fibre-boards. A higher rate of 30% will be levied on all plywoods made from prime timber. I invite suggestions from Members and other conservationists and I am prepared to take further measures which would implement this policy objective.
- (2) Excise duty on snuff and chewing tobacco or products containing chewing tobacco is being imposed at the rate of 25% .
- (3) A large number of exemption notifications in customs have the effect of lowering the rate of duty below 25% for many items. In order to prevent invoicing malpractices, rates of duty should not be below 25% except in very special circumstances. Accordingly, duty rates are being raised to 25% for 7 items. In a few other cases, the duty rates have been reviewed and increased.
- (4) The concessional rate of 25% (basic) in respect of soda ash will continue until 31st March, 1988.
- (5) The 70% concessional duty on 13 specified parts of mechanical and quartz analogue wrist watches will continue for another year with certain modifications. The rate of duty is being enhanced to 100% for three specified parts. The concessional rate in respect of certain other parts of wrist watches is being withdrawn altogether.
- (6) The excise duty on aerated soft drink is being increased by 20 paise per bottle and in the case of soda, by 15 paise per bottle. Soda and soft drinks in packagings other than bottles will have a duty of 60% and 75%, respectively. MODVAT benefits will now be available to these items. Hence, the effective incidence will be considerably lower.
- (7) Processed foods of various types are charged 15% excise duty. The list of such processed and relatively expensive packaged foods is being extended to noodles, spaghetti, macaroni, vermicelli, flakes of cereals, ready-to-cook food- mixes, etc. put up for sale in unit containers.

- (8) Basic customs duty on unwrought aluminium is proposed to be raised from 20% ad valorem to 35% plus the normal additional duty. This is necessitated by the upward revision of domestic aluminium prices to equate the landed cost of imported metal with the statutory price per tonne.
- (9) I propose to raise the excise duty on steel ingots made by mini-steel plants from Rs.315 per tonne to Rs.365 per tonne so as to equate the duty with steel ingots produced by the integrated steel plants. Even at the revised rate, the ad valorem incidence of excise duty will be lower than on the steel produced by integrated plants because of substantial MODVAT credit and higher prices.

136. I am also taking this opportunity to bring the surplus of the Oil Pool Account into the tax-net. This will have no effect on consumer prices. This surplus presently accrues to Government as non-tax receipts. I now propose to raise the customs duty on imported crude petroleum by Rs.500 per tonne. I also propose to increase the ceiling limits upto which excise duty by way of cess for the development of oil industry may be levied on crude oil and natural gas produced in India. The limits are proposed to be raised from Rs.300 per tonne to Rs.1000 per tonne on crude oil and from Rs.50 to Rs.300 per thousand cubic metres on natural gas. The effective rate of cess on crude oil is proposed to be raised from 1st March, 1987 from Rs.300 to Rs.600 per tonne. The proposals are expected to yield Rs.800 crores by way of customs duty and Rs.900 crores by way of cess with an equivalent reduction in non-tax receipts. These increases will be absorbed fully by the Pool Account and will not affect prices paid by the consumer in any way.

137. Apart from the above proposals, I have proposed certain amendments in the Finance Bill seeking to effect changes in the excise and customs tariffs. These amendments are merely enabling provisions and have no revenue significance. Besides, there are several proposals for amendments in existing notifications, excise rules which have merely procedural significance. In order to save the time of the House, I do not propose to recount them. Provision in the Finance Bill is also being made for continuation of the levy of auxiliary duty of customs and Special Excise duty.

138. Copies of notifications giving effect to the changes in customs and excise duties effective from 1st March, 1987, will be laid on the table of the House in due course.

139. My proposals in respect of Customs and Central Excise duties outlined above are likely to yield additional revenue of Rs.531.73 crores from Customs duties and Rs.431.80 crores from Excise duties. The concessions and reliefs aggregate Rs.464.81 crores on the Customs side and Rs.130.00 crores on the Excise side. The net additional revenue from Customs duties thus would be Rs.66.92 crores and that from Excise duties, Rs.301.80 crores. In Excise duties, the Centre's share would be Rs.109.48 crores and that of States, Rs.192.32 crores. Out of the total net additional

yield of Rs.368.72 crores, Centre's share would be Rs.176.40 crores and that of the States, Rs.192.32 crores.

140. I had earlier mentioned that the Budget deficit at the existing rates of taxes would be Rs.6,010 crores. The proposed tax measures, taken together with reliefs, are estimated to yield net additional revenue of Rs.322 crores to the Centre. This will leave an uncovered deficit of Rs.5,688 crores. This is significantly lower than the deficit for the current year. As mentioned earlier, I have decided that this shall not be exceeded. I have set in motion measures to implement this decision.

141. Mr. Speaker, Sir, I am conscious of the enormous challenges that confront our economy. Some are inherent in the process of planned development in a democracy. But some are in the nature of a price that we have to pay for pursuing an independent foreign policy. The people of India have asserted their independence and willingly accepted these burdens. Their heroic exertions, their sacrifices, and their unshakable confidence in their capacity to build the India of their dreams are a source of strength, inspiration and direction to me. Let us move forward with determination.

142. I commend the Budget to the House.

[28th February, 1987]