CHAPTER 6

FISCAL POLICY AND GOVERNMENT BUDGET

The year 1986-87 witnessed far-reaching reforms in fiscal policy, which carried forward the process initiated in the previous year. Steps were taken to implement most of the key proposals in the Long Term Fiscal Policy (LTFP). The principal objectives guiding the reforms have been to simplify the tax structure, establish a regime of reasonable tax rates combined with better administration and enforcement to improve compliance and raise revenues, foster a stable and predictable tax policy environment, usher in a more open approach to budget making and make the tax structure more conducive to growth and equity.

6.2 Highlights of the fiscal policy initiatives undertaken during the year include an overhaul of the excise tax structure through the introduction of modified value added tax (MODVAT), the launching of a simpler and more growth-oriented scheme of excise duty concessions for small scale units, the implementation of revised classifications and nomenclatures for the excise and customs tariffs, simplification and rationalization of taxation provisions relating to gifts and capital gains, introduction of the new Investment Deposit Account Scheme with a view to replace the existing scheme of Investment Allowance, simplification of depreciation provisions under Income Tax, the enhancement of income tax concessions to exporters, a revamping of the Duty Drawback Scheme for exports, the publication of a Discussion Paper on "Simplification and Rationalisation of Direct Tax Laws" to elicit public opinion on the matter, the establishment of the new Customs and Excise Revenues Appellate Tribunal, systematic steps to curb tax evasion including, for example, the empowering of Government with a pre-emptive right to purchase properties above a certain value, the introduction of a series of new financial instruments to help mobilize resources for the public sector and measures to improve control over expenditures.

6.3 The Centre's revenues from major taxes, which increased by over 22 per cent in 1985-86 (RE), compared to collections in 1984-85, showed a further increase of around 17 per cent in April—December 1986, according to provisional data. Of particular interest is the buoyancy in direct tax collections, which increased by about 23 per cent in 1985-86 (RE). Income and Corporation taxes (excluding from the Oil Sector) are estimated to have increased by a further 26 per cent in April—December 1986. The rapid increase in tax revenues after 1984-85 tends to confirm the soundness of the Government's approach.

6.4 To maintain the momentum of development, the 1986 Budget stepped up the outlay for the Central Plan. As a result, for the first time, 40 per cent of the five-year target for Central Plan expenditure would be financed, in real terms, in the first two years of a Five-Year Plan. Moreover, in the allocation of resources the Budget gave special emphasis to anti-poverty programmes for improving the social and economic services of special interest to the poor and to key infrastructure sectors such as railways and power.

6.5 Despite the enviable record in raising revenues, the Government's resource position continued to be under heavy pressure because of the rapid increase in expenditure commitments, especially on non-Plan account. The rapid growth in non-Plan expenditure has meant that the Centre's Budget on revenue account has been in deficit throughout this decade and this deficit has increased steadily in the past five years. By 1985-86 (RE) the deficit on revenue account had risen to about 2.4 per cent of GDP. As a result, the Government has had to rely increasingly on borrowed funds to meet its expenditure commitments, and this, in turn, has led to a growing bill for interest payments. In 1985-86 (RE) defence, interest payments and major subsidies, accounted for 67 per cent of the Centre's total non-Plan expenditures. In 1986-87 (BE) the proportion rose to 70 per cent. The problem of growing claims on the Government's resources was compounded during the year by the measures taken to implement the Pay Commission's recommendations.

6.6 Recognizing the gravity of the expenditure problem, the Government undertook a number of measures during the course of the year to strengthen control over expenditure. A system of zero-base budgeting was initiated in the course of the formulation of the budgets of all Central Government departments for 1987-88. A system of quarterly budgeting has also been initiated from the current year with a view to identifying projects where funds are lying idle and diverting them to well-implemented projects where funds are most needed. Following the recommendations of the Chakravarty Committee on the Working of the Monetary System, a system of monetary targeting has been introduced, on an experimental basis, in consultation with the Reserve Bank of India. Careful scrutiny and control of expenditure will command the highest priority in the years ahead, if inflationary pressures are to be kept in check. The underlying approach to expenditure control must continue to emphasize the need to prioritise expenditures carefully.

6.7 The Government's resource position has also been exacerbated by the shortfalls in surplus generation by public sector undertakings compared with Plan targets. The LTFP had emphasized the crucial role of public enterprises in augmenting public savings in the Seventh Plan period. The nation has invested nearly Rs. 50,000 crores in public enterprises at the Centre. To maintain the momentum of investment and growth and to ensure that the Seventh Plan is funded in a non-inflationary manner, it is vital to increase the efficiency of and surplus generation by these undertakings. It is particularly important to ensure that the increase in surpluses comes from improvements in productivity and reduction of real costs. To achieve this goal the Government has embarked on a programme for setting specific targets for generation of internal resources of public sector undertakings and reduction of their unit cost of production.

Budgetary Developments in 1985-86

6.8 The combined budgetary deficit of the Central and State Governments and Union Territories during 1985-86 amounted to Rs. 3,643 crores (RE) which compared with the actual deficit of Rs. 5,105 crores in 1984-85 (Table 6.1) constituted 1.5 per cent of gross domestic product (GDP) at current market prices. This was mainly the result of buoyancy witnessed in tax revenues and domestic resource mobilisation efforts, particularly in the collections from small savings.

TABLE 6.1

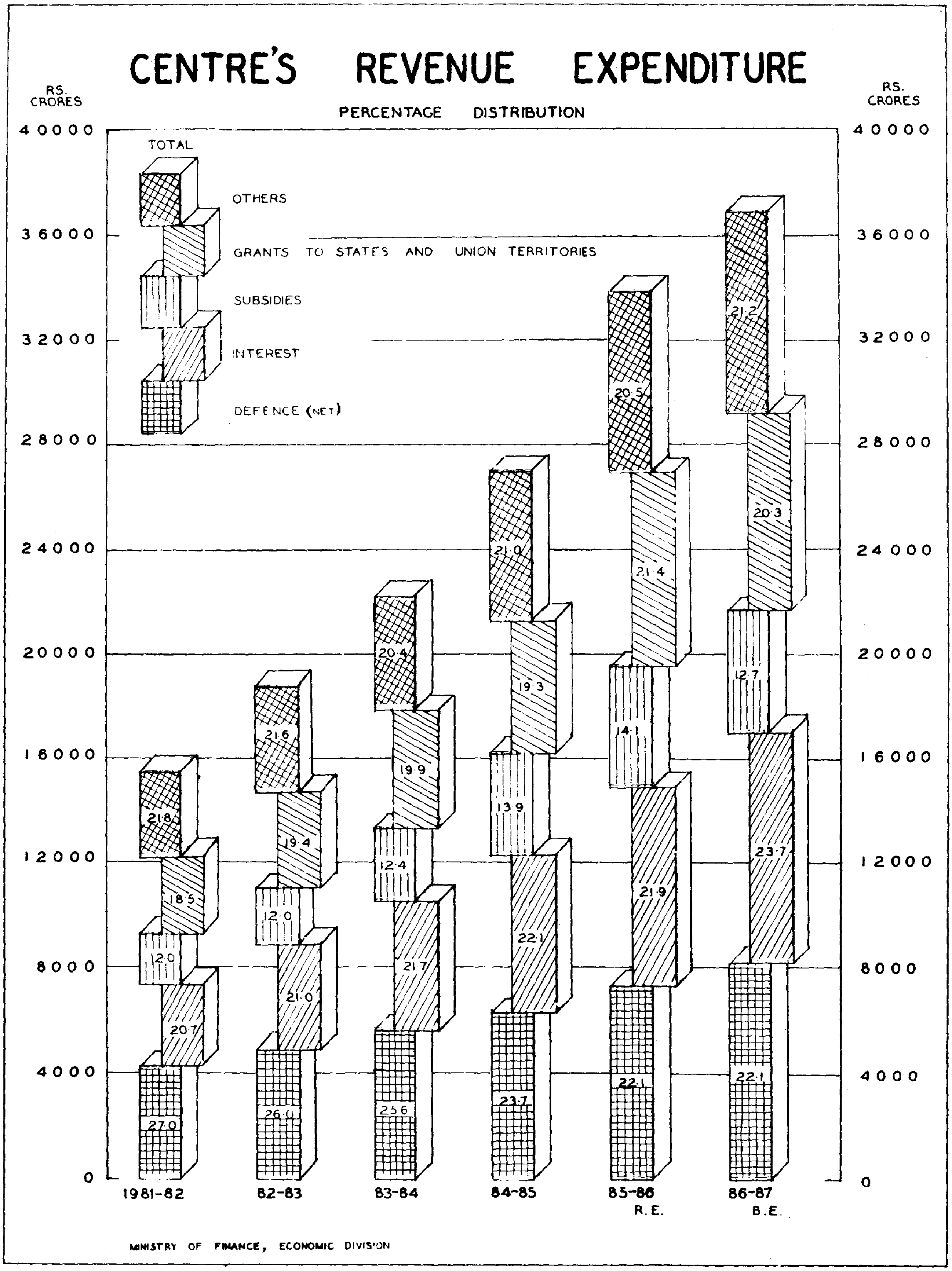
Budgetary Transactions of the Central and State Governments and Union Territories

(Including extra-budgetary resources of public sector undertakings for financing their plans)

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86		1986-87
						(B.E.)	(R.E.)	(B.E.)
I. Total Outlay	**36845**	**43738**	**52747**	**60829**	**72825**	**80326**	**84984**	**93246**
	(28.9)	(29.6)	(31.9)	(31.3)	(34.0)	(33.0)	(34.9)	(N.A.)
(*a*) Developmental	24426	28653	33591	39274	48085	51501	54351	59691
(*b*) Non-Developmental	12419	15085	19156	21555	24740	28825	30633	33555
II. Current Revenue	**24563**	**30425**	**35795**	**40989**	**47098**	**54213**	**56168**	**62729**
	(19.3)	(20.6)	(21.7)	(21.1)	(22.0)	(22.3)	(23.1)	(N.A.)
(*a*) Tax Revenue	19844	24142	27242	31525	35813	40241	42828	47355
	(15.6)	(16.3)	(16.5)	(16.2)	(16.7)	(16.5)	(17.6)	(N.A.)
(*i*) Direct Taxes	3268	4133	4492	4907	5329	5589	6287	6436
(*ii*) Indirect Taxes	16576	20009	22750	26618	30484	34652	36541	40919
(*b*) Non-Tax Revenue	4719	6283	8553	9464	11285	13972	13340	15374
III. Gap (I — II)	**12282**	**13313**	**16952**	**19840**	**25727**	**26113**	**28816**	**30517**
	(9.6)	(9.0)	(10.3)	(10.2)	(12.0)	(10.7)	(11.8)	(N.A.)
Financed by :								
(*i*) Domestic Capital Receipts	7161	9493	13012	16094	18765	20058	22753	23618
(ii) Net External Assistance	1670	1301	1591	1611	1857	2426	2420	2869
(*iii*) Budgetary deficit	3451	2519	2349	2135	5105	3629	3643	4030
	(2.7)	(1.7)	(1.4)	(1.1)	(2.4)	(1.5)	(1.5)	(N.A.)

NOTES : (*i*) For clarification regarding the scope of some items in this Table, see footnotes to Table 2.1 in the Statistical Appendix.
(*ii*) Figures in brackets are percentages of GDP at current market prices.



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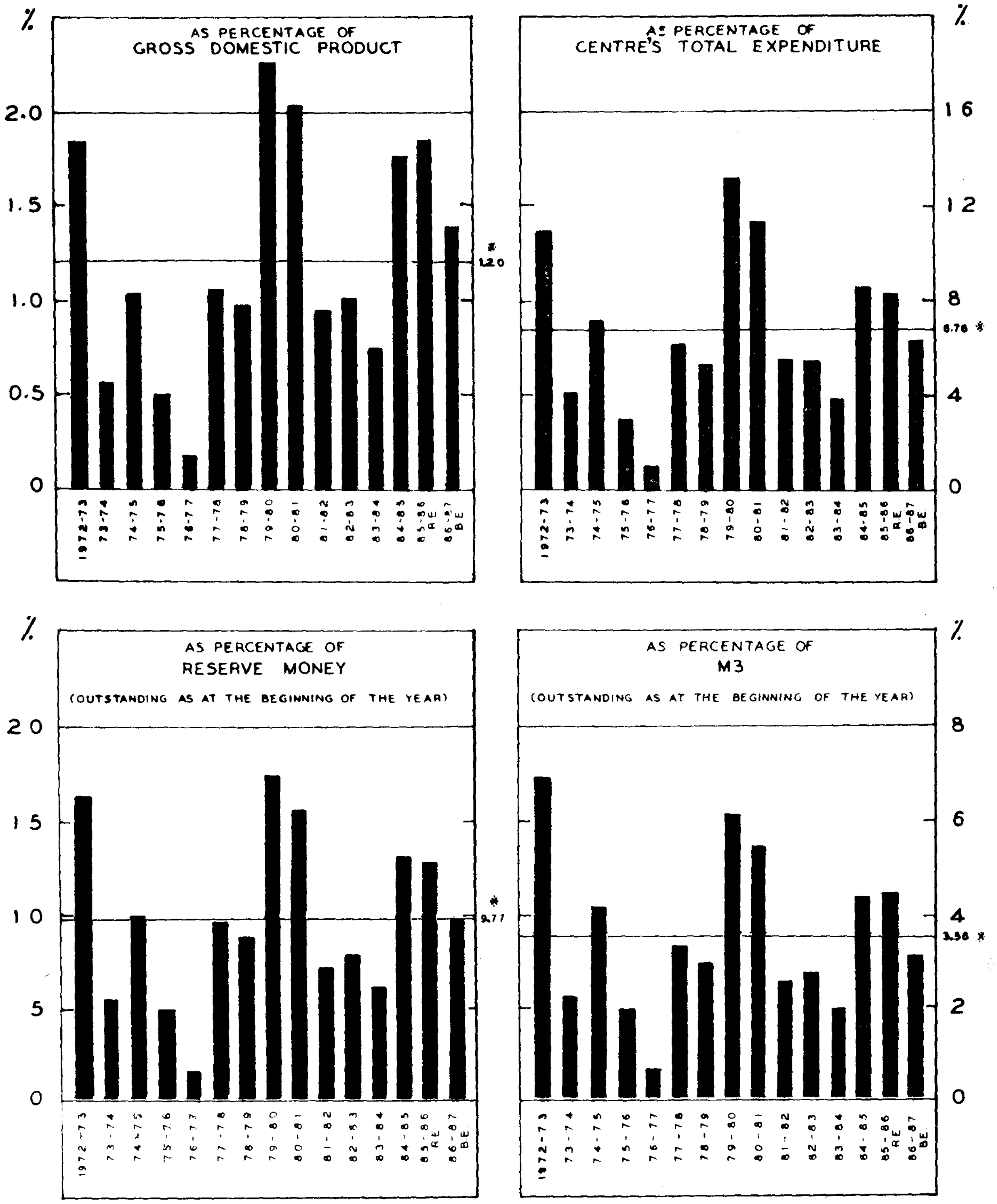
CENTRE'S BUDGETARY DEFICIT



* AVERAGE FOR THE PERIOD 1972-73 — 86-87

MINISTRY OF FINANCE, ECONOMIC DIVISION

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6.9 The combined developmental expenditure of the Centre, States and Union Territories increased by 13.0 per cent in 1985-86 (RE), but the increase in non-developmental expenditure was rather sharp (23.8 per cent) on account of a substantial rise in interest payments (25.1 per cent) and food subsidy (50 per cent). Their aggregate expenditure was thus 16.7 per cent higher in 1985-86 (RE) than in the preceding year. Against this growth in expenditure, the increase in their current revenues, particularly tax revenues was significantly higher at nearly 20 per cent. Non-tax revenues, inclusive of the internal resources of the non-departmental undertakings, also rose by a little over 18 per cent. The overall tax-GDP ratio which had reached the level of 16.7 per cent by the end of the Sixth Plan period and was budgeted at 16.5 per cent for 1985-86, the first year of the Seventh Plan, actually turned out to be 17.6 per cent in the revised estimates of that year. In relation to the Seventh Plan target of 18.3 per cent of GDP to be achieved by 1989-90, this performance on the tax front appears quite satisfactory.

6.10 The resource gap, as represented by the difference in total expenditure and current revenues of the Centre, States and Union Territories which had somewhat widened from Rs. 25,727 crores (12.0 per cent of GDP) in 1984-85 to Rs. 28,816 crores (11.8 per cent of GDP) in 1985-86 (RE), was financed to the extent of 79 per cent from domestic capital receipts and 8.4 per cent from external assistance. Under domestic capital receipts, small savings recorded a substantial increase of 31.5 per cent, from Rs. 3,650 crores in 1984-85 to Rs. 4,800 crores in 1985-86 (RE).

6.11 Despite record tax collections and substantial increase in collections from small savings, the Central Government's budgetary deficit widened from Rs. 3,745 crores in 1984-85 to Rs. 4,490 crores in 1985-86 (RE). The main factor responsible for this outcome was a sharp step-up in net transfer of resources by the Central Government to State and Union Territory Governments, from Rs. 14,720 crores in 1984-85 to Rs. 20,634 crores in 1985-86 (RE)—an increase of 40 per cent. (The increase works out to 51 per cent if account is taken of the medium-term loan of Rs. 1,628 crores given to them for clearance of their overdrafts with the Reserve Bank of India). While a significant part of the increase in these transfers was due to the large devolution on account of the implementation of the recommendations of the Eighth Finance Commission as also larger share in small savings collections, the step-up in the Central assistance for State and Union Territory Plans was equally large (42.3 per cent), from Rs. 5,107 crores in 1984-85 to Rs. 7,265 crores in 1985-86 (RE).

6.12 In this context, it is worth noting that compared even with the 1985-86 (BE), the net transfer of resources to the State and Union Territory Governments had exceeded by as much as Rs. 2,684 crores in 1985-86 (RE). Outgo on account of subsidies was also larger (Rs. 5,200 crores) than provided for in the Budget Estimates for 1985-86 (Rs. 4,188 crores). While provision for food subsidy had to be raised from Rs. 1,100 crores to Rs. 1,650 crores, the increase in the subsidy on indigenous fertilizers was also substantial from Rs. 1,200 crores to Rs. 1,600 crores. The budgetary support for Central Plan was also raised from Rs. 11,747 crores in 1985-86 (BE) to Rs. 13,231 crores. Thus, the aggregate expenditure of the Central Government (including the internal and extra-budgetary resources of their enterprises) went up by 23.7 per cent in 1985-86 (RE) to Rs. 61,748 crores from Rs. 49,915 crores in 1984-85. (Compared with the budget estimates, the increase at the revised estimate stage was 9.6 per cent).

6.13 The Centre's revenue account, which used to be in surplus, turned into a deficit in 1979-80 following a larger devolution of resources by the Seventh Finance Commission, particularly the doubling of the States' share in Union excise duties from 20 per cent to 40 per cent. As a proportion of GDP at current market prices, the Centre's current account surplus was 0.7 per cent, on an average, in the five-year period preceding 1979-80, but in 1979-80, it became a negative 0.6 per cent. Ever since this gap has been widening, except in 1981-82 when it had shrunk to 0.2 per cent. By 1985-86 (RE) the Centre's revenue account deficit has grown to 2.4 per cent of GDP, and it appears that in the current year also, the extent of deficit will be around the 1985-86 level (Table 6.2).

TABLE 6.2

Centre's Revenue Receipts & Revenue Expenditures

(As per cent of GDP)

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86 (R.E.)	1986-87 (B.E.)[2]
1. Tax Revenue (Net of States' share)	8.1	8.2	7.9	8.8	8.0	7.4	7.8	7.9	8.0	8.3	8.6	8.3
2. Non-Tax Revenue	2.8	2.7	3.0	2.7	2.6	2.7	2.7	3.1	2.6	3.1	3.3	3.2
3. Total Current Revenue (1 + 2)	**10.9**	**10.9**	**10.9**	**11.5**	**10.6**	**10.1**	**10.5**	**11.0**	**10.6**	**11.4**	**11.9**	**11.5**
4. Total Current Expenditure	**9.7**	**10.5**	**10.4**	**11.2**	**11.2**	**10.7**	**10.7**	**11.8**	**11.8**	**13.0**	**14.4**	**14.0**
(a) Interest Payments	1.7	1.7	1.7	1.9	2.1	2.1	2.2	2.4	2.5	2.8	3.0	3.2
(b) Subsidies[1]	0.6	1.2	1.3	1.3	1.4	1.2	1.2	1.4	1.4	1.8	2.0	1.7
(c) Defence Expenditure[3]	3.0	2.9	2.7	2.7	2.9	2.8	2.8	3.0	2.9	3.0	3.1	3.0
(d) Grants to States & UTs.	1.7	2.0	2.2	2.7	2.2	2.2	1.9	2.2	2.3	2.4	3.0	2.8
(e) Others	2.6	2.7	2.6	2.6	2.6	2.4	2.6	2.8	2.7	3.0	3.3	3.3
5. Revenue A/C. Surplus/ Deficit (3 — 4)	**1.2**	**0.4**	**0.5**	0.3	(—)0.6	(—)0.6	(—)0.2	(—)0.8	(—)1.2	(—)1.6	(—)2.4	(—)2.5

[1] Excluding subsidies on imported fertiliser.
[2] Estimated.
[3] Includes defence pensions.

6.14 The deterioration in the Centre's revenue account in the past few years can be traced to near stagnancy in the Centre's current receipts, both tax and non-tax, around 11-12 per cent of GDP, whereas the current expenditure of the Centre has increased from about 11 per cent in late seventies and early eighties to about 14.4 per cent by 1985-86 (RE). Among the major items of expenditure, the growth in interest payments has been the maximum, from 1.7 per cent of GDP in mid-seventies to a little over 3 per cent currently. Growth in grants to States and Union Territories has equally been phenomenal, from an average of about 2.0 per cent of GDP during 1975-76 to 1977-78 to 3.0 per cent in 1985-86 (RE). Defence expenditure, on the other hand, has hovered around 3 per cent of GDP throughout the decade ending 1985-86. However, subsidies have grown relative to GDP from an average of 1.3 per cent until 1983-84 to about 2 per cent in 1985-86 (RE). Among the major subsidies, the fastest growth has been in the case of fertiliser subsidy.

6.15 The financial position of the State Governments and Union Territories recorded a remarkable improvement in 1985-86. In sharp contrast to a deficit of Rs. 1,360 crores recorded in 1984-85, they generated a surplus of Rs. 847 crores in the revised estimates of 1985-86. (The actuals for 1985-86 indicate that the surplus in their budgets was as high as Rs. 1,776 crores). As stated earlier, this satisfactory outcome was largely on account of the substantial increase in the net transfer of resources from the Central Government. The performance of the State and Union Territory Governments in raising revenue from their own tax efforts was also satisfactory, rising by 16.3 per cent to Rs. 14,359 crores in 1985-86 (RE) over the level reached in the previous year. Thus, the increase in their total resources (including Central transfers) was as high as 22.9 per cent (22.1 per cent in current revenues and 23.9 per cent in capital receipts), whereas the increase in expenditure was 15.6 per cent.

Central Government Budgetary and Fiscal Developments—1986-87

The 1986-87 *Budget*

6.16 As noted in last year's Economic Survey, the Long Term Fiscal Policy (LTFP) indicated the direction of change in the tax policy and made a number of proposals for reform of the tax system to make it a more effective instrument for achieving the basic objectives of the Seventh Plan. The Budget for 1986-87 implemented many of the important elements of LTFP. Apart from carrying forward the process of simplification and rationalisation of direct tax laws and strengthening further measures for curbing tax evasion, the Budget effected a major reform in the indirect tax system. Far reaching reforms of excise taxation were carried out, including the introduction of MODVAT (Modified Value Added Tax), the simplification of excise rate structure and the introduction of a simpler and more growth-oriented scheme of excise duty concessions for small scale units. The Budget also carried further the move towards placing greater reliance on tariffs for control of imports and for rationalising the customs structure in respect of capital goods, components and raw-materials. The revised nomenclatures for Excise and Customs Tariffs based on harmonised system of classification was brought into force from February 28, 1986.

6.17 The Budget accorded high priority to stepping up the outlay for the Annual Plan for 1986-87. As a result, for the first time, 40 per cent of the Five Year Central Plan target expenditure in real terms, would be financed in the first two years of a Five Year Plan. Moreover, in the allocation of resources, the Budget gave special emphasis to anti-poverty programmes, improving the social and economic services of special interest to the poor and strengthening the infrastructural facilities necessary for securing rapid economic growth. A massive increase of 65 per cent was made in the provisions for major anti-poverty programmes such as Integrated Rural Development Programme, National Rural Employment Programme, Rural Landless Employment Guarantee Scheme. Keeping in view the key role of the agricultural sector for the economic growth and poverty alleviation, outlays for agriculture, rural development and irrigation were increased by nearly 30 per cent. Similarly to improve the development of skills and human resources, the Plan provision for education was stepped up by nearly 60 per cent. Among the infrastructural sectors, the allocation for Railways was hiked by 61 per cent and that for power by 23 per cent.

6.18 The details of important fiscal measures adopted in the Budget for 1986-87 and the Finance Act, 1986 are given in the following paragraphs :

Direct Taxes

6.19 In pursuance of the Long Term Fiscal Policy (LTFP), several measures of reform in the direct tax system were undertaken with a view to promote voluntary tax compliance and discourage tax evasion. The provisions relating to taxation of capital gains and gift tax were simplified and rationalised. In regard to taxation of capital gains, the limit for initial deduction was raised from Rs. 5,000 to Rs. 10,000 and the date for determining the cost of assets advanced from January 1, 1964 to April 1, 1974. The rate structure was also simplified by prescribing a uniform rate of deduction of 50 per cent in case of long term capital gains from land and buildings and 60 per cent in respect of other assets. Bonds issued by the Industrial Development Bank of India (IDBI) and by other notified public agencies were proposed to be added to the list of investments qualifying for exemption from capital gains. The period for purchase of a residential house in case where capital gains arise from sale of an old house, was raised from one year to two years, to be eligible for the benefit of exemption from capital gains tax.

6.20 With regard to gift tax the basic exemption limit was substantially increased i.e from Rs. 5,000 to Rs. 20,000. Moreover, the tax henceforth is to be levied at a flat rate of 30 per cent of the value of taxable gifts. The provisions relating to aggregation of gifts were deleted. However, as a measure of rationalisation certain exemptions were withdrawn.

6.21 In line with the LTFP, significant reforms were also carried out in the area of corporate taxation which aimed at increasing the generation of internal resources, while simultaneously providing stimulus to industrial investment, growth and modernisation. A new Investment Deposit Account Scheme or funding scheme was introduced, with a view to replacing the existing Investment Allowance Scheme. Under the new scheme, assessees would be allowed a deduction to the extent of 20 per cent of the profits of eligible business or profession if these are deposited with the Industrial Development Bank of India (IDBI). The scope of the new scheme was made much wider than that of the Investment Allowance Scheme, to include professionals as well as leasing companies, other than those which leased out machinery to the industrial undertakings engaged in manufacture or production of articles listed in Eleventh Schedule. The amount deposited with the IDBI can be utilised for the purchase of new ship, aircraft, machinery or plant for the purpose of business or profession or even purchase of a new computer or for repayment of the principal amount of term loans from certain financial institutions and scheduled banks contracted after March 31, 1986. The deduction from profits would also be admissible if the specified items are acquired out of income from eligible business or profession. The tax concession was also extended to tea industry.

6.22 As indicated in the LTFP, the provisions for the Income Tax Act relating to depreciation allowance were also considerably simplified and rationalised. A system of allowing depreciation in respect of block of assets in place of individual assets will be introduced and the rate structure is proposed to be rationalised. This would allow more than 80 per cent of the cost of plant and machinery to be written off in a period of four years or less and would thus not only make replacement easier but also greatly help the process of modernisation. Plant and machinery used as anti-pollution devices and those using indigenous know-how will be placed in a block carrying higher rate of 50 per cent because of the priority attached to these areas. Buildings meant for low paid employees of industrial undertakings will be entitled to a higher rate of depreciation i.e. 20 per cent. It was, however, clarified that for purposes of depreciation or investment allowance, capitalisation of interest paid or payable is not allowable after the asset is put into use.

6.23. As promised in the LTFP, the surcharge on corporate tax was discontinued. However, taking into account revenue considerations, the abolition of the surtax was postponed by one year. Further, as a measure of rationalisation, the rate of tax on royalties and fees for technical services received by a foreign company from an Indian concern or from Government has been fixed at a uniform rate of 30 per cent both in the case of lump-sump payments as well as royalty payments and fees. The ceiling of investment in plant and machinery for the small scale sector was raised from Rs. 20 lakhs to Rs. 35 lakhs to bring it in line with the limit earlier raised by the Department of Industrial Development and thus enlarged the eligibility for availament of relevant benefits under the Income Tax Act for small undertakings.

6.24 LTFP had proposed for the creation of a Venture Capital Fund to promote indigenous technology which would be administered by the Industrial Development Bank of India and funded through a small 5 per cent 'R & D' levy on all payments made for purchase of technology from abroad including royalty payments, lump-sum payments and payments for designs and drawings. The Budget announced that the proposal would be given effect to through introduction of a separate Bill which has since been enacted.

6.25 Keeping in view the developments on the balance of payments front and the need to give further thrust to the export efforts, certain incentives for exports were announced in the course of the Budget Session. The deduction in respect of profits from exports in computing the taxable income (Section 80 HHC) has been expanded to the extent of 4 per cent of net foreign exchange realisation plus 50 per cent of the remaining net profits from exports. While the Ministry of Commerce has taken several measures to provide fillip to project exports, under the Income Tax Act also, the deduction admissible in case of profits from project exports (under Section 80 HHB) has been doubled to 50 per cent. A greater flexibility has been provided to units set up in the Free Trade Zones for availing the benefit of tax holiday. They would now be able to avail of tax holiday for five consecutive years falling within a period of eight years from the year in which the industrial undertaking begins to manufacture or produce. Stamp duty in respect of bills of exchange or promissory notes drawn by exporter borrowers for securing finance from Eximbank has been substantially reduced.

6.26 The Budget also included several proposals to provide relief to the common man and greater social security to the poor. For the benefit of salaried persons, the standard deduction was raised from 25 per cent to 30 per cent of the salary income and the limit raised from Rs. 6,000 to Rs. 10,000. The exemption limit in respect of house rent allowance in the case of employees was raised and the limit of deduction for rent paid (under Section 80 GG) was also increased in respect of other assessees. Income-tax liability on notional income arising from self-occupied property (limited to one such property) was withdrawn. In the case of such properties acquired with the help of borrowed funds a deduction in respect of interest payable upto a maximum of Rs. 5,000 per annum was allowed. The self-employed persons and the salaried persons who do not get the benefit of medical expenses from the employers, have been allowed a deduction in computing total income in respect of amounts spent upto a specified limit to effect or keep in force an insurance on the health of the assessee or members of his family. Similar deduction has also been allowed to an employer in respect of premium paid on the health of the employee or members of his family.

6.27 To give further impetus to poverty alleviation, the Budget provided for two innovative schemes Under the first scheme which has since been launched, loans would be provided to such people as rikshaw-pullers, cobblers, washermen, hawkers and sweepers, through the banking system with a subsidy component, for the purchase of equipment and working capital. The Budget also proposed introduction of another new scheme for accident insurance, based on Group Insurance through workers unions, for the benefit of municipal workers and railway porters. Further, the scope of Personal Accident Insurance Scheme for the poor launched in the previous year was proposed to be extended to another 100 districts or so.

6.28 The basic exemption limit in regard to receipts of casual or non-recurring nature was increased substantially i.e. from Rs. 1,000 to Rs. 5,000. However, as a part of simplification, a flat rate of tax was made applicable to casual or non-recurring nature of income such as in case of winnings from lotteries, cross-word puzzles, horse-races or card games etc.

6.29 To promote savings as well as to provide relief to the salaried persons and the self-employed, the rates of interest on General Provident Fund, Public Provident Fund as also the interest on Provident Fund accretions invested in Special Deposits with the Government in case of Employees Provident Fund and the like, were enhanced. In order to encourage participation of small investors in the capital market, the Budget proposed establishment of a Mutual Fund under UTI. The Fund has since been established and Mastershares which carry similar benefits as available to the units of UTI, have been issued.

6.30 Several measures including moderation in tax rates and simplification and rationalisation of tax laws have been undertaken since last year to encourage voluntary tax compliance. The other arm of the strategy to curb tax evasion and generation of black money has been to effectively enforce the tax laws and raise the cost of tax evasion. With this end in view a major step was undertaken by inserting a new chapter in the Income Tax Act which empowers the Government with a pre-emptive right to purchase immovable properties of a value exceeding Rs. 5 lakhs which are offered for sale in the market at the price agreed to by the transferor. To begin with, the provisions were proposed to be enforced in regard to transactions of value of Rs. 10 lakhs and above, and in metropolitan cities of Bombay, Calcutta, Delhi and Madras. A notification to this effect has since been issued and initial purchases of property under this provision have been carried out by the Government from December 1986. Further, in order to make the system of Survey more effective, a new Section 133-B was inserted. Under this, the Income Tax authorities have been permitted to enter any business premises for obtaining such information as may be prescribed. Steps are also being taken to strengthen the survey, investigation and prosecution machinery of the Income Tax Department.

Indirect Taxes

6.31 The Budget brought about a sweeping overhaul in the system of excise taxation. The desirability of minimizing the duty incidence on inputs in production, has been appreciated for some years. For example, the Indirect Taxation Enquiry Committee (Jha Committee) had in 1978 recommended adoption of value added tax system at the manufacturing stage (MANVAT). However, it was only in the Budget for 1986-87 that a wide-ranging and systematic effort to minimise the incidence of taxation on inputs was undertaken, through the introduction of Modified Value Added Tax System (MODVAT). Under the scheme, the facility of proforma credit in respect of excise duty as well as the additional (countervailing) duty of customs, paid on inputs has been made available to the manufacturers. In addition, set off has also been allowed for packaging materials, consumables and paints. The system should have several benefits. It should reduce the distortions in the production structure, mitigate the cascading effect of taxes on inputs, make the incidence of indirect taxation more transparent and help in reducing costs and prices. To begin with, the scheme covered 37 specified chapters of Central Excise Tariff Act, 1985, which include products of chemicals and allied industries, paints and packaging materials, machinery and mechanical appliances, motor-vehicles, plastics, glass, rubber products, base metals and several other manufactured articles. Subsequently the MODVAT scheme was extended to the chapter covering fertilizers. The rates of duty on final products were adjusted in the light of the facility of MODVAT.

6.32 As proposed in the LTFP, the Budget attempted to simplify and rationalise the excise duty structure. Special excise duty was removed from 100 items of the Excise Tariff in 1985-86. The same was removed in the case of the remaining items in the 1986-87 Budget. It also proposed the withdrawal of cess in case of cotton, copra and vegetable oils.

6.33 Further, keeping in view the vital importance of the small scale industries in generating employment opportunities, encouraging decentralisation of industries and exports, a new growth-oriented excise concession scheme for small scale producers was introduced. The new scheme was made applicable to small units producing all types of exciseable goods, with a few exceptions like T. V. sets, refrigerating and air-conditioning appliances and cosmetics. The scheme has been designed to encourage growth and modernization of small scale units. Though initially in the Budget the exemption limit for duty-free clearances had been put at Rs. 7.5 lakhs, the limit was later liberalised and raised to Rs. 15 lakhs for all small scale units. For units producing more than one article falling under different Tariff headings the exemption limit was fixed at Rs. 30 lakhs. As against the previous slab system, the new scheme provides for a concessional rate of duty at a flat rate of 10 percentage points below the normal duty payable (subject to a minimum excise duty of 5 per cent) in respect of clearances in excess of Rs. 15 lakhs and upto Rs. 75 lakhs, beyond which normal duty would apply. The eligibility limit of clearances for availing the concession was raised from Rs. 75 lakhs to Rs. 1.5 crores. Further, a major concession was provided under MODVAT, according to which the proforma credit available on inputs purchased from small scale units would be calculated on the basis of normal duty rates, even when the small units would have paid only concessional duty.

6.34 Several adjustments in the excise and customs duty were made to simplify and rationalise the structure and to boost domestic production with special emphasis on promoting exports and import substitution.

6.35 To encourage the indigenous production of capital goods and to strengthen self-reliance, the differential in the customs duty between the final products and the components for capital goods was widened. While the basic customs duty on general machinery was raised by 10 percentage points, the import duty on components was reduced by 5 percentage points. The rate of customs duty on general project imports was also increased by 10 percentage points. Further, as a part of the policy to shift from quantitative import restrictions to tariffs, customs duties were raised in respect of a number of machine tools and the items were placed on OGL. On the other hand, to reduce the costs of modernization, import duties were lowered on a wide range of machine tools and instruments not produced indigenously.

6.36 In order to encourage exports, the import duty on several items of machines and equipments for gem and jewellery as well as on specified machines used in production and packaging of marine products, was reduced. The import duty on wattle bark and leather shaving-machine blades was reduced in the case of leather industry. To assist garment exports, the general drawback rate was raised to 10 per cent. The import duty on raw wool was halved from 40 per cent to 20 per cent. On the other hand, the import duty on wool-waste and woollen rags was doubled to 20 per cent. Export duties were abolished in case of unmanufactured tobacco and excise duty withdrawn in respect of branded cigars, cheroots, and cigarilloes in view of their export potential.

6.37 Recognising the imperative need to achieve greater self-reliance in respect of edible oils, a package of measures was adopted in the Budget to stimulate their domestic production. Excise duty relief was provided based on each additional percentage point of use of minor oils and cotton-seed oil, above specified levels, by the vanaspati units. Similarly the extent of relief was increased and certain additional minor oils made eligible for excise rebate for their use in soap. Excise duty on solvents as well as on certain minor inedible technical oils was withdrawn to encourage their greater use. It was further announced that excise or customs duty would be exempted on such of the items of plant and machinery which may be identified by the Department of Civil Supplies for improving quality and increasing production of solvent extracted oils or oil-meals. However, as a revenue measure excise duty on costly refined vegetable oils, (that is, other than those from soyabean, rice-bran, cotton seed and sun-flower) was raised.

6.38 In accordance with the new textile policy's aim of encouraging production of blended fabrics and making these available at reasonable prices, blended polyester cotton and polyester viscose yarn with certain polyester content supplied to specified handloom organisations were exempted from excise duty. Duty was also waived on processing of specified blended fabrics by specified handloom development organisations. Further, to ensure that items reserved for handloom sector are not encroached upon by other sectors, the handloom cess was raised from 1.9 paise per sq. metre to 2.5 paise per sq. metre to be utilised for setting up the necessary enforcement machinery. On the other hand, the excise duty relief earlier given on blended yarn was reduced by nearly half since the benefit of the relief had not been passed on by their producers to the consumers. The Additional Excise Duty (AED) in lieu of sales tax was increased by Rs. 2.50 per sq. metre on cotton and man-made fabrics of value exceeding Rs. 50 per sq. metre.

6.39 Keeping in view the importance of modernisation in textile industry, the concessional rate of customs duty of 25 per cent in respect of specified textile machines was continued for one more year. Moreover, to encourage domestic production of certain sophisticated textile machines, customs duty at concessional rate of 25 per cent *ad valorem* was provided in respect of components of such machines. To protect the jute bag industry, excise duty at the rate of Rs. 10 per kg. was levied in case of synthetic tapes where input duty relief would be available and at the rate of Rs. 4 per kg. in the case of other tapes.

6.40 The exemption scheme for small paper mills was rationalised and liberalised. In the new scheme paper mills whose clearances did not exceed 24,000 tonnes in the previous financial year and which do not have a bamboo or wood pulp plant, were required to pay duty at the rate of Rs. 300, Rs. 650, Rs. 1,000 and Rs. 1,500 per metric tonne for the successive slabs respectively. For paper mills with clearances exceeding 24,000 metric tonnes or larger paper mills having bamboo or wood pulp plant, the rate of duty was fixed at 10 per cent *ad valorem* plus Rs. 850 per metric tonne. However, fine varieties of paper were excluded from the concessional rates.

6.41 The structure of excise duty in case of major thermo-plastics *viz.* Low Density Polyethylene High Density Polyethylene and Polypropylene was simplified and a uniform rate of 30 per cent was levied and customs duty in their case was suitably increased. Similarly a uniform rate of 35 per cent was provided in respect of certain items of plastic materials and brought under general scheme of small scale exemptions. In the case of drug industry, certain additional life saving formulations were exempted from excise duty and specified drug intermediates exempted from additional duty of customs. Customs duty was also abolished on additional five medical equipments of consumable nature and reduced in case of a number of sophisticated medical equipments. In view of the importance of ship breaking industry as a source of scrap for steel industry, the import duty on ships imported for breaking up was fixed on a specific rate basis and the excise duty on materials obtained by breaking up such ships was waived. Customs duties were adjusted in case of a few other commodities such as caustic soda, synthetic organic dye-stuffs and certain other dyes, PVC resins and a few items of printing equipments.

6.42 Excise duty relief was provided in case of several commodities, which, it is expected, would contribute to their increased production. Duty was withdrawn in case of commodities such as wood pulp, inorganic chemicals used in the manufacture of fertilizers, clinkers used in the manufacture of cement subject to observance of prescribed procedure. The excise duty was also abolished on some common items like brushes, umbrellas, combs etc.

6.43 Certain measures were taken with a view to mobilise additional resources. Auxilliary duties of customs were restructured and rationalised. The existing 11 slabs were reduced to only three slabs *viz.* nil, 25 per cent and 40 per cent. This measure was expected to yield additional revenue of Rs. 190 crores. However, certain "GATT items" were exempted from auxilliary duty to bring the total rate within the GATT binding level. Specific rate of auxilliary duty of customs on crude petroleum was kept unchanged. Excise duties in case of commercial vehicles, jeeps and cars were adjusted. Specific Excise duty was increased from Rs. 900 to Rs. 1500, in respect of colour T.V. sets of screen size exceeding 36 cms. and from Rs. 600 to Rs. 1000 for colour T.V. sets not exceeding 36 cms. Additional duty of customs was levied on T.V. sets imported as baggage. The duty on airconditioners was increased and fixed on specific rate basis. A uniform duty of 60 per cent ad valorem was levied on all parts and accessories of refrigerating and air-conditioning machinery except compressors for air-conditioners, which were subjected to a specific rate of duty.

6.44 In order to augment resources for the public sector undertakings and keeping in view the potential of the capital market the Budget proposed for issue of a new series of public sector bonds with tax-free return and exempt from wealth tax.

6.45 Recognising the sweeping nature of reforms undertaken with the introduction of new Excise Tariff, the MODVAT scheme and a universal scheme of excise concession for small scale units, the Finance Minister held a series of open house meetings, after the presentation of the Budget, with industry and trade to sort out the problems arising from the operation of the new schemes. As a follow up of the discussions on the Budget in the Parliament and these meetings, several administrative procedures were simplified and certain modifications made in the excise concession scheme for small units and the MODVAT scheme. Notably, the procedures in regard to obtaining of excise licences, maintenance of records relating to production, storage, clearances and raw material accounts in respect of small units were considerably simplified. Small units were allowed the facility of self-assessment procedure for clearances upto Rs. 50 lakhs.

6.46 With a view to provide relief to the small scale units and to restore the duty concessions available under the earlier Tariff, a number of exemptions were given for goods manufactured without the aid of power. Exemption on inputs for captive consumption was also extended to inputs covered under MODVAT when used within the factory in the manufacture of final products on which excise duty is payable. In addition, the set off was made available in certain cases where final product is not covered under MODVAT. Gas mantles for kerosene pressure lanterns, hurricane lanterns, non-electric iron/brass presses, sawn timber, wood wool and flour, railway and tramways wood sleepers, certain articles of wood, clothing accessories, bulk drugs and various other articles were exempted from excise duty. Similarly duty was abolished in case of synthetic woven bags, HSDO used for deep fishing vessels, unprocessed cotton woven belting. Duty was withdrawn in case of woollen fabric not containing worsted yarn and not exceeding Rs. 40 per sq. metre including shoddy woollen fabrics. It was decided that chassis value would be excluded from computation of assessable value for charging excise duty. Soap-stone used in manufacture of paper/paper board, carded wool used in manufacture of wool-tops/yarn were exempted from duty. Duty was reduced in the case of electric wires and cables.

6.47 The additional resource mobilisation measures introduced in the 1986-87 Central and Railway Budgets were expected to yield Rs. 476 crores, of which Rs. 400 crores were to be raised through fresh taxation and Rs. 76 crores by way of revision in Railway fares. The Centre's share in additional taxation was Rs. 392 crores and of the States, Rs. 8 crores. The details are shown in Table 6.3.

TABLE 6.3

Additional Resource Mobilisation through Central Budget for 1986-87

(Rs. crores)

	Centre's Share	State's Share	Total
I. Taxes [1]	**391.66**	**8.25**	**399.91**
(*a*) Direct Taxes	4.40	6.60	11.00
(*i*) Corporation Tax	3.00	..	3.00
(*ii*) Income Tax	1.40	6.60	8.00
(*b*) Indirect Taxes	387.26	1.65	388.91
(*i*) Customs duties	404.10	..	404.10
(*ii*) Union excise duties	(—)16.84	1.65	(—)15.19
II. Revision in the Postal and Telecommunication Tariffs and Railway Fares & Freights	**76.00**	..	**76.00**
(*a*) Railways	76.00	..	76.00
(*b*) Posts and Telecommunications	..	..	..
III. Total (I + II)	**467.66**	**8.25**	**475.91**

1 After taking into account changes announced during the Budget debate.

6.48 The Railways in their Budget for 1986-87 revised the fares for different categories of passengers. The fares of second class mail and express were raised by 7.5 per cent upto 250 kms., and by 5 per cent on distanees beyond 250 kms., subject to a minimum increase of rupee one per ticket. The sleeper surcharge for second class was raised from Rs. 10 to Rs. 15 for journeys beyond 500 kms. The fares of air-conditioned chair car, first class, A. C. two-tier sleeper, A. C. first class and of all classes in Rajdhani Express trains were raised by 12.5 per cent. The surcharge on A.C. two-tier sleeper was raised by Rs. 5, Rs. 10, Rs. 15 and Rs. 20 for distances from 1 to 500 kms., 501 to 1000 kms., 1001 to 1500 kms., and 1501 kms. and beyond respectively. In order to enable young people to see different parts of the country and to strengthen in them the sense of national integration, a concession of 25 per cent in passenger fares in second class was given to them (age group of 13 to 33 years) for travelling in groups of a minimum of ten for distances over 1000 kms.

Revenue and Expenditure

6.49 The aggregate resources of the Central Government (including the internal and extra-budgetary resources of the public sector undertakings) were estimated to increase by 17.8 per cent from Rs. 53,004 crores in 1985-86 (BE) to Rs. 62,465 crores in 1986-87 (BE), and aggregate disbursements by 17.5 per cent, from Rs. 56,320 crores to Rs. 66,168 crores. The total tax revenue of the Centre (net of States' share) in the 1986-87 budget was estimated to show an increase of 17.7 per cent over the budget estimates of 1985-86, but the increase would be only 8.1 per cent over the revised estimates for 1985-86. The increase in non-tax revenue was also modest (10.2 per cent), but domestic capital receipts were projected to go up by as much as 22.4 per cent to Rs. 26,171 crores from the last year's budget estimate of Rs. 21,382 crores. Developmental expenditure at Rs. 39,755 crores (forming more than 60 per cent of the aggregate expenditure), was estimated to be higher by 18.1 per cent, while non-developmental expenditure was to go up by 16.5 per cent.

6.50 The Central Plan for 1986-87 envisages an outlay of Rs. 22,300 crores, representing an increase of 20.5 per cent over the last year's outlay of Rs. 18,500 crores (BE). Thus, the Central Plan outlay in the current year together with the revised estimates for 1985-86 (Rs. 20,094 crores), covered about 40 per cent of the Seventh Plan outlay in real terms at 1984-85 prices. This was significantly higher than the proportion achieved in the first two years of any previous five year Plan. In the sectoral distribution of outlays, priority has been accorded to programmes of poverty alleviation, development of human resources and infrastructural development. The allocation for the Department of Rural Development at Rs. 1,851 crores was nearly 50 per cent higher than the approved outlay of Rs. 1,239 crores in 1985-86 (BE). Whereas the Plan allocations for NREP were raised by as much as 93 per cent from Rs. 230 crores in 1985-86 (BE) to Rs. 443 crores in the current year, the step up in the case of RLEGP was also substantial (58 per cent), from Rs. 400 crores to Rs. 633 crores in the two years respectively. These two programmes were expected to generate employment of over 564 million man-days in the current year, as against the anticipated 462 million man-days in the preceding year.

6.51 Another area of major thrust in the Seventh Plan is the development of human resources, which includes education, sports, youth affairs, health, family welfare, women's welfare, environment, art, culture and broadcasting. An outlay of Rs. 1,733 crores has been provided for these programmes in the Central Plan for 1986-87, which was more than 40 per cent higher than the outlay of Rs. 1,236 crores in 1985-86 (BE). In the field of education, two new schemes were proposed : one was to set up Model Schools in every district of the country to provide education of high quality and excellence. The other was to start a National Open University for providing equal opportunities to the students in the remote and backward areas in the field of higher education.

6.52 In keeping with the emphasis laid in the Seventh Plan for creation of key infrastructure facilities in sectors like coal, power, railways, petroleum and surface transport, the Central Plan for the current year has allocated as much as Rs. 10,805 crores, which constitutes nearly 48 per cent of the total Central Plan outlay for 1986-87. In the context of the priorities assigned to various programmes in the annual Plan 1986-87, the implementation of 20-Point Programme was expected to gain further momentum. The outlay for this programme was stepped up by nearly Rs. 1,100 crores (or 22 per cent), from Rs. 4,900 crores in 1985-86 (BE) to Rs. 5,998 crores in 1986-87 (BE).

Savings and Capital Formation

6.53 The pressure on Central budget has been building up in recent years with the result that the savings which used to be a positive figure turned negative in 1984-85; this had further widened to Rs. 1,909 crores in 1985-86 (RE). For the current year, the estimate was that savings of the Central Government would still be negative at Rs. 2,099 crores. In contrast, the gross capital formation out of budgetary resources of the Central Government at Rs. 23,598 crores showed a modest increase of 5.7 per cent from Rs. 22,321 crores in 1985-86 (RE), thereby enhancing the financing requirement from Rs. 24,230 crores to Rs. 25,697 crores in these two years (Table 6.4). As in the past, the domestic receipts were to finance in the current year nearly three-fourths of the requirement, while the draft on the foreign savings would be 11.2 per cent. The remaining 14.4 per cent would be financed by taking recourse to budgetary deficit.

TABLE 6.4

Capital Formation by the Central Government and its financing

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86 (R.E.)	1986-87 (B.E.)
I. Gross Capital Formation out of Budgetary Resources of Central Government	**9012** (24.7)	**10799** (19.8)	**12403** (14.9)	**14702** (18.5)	**17551** (19.4)	**22321** (27.2)	**23598** (5.7)
As per cent of gross domestic product at current market prices	7.1	7.3	7.5	7.6	8.2	9.2	N.A.
(*i*) Gross capital formation by the Central Government	1907	2552	2884	3356	4123	4910	5890
(*ii*) Financial assistance for capital formation to the rest of the economy	7105	8247	9519	11346	13428	17411	17708
II. Gross Savings of the Central Government	**3**	**1107**	**857**	**313**	**(—)963**	**(—)1909**	**(—)2099**
III. Gap (I — II)	**9009**	**9692**	**11546**	**14389**	**18514**	**24230**	**25697**
Financed by :							
IV. Draft on other sectors of domestic economy	**7339**	**8391**	**9955**	**12778**	**16657**	**21810**	**22828**
(*i*) Domestic capital receipts	4762	6999	8300	11361	12912	17320	19125
(*ii*) Budgetary deficit	2577	1392	1655	1417	3745	4490	3703
V. Draft on foreign savings	**1670**	**1301**	**1591**	**1611**	**1857**	**2420**	**2869**

NOTE : (*i*) Gross capital formation in this Table includes loans given for capital formation on a gross basis. Consequently, domestic capital receipts include loan repayments to the Central Government.

(*ii*) Figures in brackets are percentage increase over the preceding year.

Finances of States and Union Territories : 1986-87

6.54 The budgets of the States and Union Territories for 1986-87 show an increase of 14 per cent in their aggregate expenditure from Rs. 39,964 crores in 1985-86 (BE) to Rs. 45,563 crores in 1986-87 (BE). Their current revenue at Rs. 35,552 crores was estimated to grow by 15.6 per cent over the budget estimates of the previous year (Rs. 30,756 crores). While the growth in their own taxes was budgeted at 15.4 per cent, their share in Central taxes was to go up by 18.7 per cent in 1986-87 (BE) over 1985-86 (BE). Non-tax revenues and the grants from the Centre were estimated to be higher by 20.6 per cent and 9.8 per cent respectively in the current year.

6.55 The gap between current revenues and total expenditure of the States and Union Territories was estimated at Rs. 10,011 crores in 1986-87 (BE) compared with Rs. 9,208 crores in 1985-86 (BE). Capital receipts (net) were budgeted to grow by 8.9 per cent to Rs. 9,684 crores. Thus, the combined budgetary deficit of the States and Union Territory Governments for 1986-87 was estimated at Rs. 327 crores at the time of the presentation of the Budgets to their legislatures.

Central and State Governments—Combined

6.56 The combined expenditure of the Centre, the States and the Union Territories was estimated to go up by 16.1 per cent from Rs. 80,326 crores in 1985-86 (BE) to Rs. 93,246 crores in 1986-87 (BE). Aggregate receipts were estimated in the 1986-87 Budgets at Rs. 89,216 crores, an increase of 16.3 per cent over Rs. 76,697 crores in 1985-86 (BE). While tax revenues were budgeted to increase by 17.7 per cent over 1985-86 (BE), the non-tax revenues (including internal resources of public sector undertakings for their plans) were estimated to grow by 10 per cent. The gap between total outlay and current revenues, estimated at Rs. 30,517 crores in 1986-87 (BE), was to widen by 16.9 per cent and was to be financed to the extent of 77.4 per cent through domestic capital receipts and 9.4 per cent through external receipts, leaving a balance of 13.2 per cent to be met through recourse to budgetary deficit.

Annual Plan : 1986-87

6.57 The aggregate outlay for the Annual Plan 1986-87 for the Centre, the States and the Union Territories was stepped up by 21.1 per cent to Rs. 39,052 crores (Table 6.5) from the approved

TABLE 6.5

Annual Plan Outlay : Centre, States and Union Territories

(Amount in Rs. crores)

Heads of Development	Annual Plan 1985-86		Annual Plan 1986-87	
	Amount	Percentage to total	Amount	Percentage to total
1. Agriculture .	1997.5	6.2	2202.8	5.6
2. Rural development .	1656.6	5.1	2505.3	6.4
3. Special area programme .	540.4	1.7	597.1	1.5
4. Irrigation and flood control	2781.4	8.6	3192.7	8.2
5. Energy .	10186.9	31.6	11922.1	30.5
6. Industry and minerals .	4663.2	14.5	5414.9	13.9
7. Transport .	3816.7	11.8	5197.7	13.3
8. Communications, information and broadcasting.	1087.6	3.4	1252.6	3.2
9. Science and technology .	444.8	1.4	529.0	1.4
10. Social Services	4786.6	14.8	5809.7	14.9
11. Others .	276.9	0.9	427.6	1.1
TOTAL .	32238.6	100.0	39051.5	100.0

outlay of Rs. 32,239 crores for 1985-86 (BE). The allocation for the Central Plan was Rs. 22,300 crores as against Rs. 18,500 crores in 1985-86 and that for the State and Union Territory Plans Rs. 16,752 crores as against Rs. 13,739 crores in the previous year, representing an increase of 20.5 per cent and 21.9 per cent respectively.

6.58 Domestic resources were expected to finance 80.8 per cent of the 1986-87 Plan outlay, and the net inflow from abroad was to contribute 9.8 per cent. The remaining 9.4 per cent was to be met through deficit financing. While the contribution of the balance from current revenues at 1984-85 rates of taxation was expected to remain modest at Rs. 682 crores, the public enterprises were required to contribute Rs. 5,905 crores to the Plan at the 1984-85 level of fares, freight rates, tariffs and product prices. Additional resource mobilisation measures taken by the Centre and the States in 1985-86 and those taken or proposed to be taken in 1986-87 were estimated to contribute Rs. 5,896 crores. The other sources of Plan financing in 1986-87 were to be: market borrowings (Rs. 7,101 crores), small savings (Rs. 5,300 crores), provident funds (Rs. 1,353 crores), term loans from financial institutions (Rs. 887 crores), issue of bonds by public enterprises (Rs. 1,191 crores) and miscellaneous capital receipts (Rs. 3,253 crores).

Measurement of Budgetary Deficit

6.59 In the 1986-87 Central Budget, it was announced that the Government had accepted, in principle, the recommendation of the Chakravarty Committee in regard to the measurement of budgetary deficit, which would now include changes in the entire Reserve Bank credit to the Government, including changes in Reserve Bank's holdings of long-dated securities. The modalities for effecting this change have already been worked out in consultation with the Reserve Bank, and would be implemented from the next year's Budget. Further, in order to bring about better coordination between fiscal and monetary policies, and make their overall management more scientific, it was decided to set overall monetary targets, and monitor them regularly; this is already being done in the current year on an experimental basis.

Post-Budget Developments

6.60 In the current year two supplementary demands for grants have so far been presented to Parliament in July and November, 1986. These involve additional gross expenditure of Rs. 4357 crores. Net of related receipts and recoveries, however, the additional outgo is estimated at Rs. 3,703 crores. Of this, a little more than one fourth will be on the Plan side (Rs. 1,044 crores) and the balance will be non-Plan expenditure. The substantial increase in expenditure is mainly accounted for by only a few broad categories: defence (Rs. 825 crores), loans to Food Corporation of India for carrying buffer stocks (Rs. 600 crores), payment of arrears of food subsidy to Food Corporation of India (Rs. 250 crores), assistance for export promotion (Rs. 125 crores), acquisition of Asiad property from D.D.A. (Rs. 81 crores), subsidy for cotton price support operations (Rs. 42 crores), payment of retrenchment compensation to Fertilizer Corporation of India, and Pyrites and Phosphates Ltd. (Rs. 36 crores), food aid to African countries (Rs. 25 crores), nationalisation of Swadeshi Group of Mills (Rs. 24 crores), and ways and means loans to Delhi Transport Corporation (Rs. 23 crores) for meeting its net working deficit. In addition, the supplementary demands for grants for non-Plan purposes include an amount of Rs. 600 crores mainly for implementing the recommendations of the Fourth Pay Commission and for payment of bonus. On the Plan side, which accounts for a total of Rs. 1,044 crores in the two supplementary demands, as much as Rs. 467 crores was required for investment in Gas Authority of India Ltd. mainly for the HBJ Pipe Line. Other major Plan heads for supplementaries include: transfers to State Governments for NREP and RLEGP (Rs. 128 crores), investment in and loans to Rashtriya Ispat Nigam for Vishakhapatnam Steel Plant (Rs. 79 crores), subsidy to new industries in selected backward areas (Rs. 70 crores), investment in Helicopter Corporation of India Ltd. (Rs. 53 crores), investment in Bharat Aluminium Co. (Rs. 51 crores), and for space programme (Rs. 44 crores).

6.61 The Railways presented a supplementary demand for grants of Rs. 590 crores and took measures to raise additional resources of Rs. 320 crores in the remaining four months of the current year. The Posts and Telecommunication Department also took measures to raise resources in order to meet mainly the additional expenditure arising out of the implementations of the Fourth Pay Commission's recommendations. These are discussed later in this Chapter.

6.62 Tax revenues continued to be buoyant in 1986-87. The provisional data indicates that Centre's collections from major taxes during the period April—December 1986 have been higher by as much as 17 per cent over the corresponding period in the previous year. This rate of growth has been nearly twice the increase anticipated in the Budget estimates for the full year 1986-87. The ratio of tax collections till December 1986 to B.E. 1986-87 has also been higher than that in the corresponding period last year. Thus the buoyancy in the tax collections witnessed in 1985-86 has continued during the current year as well. Especially noteworthy is the buoyancy in direct tax collections which increased by about 23 per cent in 1985-86 (RE). Collections from Income and Corporation taxes (excluding from the Oil Sector) showed a further increase of 26 per cent during April—December 1986 over the corresponding period of the previous year. It is expected that the total tax revenues in 1986-87 would exceed the Budget estimates.

6.63 Continued buoyancy in tax revenues for the second consecutive year tends to confirm the soundness of the basic approach underlying recent tax policy initiatives, namely that of making tax rates reasonable, simplifying assessment procedures and rigorously enforcing tax laws. Operations have continued to be undertaken against tax evaders and other economic offenders. This has yielded good results. The value of assets found/seized as a result of the searches conducted by the Income Tax Department during the period April, 1986—January, 1987 amounted to nearly Rs. 81 crores which was twice that in the corresponding period in the previous year. Similarly, the value of contraband goods seized under the Customs Act amounted to Rs. 157 crores during the period April—December, 1986 as against Rs. 148 crores in the previous year.

6.64 Keeping in view the large amounts of excise and customs collections blocked due to court cases, the Finance Minister on August 1, 1986 announced a scheme for compounding of offences and settlement of court cases relating to customs and excise duties, thereby giving an opportunity to tax payers to make a clean breast of past evasion of duties without prosecution. The concession was thus given with respect to prosecution and not the tax liability. The scheme was to apply to manufacturers or importers who had paid a lower amount of duty in respect of excise clearances or on import of cargo upto December 31, 1984 consequent to declaration of incorrect assessable value or wrong classification under the Tariff where the transactions have been fully reflected in the accounts and balance sheets, if any, of the assessee. It did not cover cases of suppression of production of exciseable goods or their clandestine removal. Nor did it cover cases of smuggling or evasion of duty either by misdeclaration of duty or wrong classification of goods or transactions not recorded in accounts and balance sheets.

6.65 The LTFP had observed about an enormous increase in litigation relating to excise cases and the consequent delay in revenue collections. It had proposed the establishment of an Appellate Tribunal under article 323B of the Constitution to deal speedily with all matters pertaining to customs and excise duties. Accordingly a Customs and Excise Revenues Appellate Tribunal Act 1986 has been passed. The Tribunal will deal with appeals arising from disputes relating to the rates of duties arising out of the Customs and Excise Tariff schedules which were brought into force on 28th February, 1986 and in respect of valuation disputes which arose on or after the same date. With the establishment of the Tribunal the jurisdiction of all courts (except the Supreme Court) would be barred in relation to matters falling within the jurisdiction of the Tribunal.

6.66 In view of the encouraging response to the scheme launched by the Income Tax Department in 1985 under which the assessees were encouraged to voluntarily disclose their true incomes/wealth, the validity period of the scheme has been extended upto 31st March, 1987.

6.67 Certain changes relating to the provisions in the Income Tax Act were made through the Taxation Laws (Amendment of Miscellaneous Provisions) Bill, 1986 introduced in August 1986 and given assent to later in September, 1986. This gives effect to some of the proposals which had been earlier announced in the Budget session of Parliament such as relating to allowing of depreciation in respect of block of assets, amendment of Section 80 HHC in regard to the deduction from export profits and flexibility for availing of tax holiday in case of units established in Free Trade Zones. In addition, the Act provides for certain amendments according to which returns showing income below taxable limit would be deemed to have not been furnished in some cases. It also seeks to remove certain weaknesses and anomalies in law in respect of penalties and prosecutions. As indicated in the Long Term Fiscal Policy, draft rules for valuation of assets were notified for eliciting public opinion.

6.68 A number of adjustment in excise and customs duties have also been made in the post-Budget period keeping in view the objective of rationalisation of the structure of duties, removal of difficulties faced by the industry and trade in the wake of MODVAT and the new excise concession scheme for small units as well as in the light of the emerging developments. With a view to assist the agriculture sector duty on tyres, tubes and flaps, and IC engines used in the manufacture of power tillers and on certain parts and accessories of power tillers has been withdrawn. Similarly agricultural grade zinc phosphate, rock phosphate and other fertilizers when used in the manufacture of fertilizers have been exempted from the duty. Duty has also been abolished in the case of dicalcium phosphate used as animal feed. In order to increase the production of blended fabrics at cheaper prices it was decided to extend to the handloom sector the scheme of exemption from excise duty and countervailing duty of customs on polyester fibres used in the manufacture of low price fabrics under a duly approved programme. Duty has also been removed in respect of double or multi-fold yarn manufactured from duty paid yarn. Similarly duty has been withdrawn in case of mica and articles of mica and hand-made carpets. As a part of rationalisation, excise duty has been reduced in respect of certain parts of refrigeration and air-conditioning machinery. A concessional rate of duty has been fixed in case of electrically-operated trolley buses and battery-powered road vehicles. The duty on autorikshaws built by independent body builders has been fixed at a specific rate of Rs. 1000 per vehicle against 20 per cent *ad valorem* fixed earlier, provided no MODVAT credit of duty is availed. To mitigate the effect of sharp increase in the cost of fuel efficient cars, the duty on such cars of capacity upto 1000 cc has been reduced by 5 percentage points. Similarly keeping in view the difficult situation faced by the industry, the excise duty in case of light commercial vehicles has been reduced from 20 per cent to 10 per cent. The excise duty on tea has been restructured and rationalised and fixed at a uniform rate of 50 paise per kg. both for loose and blended tea except in case of tea grown in certain premium gardens of Upper Assam, wherein it has been fixed at Rs. 1.50 per kg. Besides, a scheme for rebate of excise duty on export of tea has been introduced. With a view to stimulate production of sugar, excise duty rebate in respect of sugar produced during the period 1st October, 1986 to 30th November, 1986 in excess of the average production of corresponding period in the preceding two years, was provided. Pre-budget exemptions were also restored in case of a number of small items.

6.69 Certain concessions in customs duties have been extended to facilitate import of raw-materials and components to promote indigenous production and upgrade technology. In order to give further boost to the electronics industry a package of measures giving substantial duty reliefs was announced in June 1986. Besides rationalising the customs duty in respect of raw materials and piece parts, the import duty on moulds, tools and dies has been reduced. Capital goods for modernisation of the electronics industry have been allowed a concessional duty of 55 per cent *ad valorem*. To protect the interest of the indigenous industry, customs duty on micro-motors used in electronics industry has been fixed on specific basis. Further, concessional rate of duty on disc ceramic capacitators, TV tuners and certain connectors has been withdrawn. The duty on computers was reduced from 200 per cent to 150 per cent. Import duty concession has also been extended to all components of specified machinery irrespective of the head under which these fall in Customs Tariff and the earlier concessions in respect of components of certain other machinery items have been restored. Customs duties in respect of CNC systems, electronic components required for manufacture of CNC system and CNC machine tools have been rationalised and restructured. Certain specified parts required for manufacture of solar energy equipments have been exempted from customs duty.

6.70 In pursuance of the proposal made in the Budget a concessional rate of duty of 55 per cent has been fixed on specified machinery used in solvent extraction oil industry to encourage domestic production. To promote production of export-oriented industries, import duty has been reduced on certain coffee curing machines as well as on specified chemical intermediates used for manufacture of leather chemicals. Having regard to the trend in international prices of crude petroleum, the import duty on crude petroleum has been revised and fixed at a specific rate of Rs. 560 per m.t. Customs duties have been adjusted in case of certain other items. Further, in view of the increase in international prices of black pepper, export duty was raised to Rs. 5 per kg. from Rs. 3 per kg.

6.71 In line with the LTFP, a new simplified and rationalised Duty Drawback Scheme has been brought into force from 1st June, 1986. Apart from reducing the number of rates, the rates have been hiked significantly in case of some identified thrust industries. For a number of new items industry rates have been fixed for the first time. However, rates have been fixed at lower levels where inputs are covered under MODVAT. The revised rates would cut down drastically the need for detailed physical and chemical testing.

6.72 A commitment had been made in the Long Term Fiscal Policy to rewrite the direct tax laws and to rationalise and simplify them so as to make the provisions easier to administer and to improve their effectiveness for curbing tax evasion. In pursuance of this, the Government presented to Parliament in August, 1986 a Discussion Paper on 'Simplification and Rationalisation of Direct Tax Laws' to elicit public opinion. The Paper sets out several important proposals for further reform of the direct tax laws with the basic approach of reposing greater trust in the tax payers to encourage voluntary compliance, on one hand, and preventing tax evasion, on the other. These aim at making the tax laws simple and uniform and attempt to reduce the element of subjectivity of the tax authorities, as far as possible. The main proposals include : (i) Adoption of a uniform accounting year by all assessees, (ii) Rationalisation of taxable entities and their system of taxation, (iii) Adoption of the concept of real income to bring in conformity the taxable income with the commercial practice, (iv) Simplification in the methods of computing the taxable income including rationalisation of the provisions relating to capital gains tax, and taxation of charitable institutions, (v) Substitution of some of the penal provisions by interest charges or additional tax in case of certain defaults, (vi) Setting up of a high powered Appellate body so as to bring about uniform application of law throughout the country, (vii) Simplification of the procedure of appeals and reduction in tiers and (viii) Measures for early collection of taxes and speeding up recovery proceedings. The paper also puts forth certain proposals for further rationalisation of the Wealth-tax Act and the Gift-tax Act.

Expenditure Control and Economy Measures

6.73 In the last year's Economic Survey, it was mentioned that as a part of the strategy to control public expenditure, Government proposed to commence zero-base budgeting in stages. This process was initiated in the current year in the formulation of the budget of all the Central Government Departments for 1987-88. The Government is also evolving a system of commitment budgeting, which will be complementary to zero-base budgeting, the objective being that on-going projects should not be starved of funds. In the meantime, the system of quarterly budgeting has been introduced from the current year with a view to identifying projects where funds were lying idle, and diverting them to other well implemented projects where funds were most needed. To begin with, this system has been made applicable to certain categories of Plan schemes involving a specified amount of expenditure. Steps have also been taken to ensure that the pace of expenditure was not slowed down in the first part of the financial year for want of sanction in time. Monitoring of earmarked outlays for programmes being executed by State Governments and their implementation has also been undertaken.

Central Government Departmental Enterprises

Railways

6.74 Reversing the trend of the preceding two years, the financial performance of the Railways in 1985-86 (RE) was quite satisfactory in that they were expected to generate a surplus of Rs. 85 crores, in sharp contrast to the deficit of Rs. 196 crores incurred in 1984-85 and of Rs. 45 crores in 1983-84. This surplus was even marginally higher than the budgeted amount of Rs. 74 crores, and was achieved despite the working expenses having gone up by about Rs. 178 crores from the budgeted level on account of several factors such as payment of second instalment of interim relief, higher cost of diesel and coal and revision in electricity tariffs. The satisfactory financial performance of the Railways was the result of mainly the increase in their productivity, and was duly reflected in their gross traffic receipts which went up to Rs. 6,339 crores in the revised estimates of 1985-86, exceeding the budget estimates by Rs. 188 crores. Apart from other measures of expenditure control, the Railways exercised strict economy in man-power employment. During the year 1985-86, by better management the traffic output, that is, freight tonne kilometres plus passenger kilometres, per employee was expected to increase to 2.66 lakhs traffic units as compared to 2.55 lakhs traffic units in 1984-85.

6.75 The Railway Budget for 1986-87 envisaged a surplus of Rs. 69 crores, after taking into account the additional revenue of Rs. 76 crores from revision in passenger fares. It was assumed that the Railways would be able to lift 294 million tonnes of freight traffic, including 27 million tonnes of non-revenue earning traffic, i.e., about 6 per cent more than the freight expected to be carried at the time of revised estimates for 1985-86. The growth in passenger traffic was envisaged at 4 to 5 per cent for non-suburban and suburban traffic. While the gross traffic receipts in 1986-87 were expected to rise by 7.6 per cent over the revised estimates of 1985-86, the ordinary working expenses of Railways were estimated to go up only 1.9 per cent, due to their resolve in achieving further economics and in enhancing the productivity of the system through efficient management of man-power and other resources. With a view to achieving a faster clearance of the backlog of arrears of track renewal, signalling and telecommunication equipment, and overaged rolling stock the provision for depreciation was raised substantially from Rs. 920 crores in 1985-86 to Rs. 1,250 crores in 1986-87. Also, the Railways made the provision for the full payment of the dividend to General Revenue amounting to Rs. 590 crores.

6.76 Railways presented in November, 1986 a supplementary demand for grants for Rs. 590 crores to meet additional expenditure resulting from the implementation of the Fourth Pay Commission's recommendations (Rs. 462 crores), payment of one instalment of Dearness Allowance (Rs. 25 crores) and additional outgo on account of Productivity Linked Bonus (Rs. 33 crores). Further, additional contribution to pension fund of Rs. 70 crores was required arising out of the liberalisation of Pension Rules. On the revenue side, the Railways expected to perform better than anticipated at the time of the Budget presentation in February, 1986. It was estimated that the revenue earning goods traffic would go up by 3 million tonnes to 270 million tonnes. This, along with the improvement in passenger and other coaching traffic, was to yield additional revenue of about Rs. 106 crores over the Budget estimates. Even so, there still remained an adverse impact of about Rs. 484 crores on the financial position of the Railways resulting in a shortfall of Rs. 415 crores compared to a surplus of Rs. 69 crores at the time of the Budget. With a view to bridge this gap, the Railways revised, with effect from December 1, 1986, the freight rates and also the parcel and luggage traffic rates which would yield an additional revenue of Rs. 320 crores in the remaining four months of the current year. In the result, the Railways were left with an uncovered gap of Rs. 95 crores in the current year. It was indicated that through further intensification of the traffic effort, the Railways would endeavour to bridge this gap. Current trends in railway traffic show that this expectation was likely to materialise.

Posts and Telecommunications

6.77 The gross receipts of the posts and telecommunications declined by Rs. 20 crores to Rs. 1,860 crores in the revised estimates of 1985-86 as against Rs. 1,880 crores estimated in the Budget. On the other hand, their combined net working expenses increased by Rs. 10 crores. The dividend liability to General Revenue in respect of telecommunication services went up by Rs. 11 crores. The cumulative result of these transactions was that against the budgeted surplus of Rs. 121 crores, the surplus in the revised estimates for 1985-86 shrunk somewhat to Rs. 80 crores, which was wholly due to the telecommunication operations. In 1986-87, the loss of the Department of Posts was expected to widen by Rs. 35 crores to Rs. 224 crores from the last year's estimated loss of Rs. 189 crores, while the Department of Telecommunications was estimated to generate a net surplus of Rs. 274 crores, marginally higher than the revised estimates of Rs. 269 crores in the preceding year.

6.78 In order to meet the rising operating costs, including the impact of the Fourth Pay Commission's recommendations on the pay and allowances of its employees, the Telecommunications Department effected with effect from December 1, 1986, and the Department of Posts from January 1, 1987, an upward revision in some of their tariffs. These revisions were to yield an additional revenue of Rs. 375 crores in a full year in respect of telecommunication services, and Rs. 172 crores in the case of postal services. The deficit of the Department of Posts which was estimated to be Rs. 401 crores in the current year before revision of tariff would now stand at Rs. 335 crores.

Performance of Central Government Public Enterprises

6.79 As anticipated in the last year's Economic Survey, the Centre's public enterprises as a whole earned the highest ever net profit after tax of Rs. 1199 crores in 1985-86 (Table 6.6). While it was gratifying to note that the pre-tax profits of the profit-making enterprises had risen by about 20 per cent from Rs. 3,209 crores in 1984-85 to Rs. 3,856 crores in 1985-86, it was a matter of concern that the losses of the loss-making units at the same time widened by as much as 49 per cent, from Rs. 1,111 crores to Rs. 1,656 crores. Even the cash losses of cash loss-making enterprises increased from Rs. 777 crores in 1984-85 to Rs. 1,094 crores (provisional) in 1985-86, an increase of 41 per cent. The nationalised sick units, however, reduced their losses from Rs. 358 crores in 1984-85 to Rs. 257 crores in 1985-86. As in the past, it was the petroleum group of companies which largely contributed to the profits of the Centre's public enterprises.

TABLE 6.6

Profile of Public Enterprises (1980-81 *to* 1985-86)

	Unit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86 (Provisional)
1	2	3	4	5	6	7	8
1. Number of running public enterprises	Number	168	188	193	201	207	211
2. Capital employed	Rs. crores	18207	21935	26526	29851	36382	43096
3. Turnover	Rs. crores	28635	36482	51989	47272	54784	62221
4. Gross margin (Profit before depreication, interest and tax)	Rs. crores	2401	4012	5184	5771	7386	8303
5. Depreciation*	Rs. crores	983	1358	1719	2205	2758	2984
6. Gross profit before interest and tax	Rs. crores	1418	2654	3465	3565	4628	5319
7. Interest	Rs. crores	1399	1630	1923	2086	2529	3119
8. Net profit before tax	Rs. crores	19	1024	1542	1480	2099	2200
9. Tax	Rs. crores	222	579	928	1239	1190	1001
10. Net profit after tax	Rs. crores	(—)203	445	614	240	909	1199
11. Internal resources generated	Rs. crores	1225	2261	2753	3695	4251	5068
12. Gross profit to capital employed	Per cent	7.8	12.1	13.1	11.9	12.7	12.3

*Includes deferred revenue expenditure.

6.80 While the gross margin (that is, profit before depreciation, interest and tax) had recorded an increase of 12 per cent from Rs. 7,386 crores in 1984-85 to Rs. 8,303 crores in 1985-86, the gross profit as a proportion of capital employed declined marginally from 12.7 per cent to 12.3 per cent. As a result the provision for payment of tax was also somewhat lower at Rs. 1,001 crores than Rs. 1190 crores provided for in 1984-85. However, the gross internal resource generation showed an improvement, from Rs. 4,251 crores to Rs. 5,068 crores.

6.81 At the sectoral level, the performances of Central public enterprises showed substantial improvement in petroleum, steel and power. The profit making enterprises in these sectors included Oil and Natural Gas Commission, Indian Oil Corporation, Oil India Ltd., Bharat Petroleum Corporation Ltd., National Thermal Power Corporation and Steel Authority of India Ltd. Aviation sector enterprises, namely, Air India and Indian Airlines, also earned profits. Bharat Heavy Electricals Ltd. was another noted profit-making enterprise. The textile sector could reduce its losses by Rs. 78 crores during 1985-86 compared to the previous year. The deterioration in financial performance has been conspicuous in the case of coal, chemicals, fertilisers and pharmaceuticals and minerals and metals sectors which together accounted for an additional loss of Rs. 530 crores during 1985-86 compared to 1984-85. Among the major loss-making enterprises, Delhi Transport Corporation topped the list. Bharat Aluminium Co. Ltd., Heavy Engineering Corporation Ltd. and Indian Iron & Steel Co. Ltd., were also among the major loss-making enterprises.

6.82 The provisional data for the first half of the current financial year also shows improvement compared to the corresponding period of the last year. The overall working results during the period under review show a net profit of Rs. 233 crores (170 enterprises) against a marginal net loss of Rs. 14.55 crores (183 enterprises) during the corresponding period of the last year. The improved profits of profit-making enterprises has been partly off-set by the increased losses of loss-making enterprises. While net profit of profit-making enterprises increased from Rs. 878 crores in the first half of 1985-86 to Rs. 1260 crores in the corresponding period of the current year, the losses of loss-making enterprises also increased from Rs. 893 crores to Rs. 1027 crores.

State Governments Commercial Undertakings

6.83 Excepting forest and mines and minerals, all other departmentally-run undertakings of the States and Union Territories have been incurring losses for quite some time. These losses were expected to widen further in some cases during the current year. By far the largest amount of loss was anticipated in the case of commercial irrigation— Rs. 782 crores as against Rs. 731 crores in 1985-86 (RE). The losses in respect of multipurpose river projects were, however, likely to be marginaly reduced to Rs. 121 crores in 1986-87 (BE) from Rs. 126 crores in 1985-86 (RE) and in respect of power projects to Rs. 33 crores from Rs. 40 crores. The combined loss of road and water transport services, dairy development and industry was expected to remain at the last year's level of Rs. 56 crores Among the major surplus-generating departmental undertakings of the States and Union Territories, forest was expected to contribute Rs. 480 crores in 1986-87 (BE) as against Rs. 486 crores during 1985-86 (RE) and mines and minerals Rs. 41 crores as against Rs. 43 crores.

6.84 The State Electricity Boards (SEBs) and the State Road Transport Corporations (SRTCs), the two major non-departmental undertakings of the States, continued to incur losses in their operations. The losses of SEBs at current rates (excluding subsidies) were expected to be lower at Rs. 1,260 crores in 1986-87 (Annual Plan estimates) compared with the loss of Rs. 1545 crores in 1985-86 (latest estimates). The revised figures of losses for 1986-87 are Rs. 1,580 crores. For the Seventh Plan period, it was estimated that the SEBs would be incurring a loss of Rs. 11,757 crores at 1984-85 rates of electricity tariffs. The Seventh Plan had also stipulated that the SEBs would take suitable steps to reduce these losses by Rs. 7,000 crores during the five year period. This would imply that the commercial losses of the SEBs should not exceed Rs. 4,757 crores during the Seventh Plan period. However, with total losses amounting to Rs. 3,125 crores in the first two years of the Seventh Plan, the above target is unlikely to be achieved unless the SEBs substantially improve their performance. As for the SRTCs, their losses were antcipated to be lower at Rs. 178 crores in the current year compared with the loss of Rs. 225 crores incurred in 1985-86 (RE). However, for the Seventh Plan period as a whole, it was estimated that the SRTCs would be making a loss of Rs. 1,434 crores at 1984-85 level of fares. At the same time, they were expected to raise additional revenue of about Rs. 2,200 crores (after allowing for cost over-runs). In other words, the SRTCs were called upon not only to completely wipe out their losses, but also to make a positive contribution. Against this stipulation, their performance in the first two years of the Seventh Plan has been unsatisfactory.