SPEECH OF
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INTRODUCING THE BUDGET FOR THE YEAR 1964-65*

Highlights

— *Proposal to set up a Development Bank for the Development of Industrial Base of the Economy*

— *Commission to Enquire into Monopoly and Concentration of Economic Power*

— *Steps to Weaken Control of a Few People in the Industry*

— *Proposal to set up Fourth Finance Commission to review the Financial Positions of the States*

— *Surtax on the Profits of Companies*

— *Introducing Annuity Deposit Scheme*

Mr. Speaker, Sir, I crave leave of the House to present the estimates for the year 1964-65.

In presenting the Budget of the Central Government for the year ahead, it is customary to start with a review of economic conditions in the year that is drawing to a close and to assess the policies and trends in progress so as to provide a backdrop for the Budget for the year to come. But my task in this respect is lightened by the fact that the year has witnessed a considerable reappraisal and reassessment of policies and performance, as well as a reaffirmation of the basic social values we

Budget, 1964-65

Total Revenue	—	**Rs. 2,095 crore**
Total Expenditure	—	**Rs. 2,041 crore**
Surplus	—	**Rs. 54 crore**

* *Lok Sabha Debate.,* 29.2.1964, cc. 3153-3192.

seek to promote through all our endeavours. Honourable members would recall that I had made before them a statement on the economic situation only a few weeks ago in December last. The Economic Survey which in the past used to be presented to Parliament along with the Budget papers has also been placed on the Table of the House on this occasion a few days earlier. I shall, therefore, confine myself to those aspects of the economic situation and perspective which are relevant to the proposals which I shall be placing before the House in the latter part of my statement today.

By and large, the budgetary out-turn for the current year bears testimony to our determination to strengthen our defences without slackening our developmental efforts or without resorting to unbridled deficit financing. The revised estimates for 1963-64 are presented in detail in a separate section of the Explanatory Memorandum which outlines the variations between the Budget and the Revised Estimates in the same detail in which they were traditionally explained in the Budget speech. Accordingly, I do not propose now to dwell at length on the budgetary position for the current year as now estimated. But, it is noteworthy that the overall deficit in the Budget which was originally estimated at Rs. 181 crore is now placed at Rs. 135 crore. The improvement of Rs. 46 crore in the overall gap in the current year has taken place despite the net increase of Rs. 94 crore in loans and advances to States and of Rs. 27 crore in loans and advances to other parties. The major improvement in revenue is on account of Corporation Tax and Taxes on Income, which together show an Increase of Rs. 70 crore, but this would be partly offset by an increase of Rs. 21 crore in the States' share of Income-tax. Customs and Union Excise Duties also show an improvement of nearly Rs. 35 crore.

It is a matter for particular satisfaction that collections under Small Savings which amounted to Rs. 73 crore only in 1962-63 are now expected to amount to Rs. 115 crore in 1963-64. Other Miscellaneous Debt heads are also expected to show an improvement of Rs. 31 crore, but this will be offset by the decline in Emergency Risks Insurance Receipts and Compulsory Deposits.

A part of the improvement in the budgetary position is also explained by the saving or shortfall in expenditure of Rs. 27 crore under Revenue and Rs. 64 crore under Capital other than Loans and Advances. Of the saving under Revenue, Rs. 16 crore occur under Defence and the balance under Civil heads. The major shortfalls in Capital expenditure are in respect of Defence, Rs. 43 crore; Hindustan Steel, Rs. 19 crore; Atomic Energy, Rs. 11 crore; and food purchases, Rs. 14 crore. On the other hand, Capital requirements of Railways would show an increase of Rs. 19 crore.

Turning to the economic scene, the most disturbing feature is the rise in the price level. While the increase in wholesale prices of the order of 8 per cent over the first three years of the current plan period cannot be considered large by any standards, and particularly against the background of the sizable step-up in outlays under defence and development, the fact that the general index of wholesale prices rose by as much as 7.2 per cent between the end of the March 1963 and the end of January 1964 is certainly a cause for great concern. Government have already taken several steps to afford relief to the poorer sections of the community. We have, however, to apply new measures of discipline—fiscal and others to arrest this unhealthy trend in the coming year.

Essentially, the rising trend in prices is explained by the inadequate rate of growth in agriculture. After Increasing by 1.2 per cent in 1961-62, agricultural production declined by 3.3 per cent in 1962-63. Crop prospects for the current agricultural season, which seemed somewhat better to begin with have been adversely affected by the recent severe winter conditions in some parts of the country. The recent increases in the prices of edible items have been causing Government a great deal of concern. The problem is being examined at the highest level and with the greatest care. My colleague, the Minister of Food and Agriculture has had meetings with Chief Ministers and other concerned Ministers in the States and a programme of concerted action is being evolved. While attention has to be given to the regulation of distribution and prices, the main emphasis will be on higher production. The experience of intensive agricultural production in certain selected areas through what are known as 'package programmes' has led us to decide that we should concentrate our efforts in about 80 selected districts, covering approximately 1,500 development blocks which hold out promises of quickest results. The impact of these and other measures which the State Governments are taking should be felt on the next *Kharif* crops. Government also propose to create a special organization for this purpose in the Food and Agriculture Ministry to be headed by an officer, who has considerable experience in this field. It is also proposed to build up later on, specialized agencies for the stimulation of some of the cash crops as well.

On the industrial front production trends have been more satisfactory, the increase being 10 per cent over the first nine months of the current year compared with 8.5 per cent in the corresponding period of the previous year. Honourable members are aware that a number of steps have been taken to stimulate industrial production and a measure of acceleration in the rate of growth over the coming year should be possible. Even so, it is clear that the preservation of a reasonable degree of stability in the months to come will call for a reduction in the volume of deficit financing in the coming year.

In this connection, the overall rate of monetary expansion in the economy will also call for a careful watch. During 1963, money supply with the public increased by Rs. 430 crore or 13.8 per cent as compared to an increase of 9.9 per cent in 1962 and 6.1 per cent in 1961. Government indebtedness to the banking system has been a major factor in monetary expansion in recent years; but bank credit to the private sector has also shown a brisk increase during the current busy season. While the Reserve Bank pursues a fairly liberal policy to help production and while the availability of credit to the farmer is being improved by the Agricultural Credit Department of the Reserve Bank, a close watch has to be kept on the situation to ensure that credit creation is kept within reasonable limits and does not encourage speculation or hoarding.

Externally, the current year has witnessed welcome increase in export earnings and a comparatively satisfactory position in regard to foreign exchange reserves. On present indications, export receipts during 1963-64 should exceed Rs. 760 crore and thus show an improvement of at least 7 per cent over the corresponding receipts in 1962-63. Partly as a result of better export performance and partly in view of greater utilization of external assistance particularly of the non-project type, our foreign exchange reserves are likely to show a slight improvement over the current year as against a decline of Rs. 2.21 crore in 1962-63 and Rs. 6.30 crore in 1961-62. In addition, we have reduced our indebtedness to the International Monetary Fund by $50 million during this year as against an increase in such indebtedness of $25 million in 1962-63 and $122.5 million in 1961-62. While it is gratifying that the combined burden of defence and development has not put an intolerable strain on our balance of payments as a result both of our own efforts and the generosity of our friends, our reserves are still too low and we cannot afford to relax our efforts to strengthen them.

In the ultimate analysis, the three problems of prices, growth and balance of payments on which I have focused my remarks so far are inter-related and we cannot solve anyone of them without the fullest attention to the other two. Indeed, it is only to the extent that all these problems are tackled within the framework of an integrated policy, in regard to incomes, wages and investments that we can hope to ensure that the necessary investment potential is made available for the development of the economy.

Treating the problem of growth as an isolated factor and promoting growth by stepping up investment from the sources available within and without the country, without a corresponding policy for the incomes generated in the process, would not only stimulate inflation but other evils as well. Similarly, a price policy which disregards the dynamics of growth, or the impact on investment decisions, cannot but be self-defeating in the same way as a price policy which is not coordinated with a corresponding policy in regard to wages. It is now generally agreed, for example, that trying to keep agricultural prices too low for producers may defeat the objective of raising agricultural production. But, if this is the case, one cannot, at the same time, try to keep agricultural prices low for all consumers, or adopt a wage policy in which most wage-earners are compensated for the increase in agricultural prices. Nor can one succeed in raising resources for defence or for that matter development by taxation if each such effort leads to price increases which are passed on all along the line. These are, I think, a few lessons which have emerged from our experience, in the recent past, which deserve to be borne in mind in framing budgetary and other policies for the period ahead.

As far as investment policy is concerned, there is little doubt that, at the present stage of the economy, it is just as important to make the most efficient use of the investments already completed as it is to step up further the tempo of investment. Often, in the race for making new starts, sufficient attention is not given to the fullest exploitation of the facilities already created. We cannot at the same time afford to postpone making new investments in development; nor can financial difficulties be allowed to slow down the completion of schemes which have already been taken up. From both these considerations, it follows that the level of investment next year in the public as well as the private sector must be stepped up as much as possible.

In a certain sense, the broad pattern of investment that we must undertake in India is self-evident; and it is easy enough to agree that we need to expand investment in irrigation works, fertilizer plants, power and transport programmes, or indeed basic and heavy industries which have a vital bearing on the future growth potential of the economy. But, broad generalizations of this nature are of little help at this stage when the most important questions to decide are in regard to the choice of the specific projects and programmes in each of these fields which promise the greatest benefit in relation to the cost they entail. Our present arrangements for the choice of specific projects and programmes after a detailed examination of the technical and economic aspects of practical alternatives leave much to be desired; and it is my intention to strengthen this aspect of the work of my Ministry during the months ahead.

Apart from this question of the size and pattern of investment, there is need for speedier execution of projects and of earning better returns from the investments that are being made. Many of the public sector projects are lagging-behind the schedule of their construction and what is more disappointing is that their contribution to our resources is nowhere near the Plan estimates. It is of the utmost importance for our economy that enterprises in the public sector should not only make profits, but should make good profits. By that I mean that they should give a good dividend to the Exchequer and yet be able to build up reserves to finance their own future expansion. I know that some people think that public sector enterprises should work on no profits or low profits. Such an approach is wholly unsound in any society and more so one in which the State seeks to own or control the major sectors in production. When the State does no more than build schools, hospitals and roads, it need not look to direct returns on its investments. But, when the State begins to provide power and transport, when it owns steel plants, fertilizer plants and machine-building plants, it must make sizable profits out of them, build reserves, amortise loans and provide adequately for depreciation of assets and their replacement, so that the pubic sector can expand without adding unduly to the tax burden. This is reinforced by the fact that the products and services provided by the public sector are absorbed by the private sector which is not inhibited from making adequate profits. To the future growth of the public sector in India, a major contribution has to be made by the return on investments already made in the public sector.

It is equally important for our development that the private sector has the resources to expand in the fields assigned to it. In my statement last December, I had referred to some of the steps to be taken towards this end. Since then, the House has enacted legislation for the establishment of the Unit Trust which has already come into being. The House will also be considering the Bill for the establishment of a Development Bank which is intended to make an additional contribution to the resources for the development of our industrial economy. Important and Significant as these measures are, basically the sources for development are generated not entirely by the setting up of institutions such as these, but in the community through the savings that are made. One of the prime objectives of our economic and fiscal policy, therefore, must be to generate savings both in the hands of individuals and in the hands of cooperated bodies.

One of the weaknesses in our economy has been that a high proportion of the community's savings is being diverted towards industries of low priority, towards quick speculative gains through purchase and sale of urban housing and the hoarding of commodities in short supply in a manner which tends to push up their prices. Some of these trends need rectification through fiscal measures to which I shall turn later. It is important that these savings should be canalised into the industries to which we attach the highest priority.

Part of the distortion, however, comes about through some of the short-term and, if I might say so, short-sighted devices to deal with the price situation. By imposing statutory controls on the prices of certain basic commodities, we often succeed in discouraging investment in the very industries which produce those items. This tends to perpetuate the shortage and to aggravate rather than relieve the pressure on prices. Often controls of this type do not result in the commodities in question being available to the consumer at lower prices. What happens is that the high prices which the consumer continues to pay do not benefit the producer, but go into the pockets of others. And because these prices are not legally recognized, the Exchequer also is deprived of its dues. In curbing profiteering, fiscal devices can be used much more effectively than controls which lead to abuses. Reliance on price controls is only appropriate where it is possible to exercise effective check on distribution and consumption as well; in other words, there can be some form of rationing.

While conceding the need to provide private industry with resources for the development entrusted to it in our planning schemes I should like to say a word about the equally important point that we must not, in the process, allow concentration of economic power and growth of monopolies. The question which we have to consider is how we are to achieve this objective consistently with our concern to see that genuine and desirable development is not stifled. For a proper formulation of our policies and attitudes in this respect, Government feel that there is need for an impartial and objective inquiry so as to bring the relevant data out in the open. It is, therefore, proposed to set up under the commission of Enquiries Act a Commission to enquire into monopolies and the concentration of economic power in the Indian economy. While we must await its report, before undertaking any legislation or setting up any kind of a statutory body to deal with monopolistic practices, I should like to draw attention to some aspects of this problem.

There are basically three essential ingredients in any industrial or economic set up. They are: ownership, control and management. While discussing the question of monopolies, it is important to distinguish between these three elements and to have a clear appreciation of their relative roles. It is popularly believed that the ownership of industries in the private sector is concentrated in a few hands. This is only partially true. No doubt, in a country like ours with such widespread poverty a very large section of the population does not own any part of the industry, trade or banking which is carried on in the country. It is also true that the wealthier a person is, the larger would be his ownership of stocks and shares. At the same time, what is not often realized is that even the biggest industrial plants in the country today belong in terms of ownership, much more to the people at large than to their original founders with whose names they are popularly associated. The Life Insurance Corporation is itself a significant shareholder of many of the larger industrial and banking units in the private sector. Investment by private individuals, many of them of modest means, has also been increasing. Among the further measures through which Government propose to disperse the ownership of industry in the private sector, I would refer to the Unit Trust, our efforts to promote cooperative ownership, as we have done with a fair degree of success in the case of new sugar factories, and the measures which we adopt, and to which I shall turn later, to reduce the inequalities of wealth.

What is really disturbing is that despite diffused ownership, control is concentrated in a relatively few people. We have recently taken some major steps to weaken this stranglehold. The changes in the Banking Companies' Act and the amendments to the Companies' Act have paved the ground for the State to have strategic control over the private sector in order to ensure that the investor in industry gets a square deal and that anti-social activities are curbed and controlled.

It is not, of course, our intention to interfere in the detailed running of an enterprise in the private sector. Indeed, the running of the enterprise is not a matter of control, but of management. Management is a professional and technical job and the skills necessary for that have to be encouraged and rewarded not only in the private sector, but in the public sector also. One of the weaknesses in the public sector today is the lack of adequate managerial personnel. The last thing which we should do is to weaken the management. It is control which really is the vital element. In the society which we hope to establish on an enduring basis, the private sector, in the sphere assigned to it, will have the opportunity to grow, to attract individual savings, and to develop managerial skills, subject to the overall discipline of the State, to prevent monopolistic exploitation and the pursuit of methods which do not help the growth of the economy. Our fiscal policies should give encouragement and support to larger investment in priority industries, to better and more efficient management by those who have the necessary talent and to a weakening of the devices, such as managing agencies and improvised selling agencies, through which dynastic domination of private industry is perpetuated.

The efforts which we make through our fiscal and other devices to encourage savings, to invest them soundly and to run our plants efficiently and profitably in the public interest, will, I hope, for many years to come, need to be sustained by the inflow of foreign exchange in the form of external capital which serves the dual purpose of filling the gap between domestic savings and levels of investment and our export earnings and import requirements. Much of our foreign assistance has been coming in the shape of credits and grants from friendly countries, as well as from international institutions, particularly the World Bank which takes an active role in organizing the aid effort through annual meetings of the Consortium. We have, since the Emergency, been also helped by external aid to strengthen our defence effort. In addition, supplies of agricultural products, especially wheat, cotton and rice under the P.L. 480 programme of the United States have made a major contribution in meeting food and other material shortages in the country. We owe a debt of gratitude to these friendly countries and institutions, which I must, on this occasion, publicly acknowledge.

While for some years to come we must rely on continued external assistance, it is important that we should at the same time, devote increasing attention to the objective of reducing our requirements of such aid. We can do so by reducing the level of our imports. But there is a point beyond which restrictions on imports, whether fiscal or administrative, begin to do more harm than good, result in idle capacity in industry and slower rate of growth and lead to higher prices with a consequent fall in export earnings, which may well exceed the saving in foreign exchange effected by a cut in imports. Our primary emphasis in import saving has to be not on additional measures of restriction, but on tuning our investment policies to give the maximum support to our balance of payments. Secondly, we must do everything possible to increase our export earnings, though here again, we have to be careful not to spend too much foreign exchange on the devices we use to help our exports. Finally, we must make full use of private capital sources in the world outside to augment the external aid we receive.

Quite apart from the credits which we receive from Governments, we could raise funds from the banking system and capital markets of the world. We have, however, to remember that our external debts are already at a high level. For the Third Plan, we have a repayment liability of approximately Rs. 575 crore, including principal and interest, and the repayment liability for the Fourth Plan is already in excess of Rs. 825 crore. In these circumstances, we should partially welcome foreign investment in the shape of Equity capital which not only brings with it technical know-how and managerial skills, but has the special advantage of not adding to the heavy and growing burden of debt repayment. To attract private investment in appropriate fields, we shall deal with those which pertain to the fiscal fields a little later.

I shall now turn to the Budget provisions for the coming year. At the existing level of taxation, I have budgeted for a total revenue of Rs. 2,095 crore and expenditure of Rs. 2,041 crore, leading to a surplus of Rs. 54 crore on Revenue Account.

As compared to the revised estimates for the current year, the Revenue Receipts next year would be more by Rs. 181 crore. The four principal heads of Revenue Account for an improvement of Rs. 92 crore, while Interest Receipts are expected to go up by another Rs. 32 crore. Following the change in the procedure for the release of assistance under P.L. 480 on an advance basis, the grants for approved projects are now expected to exceed the current year's provision by Rs. 76 crore. But this would be covered by a corresponding transfer to the Special Development Fund for which the Expenditure Estimates take a debit. These improvements, however, will be partly offset by a drop of Rs. 12 crore under Emergency Risks Insurance receipts and Rs. 4 crore under the surplus profits of Reserve Bank accruing to Government.

I am providing for Revenue Expenditure of Rs. 2,041 crore next year, of which Rs. 718 crore will be for Defence services and Rs. 1323 crore for Civil purposes. The defence requirements debitable to Revenue next year show an increase of Rs. 25 crore over the Revised Estimates of Rs. 693 crore for the current year, while Civil Expenditure shows an increase of Rs. 191 crore. The growing volume and cost of public borrowings, mainly for development, account for an increase of Rs. 36 crore under Debt charges. A lump provision of Rs. 10 crore has been made on account of the increase in dearness allowance sanctioned recently with retrospective effect from 1 July 1963. Miscellaneous Social and Developmental Services in the fourth year of the Plan are expected to cost Rs. 21 crore more, whereas grants to States for both Plan and non-Plan purposes would exceed the current year's Revised Estimate by Rs. 53 crore. The self-balancing items of grants under P.L. 480 deposits and Emergency Risks Insurance Receipts, to which I have just referred, together account for a net increase of Rs. 64 crore. The States' share of Union Excise Duties would also show an increase of Rs. 5 crore.

In putting forth these estimates, I have tried to be as liberal as I could in estimating receipts and as strict as possible in providing funds for expenditure, taking into account the fact that actuals have, in the past, shown large increases in receipts and savings in expenditure. At the same time, I must add that if for purposes of our development or for that matter, defence, we find it necessary, I shall not hesitate to come to the House for Supplementary Grants.

Excluding the adjustment for the transfer of loan assistance from U.S.A., which is notionally treated as Capital Expenditure, Capital outlay next year is estimate at Rs. 796 crore representing an increase of Rs. 34 crore over the current year’s Revised Estimates. The Defence Capital requirements next year at Rs. 136 crore show an increase of Rs. 20 crore over the current year.

The repayment of debt, both internal and external, will be of the order of Rs. 259 crore next year. Loans to parties other than State Governments at Rs. 254 crore will be higher by Rs. 64 crore. So far as States are concerned, the Revised Estimates include Rs. 101 crore as their share in the market borrowing in the current year which was a combined effort for the States and the Centre. It has since been decided, after consultation with the State Governments, to resume the practice of separate market operations by the Central and State Governments for the next year. Excluding the States’ share of combined market loan, loans to States next year at Rs. 606 crore show an increase of Rs. 81 crore over the current Revised Estimates.

I must, at this juncture, digress to say that the financial position of most of the States has been causing me a good deal of concern. The total amount due to the Centre by the States at the end of the current financial year will be of the order of Rs. 3,000 crore. In addition, the States’ liability on account of market loans at present amounts to Rs. 656 crore. Both in terms of loans from the Centre and market borrowings the States have been receiving more than what was originally contemplated in the Plan. Their share of Central taxes and duties has also been increasing. Yet most of them are constantly facing ways and means difficulties of a somewhat disturbing nature. The whole position will require careful review in the context of the Fourth Five-Year Plan. While we should aim at giving the States a good deal of flexibility in allocating their own resources, so far as Central assistance is concerned we must also ensure that a major portion of it is related to the Capital expenditure on identifiable projects which are economically sound and can be expected to generate the resources for the repayment of these liabilities. Other devices will also have to be thought of. As a first step, it is proposed to set up the Fourth Finance Commission at the beginning of the next financial year so that its report becomes available before we finalize the shape and size of the Fourth Plan.

Provision has been included in the Budget next year for a total expenditure of Rs. 1,516 crore for implementing the Plan of which Rs. 253 crore will be on Revenue Account and the balance of Rs. 1263 crore as Capital Outlay, including Loans. In addition, Railways are expected to provide Rs. 46 crore, Hindustan Steel Rs. 25 crore and other public sector enterprises Rs. 44 crore from their own resources. These estimates include Rs. 559 crore as assistance to the States of which Rs. 122 crore would be on Revenue Account and Rs. 437 crore would be in the Capital Budget. The States are expected to find Rs. 353 crore from their own resources. Thus, the total State Plans next year would be of the order of Rs. 912 crore as compared to the current year's budgeted outlay of Rs. 750 crore. With the Central outlay of Rs. 957 crore, contribution from public sector enterprises of Rs. 115 crore and State Plans of Rs. 912 crore, the total Plan outlay in the fourth year of the Plan would amount to Rs. 1,984 crore, showing a step-up of Rs. 333 crore over the budgeted outlay of Rs. 1,651 crore for the current year. Much of this additional outlay is to strengthen the agricultural sector, as well as to meet the cost of Plan projects which are nearing completion.

Larger outlays on Defence are also a matter of painful necessity to us. The Defence Budget in 1964-65, taking Revenue and Capital together, is somewhat lower than the Budget Estimate for the current year, but shows an increase of Rs. 46 crore over the Revised Estimates. No one in this House will grudge this increase though we may all regret it. For the current year's Budget, the House was pleased to vote the necessary funds without asking for the usual details which from the security angle, it would not have been prudent to disclose. We are now in a position to give a fuller picture and the Budget papers contain the usual details. The point I would emphasize is that our defence effort depends largely on building up our production base and the steps we take to strengthen the economy are also those that will strengthen our defence. In recognition of this fact, even the outlays to be voted under the Ministry of Defence have a substantial provision for investment in productive enterprises.

For meeting the increased cost of development in the coming year and in the years thereafter together with our obligations to meet the needs of defence, it would be necessary to take all possible steps for mobilizing resources. Promotion of savings would have to form a cardinal part of such mobilization. I had indicated that we are likely to end this year with record collections of Rs. 115 crore through Small Savings. I am assuming for the coming year net collections of Rs. 125 crore. I hope this figure will be exceeded. Even at this rate we are not likely to reach the target of Rs. 600 crore for the Plan. We have, therefore, to make special efforts to step up the level of savings in the community as a whole. To this end our policy in regard to incomes, wages and consumption has to be reoriented. Savings, and as a consequence, investment can only be generated by a margin between consumption and incomes or wages. While we cannot afford to neglect our efforts to improve the lot of low income groups, such efforts, I feel, should be directed more towards measures of social security than towards an increase in their expandable income. This is not the time for me to go into details but I will content myself by saying that Government intend to devote special attention to the task of mobilization of savings and social security measures in the coming year. I am making suitable administrative arrangements for this purpose.

I may now summarize the overall budgetary position. Capital Outlay will amount to Rs. 796 crore, loans to States and other parties Rs. 860 crore and debt repayments Rs. 259 crore, leading to a total disbursement of Rs. 1,915 crore. These are expected to be met to the extent of Rs. 54 crore from Revenue surplus, Rs. 997 crore from internal and external borrowings, Rs. 285 crore from repayment of loans, Rs. 125 crore from small savings and Rs. 278 crore from miscellaneous debt and deposit heads. These would leave a total uncovered budgetary gap of Rs. 176 crore at the existing level of taxation.

PART B

I have stated often that the growth of the economy has not been commensurate with our expectations. The measures we have taken during the last six months have produced some improvement in the situation; but more has to be done to stimulate the economy. The existing taxation policy, good as for as it goes in the direction of producing revenue has also to be geared to the paramount task of promoting growth. It is admitted on all hands that fiscal measures have a major role to play in the process of economic development. In this process of accelerating the tempo of development, care has to be taken to ensure that we do not, at the same time, add to the forces of inflation which are always around the corner in an economy characterised by shortages of one kind or another.

Against this background, the overall deficit of Rs. 176 crore for 1964-65 which I have visualized at the existing rates of taxation, is something which we have to temper, if not altogether avoid, particularly as it would come on top of successive doses of deficit financing and at a time when the upward spiraling of prices is causing concern. It is also necessary that the tax structure should not merely be attuned to the needs of growth and to the revival of the capital market, but it should also provide sufficient cushion for both corporate and individual savings with a check on unproductive spending. Taxation has, therefore, to be used as a sensitive and multi-purpose tool, to encourage production to keep a measure of restraint on rising levels of consumption, to ensure that people get the fruits of their labour, to induce savings and to prevent profiteering so that the inherent ills of a scarcity economy are not multiplied. Having stated all this, I realize that these very desirable goals cover a whole horizon and it is not possible at one stroke to serve all the purposes in a single year's Budget proposals. But to the extent it is possible. I propose to address myself to these tasks; and the proposals I am making are intended primarily to serve the ends.

Indirect Taxes

I had given some thought to the structure of indirect taxes. While this will bear more scrutiny than I have been able to give them, I am proposing some changes in indirect taxes, both excise and customs, the cumulative effect of which will hardly add to the burden that the economy is not bearing.

Union Excise Duties

One of the essential conditions to be fulfilled by indirect taxes is that the revenue from the items on which such taxes are imposed is sizeable and secondly, that the incidence of these taxes should be identifiable. Applying these two criteria, it is proposed to remove the duty completely on a number of items. They are gramophone records, all gases other than carbon dioxide used for the manufacture of aerated waters, low voltage electric motors and all acids other than sulfuric acid. It is proposed to withdraw the excise duty on soap, manufactured without the aid of power and to levy an effective duty of Rs. 40 per ton on sodium silicate which goes into the manufacture of such soap. This would free from excise control a large number of soap manufactures. It is also proposed to modify the sub-classification of soap produced with the aid of power from four to two. Some changes are being made by regrouping items under paper in order to simplify the schedule of rates and classification. With a view to encourage the use of bagasse in the manufacture of paper, the duty on paper in the manufacture of which more than 50 per cent bagasse is used would be reduced by 5 naye paise* per kilogram. The special duty of excise is being abolished in respect of synthetic dyes, glassware, chinaware, porcelainware, cellophane and certain types of writing and printing paper and electric bulbs and reduced on the initial slabs on tyres. The schedule of duty on cigarettes is being revise lowering the duty on one group and raising it slightly on another. It is proposed to revise the tariff description of plastics and electric wires and cables and of footwear and aluminium. The net result of these changes is a loss of revenue of Rs. 486 lakh.

It has been decided to abolish the surcharge on iron and steel, which is transferred to the Iron and Steel Equalization Fund. The surcharge is being replaced by an increase in the effective rates of Excise Duty on pig iron, certain steels and steel products; some of these are being prescribed as ceiling rates so as to enable Government to increase the effective rates further if circumstances call for such a measure. The effective rates per ton now proposed are Rs. 30 on pig iron, Rs. 90 on semi-finished steel and steel bars, rods and structural, Rs. 110 on all flat products other than skelp and Rs. 150 on skelp. This will mean an increase in revenue of Rs. 1,181 lakh in 1964-65, more than compensating the loss of accrual to the Iron and Steel Equalization Fund.

It is proposed to extend further the process of transferring Excise Duty from cotton fabrics to yarn as well as to processed cloth. Increase in the duty of fine and super-fine yarn has become necessary in view of the high profits that are being made on such yarn which are spun from imported cotton. By levying a surcharge on sized yarn and also by prescribing higher effective rates for yarn other than in hanks, with the duty on yarn in hanks being kept at a comparatively low level, the impact of these duties on handloom cloth will not, it is expected, be felt. The lowering of duty on grey fabrics had necessitated lowering of the rates of compounded levy on power-loom units of 5 to 49. Power-loom units of 50 and above will pay a preferential duty at 80 per cent of the rates applicable to composite mills. The addition to revenue as a result of these changes will be Rs. 981 lakh on yarn and a reduction of Rs. 286 lakh on fabrics. It is also proposed to raise the effective rates of duty by 50 per cent in the case of rayon yarn and about 100 per cent on other synthetic fibres and yarn and to reduce the special duty on cellulosic staple fibre.

In addition, certain minor adjustments will be made in some of the other items of excise tariff such as paints, varnishes, worsted yarns, matches, rubber products and a few more; the details of these changes

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* With the introduction of decimal system *w.e.f.* 1 April 1957, a Rupee is now divided into 100 Naye Paise. In the earlier system, a Rupee was divided into 64 paise.

will be found in the Memorandum explaining the provisions in the Finance Bill, which is being separately circulated.

Taken all together, these changes in Excise Duties, would account for net gain in revenue of Rs. 1,954 lakh in 1964-65, of which Rs. 39 lakh will accrue to the States as their share. The net additional burden on industry will, however, be only about 1 per cent of the total estimated revenue from this source.

It is proposed to continue the power to levy regulatory duty, both for Central Excise and Customs. There has been no occasion to use these powers during the current year. Nevertheless, the continuance of this power is necessary in order to meet unforeseen price or production situation. The lifting of control over prices of certain goods would also necessitate a watch on their movement. It is, therefore, proposed to take power to levy a regulatory duty of excise at the rate of 15 per cent.

Customs Duties

In regard to Customs Duties, my proposals are mainly confined to maintaining the actual incidence of duty as it was till a few months back. It is known that a number of items are assessed to import duty on basic tariff values. Before the coming into force of the Customs Act of 1962, the tariff values were based on market values which included certain post importation charges. In view of the provisions of the new Customs Act, it became necessary to fix the tariff values without such charges. This resulted in the tariff values being lowered on certain articles, especially dry fruits, copra and caustic soda and consequently the import duty on these articles has gone down. It has been found that the benefit of lowering the incidence of duty on these articles has not been passed on to the consumer and it is, therefore, necessary to revise the rates of duty so as to keep the actual incidence at the same level as it was before the change in tariff values was made. In the case of dry fruits it is proposed to adopt specific instead of *ad valorem* rates based on tariff values for most varieties. The rate of duty on copra is being raised from 25 per cent to 30 per cent and that on caustic soda from 40 per cent to 80 per cent. In both cases the preferential rates will be 10 per cent lower. The increase in revenue as a result of these changes which, as I have mentioned, would compensate the loss we have had during the current year, is expected to be Rs. 202 lakh in 1964-65.

It is proposed to raise the import duty on high carbon or spring steel wire by 20 per cent to place the indigenous product on a competitive basis. The rate of duty on motor cars, which has gone up to

150 per cent though actual imports are few, is very high and it is proposed to reduce this to 60 per cent. It is also proposed to abolish the export duty on jute.

The net effect of the changes in the Customs duty will be an increase in revenue of Rs. 208 lakh in 1964-65. There will also be additional revenue of Rs. 428 lakh from countervailing duties.

The total effect of all the changes in indirect taxes will be a gain in Central Revenue at a little over Rs. 25 crore in 1964-65. As against this we should put down the loss of about Rs. 7 crore to Rs. 8 crore in the Iron and Steel Equalization Fund.

Direct Taxes

Revenue from direct taxes shown a considerable amount of buoyancy. This is partly due to the measures taken in recent years to close the gap between the tax due and the tax collected. Due to a shortage of staff and the difficulties of training, new staff within short period of time assessments have been falling into arrears and even provisional assessments were not kept up-to-date. This has been partly remedied but a great deal remains to be done. The administrative drive for better collection and stricter enforcement requires to be supported by suitable legal powers. The tax structure itself which has grown in a somewhat haphazard manner, needs a closer look and in this task one has to remember that direct taxes provide the means through fisc for change in the nature and direction of society towards the goal of removing inequalities in income distribution.

Income-Tax

In the corporate sector, the primary need of the hour is to infuse some confidence. The resources of this sector have to be augmented from within as well as from without, and it is, therefore, necessary to provide incentives for the existing companies to plough back a larger share of their profits and also diminish the disincentive for inter-corporate investment. In this process, it seems to me necessary to make a distinction between capital intensive industries and others. The need for basic industries to grow is recognized on all hands. Therefore, selective support has to be given to these industries. I am aware that all the desirable things cannot be done simultaneously. Though our present need for larger resources makes it difficult to give up any source of revenue, I am sure the changes now proposed to be made and incentives that are being provided would be appreciated and confidence would generally revive.

There has been considerable criticism in respect of the Super Profits Tax and the uneven nature of its effect of industry as a whole.

I understand that some of the corporate units with a large capital base have not been unduly affected by the Super Profits Tax as it is at present framed while some have to bear a much larger share of the burden. The net result has been that it has produced a psychological resistance and has to some extent affected industrial growth. I propose to address myself to re-modelling the corporate tax structure having in view the needs I have outlined earlier. The present tax on corporations of 25 per cent Income-tax and 25 per cent Super-tax would remain. In substitution of the Super Profits Tax, I propose to levy a surtax on profits of companies. The capital base for this purpose will consist of equity and preference capital, reserves, debentures, loans from approved financial institutions and loans for 10 years or more from banks, or from foreign sources of creating capital assets. This tax will be at the rate of 40 per cent on the residue of the profits after tax after deducting 10 per cent on the capital base.

In order to encourage development of certain industries which occupy an important place in our economy, I propose to provide to companies which engage in such industries a rebate of Corporation Tax equivalent to 10 per cent of the Income-tax and Super-tax, which will be normally payable by them. This rebate will also be applicable in respect of surtax on such profits to the extent of 20 per cent of tax assessed. These industries are named in the Finance Bill and power is being taken to notify additions to this list from time to time. They include basic metals like steel, copper and aluminium, mining of coal, lignite, iron ore and bauxite, industrial machinery and machine tools, cement, fertilizers, paper and pulp, tractors, equipment for generations of electricity and tea, coffee and rubber.

The reliefs which are being given are intended to strengthen the reserves and augment the capacity of the corporate sector to develop. It is desirable to discourage the dissipation of these additional resources in higher dividends. With this object in view, it is proposed to levy a tax at the rate of 7.5 per cent on the amounts distributed as dividend on capital other than preference capital. Where dividend has, however, to be compulsorily distributed under the law, such distribution will not attract this tax. A new company has, however, to wait for some years before it can declare a dividend, such period varying with the nature of the undertaking. It would, therefore, be fair to exempt such companies from this tax to the extent of dividend of 10 per cent on capital other than preference capital for a period of five years from the first declaration of dividend by such a company.

At present, inter-corporate dividends bear Income-tax at the rate of 25 per cent and Super-tax at varying rates depending on when the company was formed and whether it is an Indian company and is a subsidiary or not. It is proposed to abolish these fine distinctions and exempt all inter-corporate dividends from Super-tax. It is also proposed to remove the provisions in the Income-tax law respecting disallowance of expenditure incurred by companies on the remuneration of their Indian employees above Rs. 60,000 per annum for each employee. The imposition of this limit has not brought any perceptible advantage to revenue and besides being discriminatory is an ineffective restraint under tax law in respect of remuneration of Indian employees. Salaries of certain categories of employees are subject to restrictions under the Companies Act. I, therefore, see little advantage in continuing the application of this limitation. It is, however, proposed to introduce a new provision in the Income-tax Act limiting the amount of deduction admissible to companies for expenditure incurred by them in providing perquisites to their employees, whether of Indian or foreign nationality, to an amount of 20 per cent of the salary of each employee. Any expenditure in excess of that limit would not be deducted in computing the assessable income of the company. This will have the healthy effect of putting a curb on excessive expenditure on perquisites for companies' employees. It is also proposed to reduce the dedication of Income-tax at source from dividends from 30 per cent to 20 per cent for resident holders of shares. It is expected that this will be of some benefit to small investors who have to wait for quite some time to get their refunds.

I propose to increase the rate of Super-tax in the case of non-resident companies from 38 per cent to 40 per cent in respect of their income other than dividends and also royalties and fees for rendering technical services received from an Indian concern under an agreement approved by the Central Government. The Super-tax on income from royalties and technical fees will be at the rate of 25 per cent. The Income-tax for these companies will continue to be at the existing rate of 25 per cent.

I propose to increase the rate of Super-tax from 25 per cent to 35 per cent in the case of companies other than those in which the public are substantially interested or are wholly subsidiary of public companies, namely, the group generally referred to as Section 23-A companies which are now governed by Section 104 of the Income-tax Act, 1961. Such of these companies as are engaged in specified industries will also be eligible for the proposed rebate of Super-tax equivalent to 10 per cent of the Income-tax and Super-tax payable by them. Income-tax an dividends received by non-resident companies engaged in the specified industries will be reduced from 25 per cent to 15 per cent.

Further, I propose to exempt such Indian companies as are now governed by section 104 of the Income-tax Act, which are called section 23-A companies, and are engaged in the manufacture or processing of goods or mining or generation and distribution of electricity or any other form of power or other classes of companies as may be notified, from the existing requirement of compulsory distribution of dividends. This will enable such companies to plough back their profit after tax into the undertaking to the extent it may be necessary. For companies other than these, the Central Board of Direct Taxes will be empowered to exempt such portion of the profits which it considers necessary to be retained to meet the development needs of the company, subject to the limit of 20 per cent of the income required to be distributed.

I find that the provisions of the Income-tax Act allowing as deductible expenditure amounts spent wholly and exclusively for the purpose of business are being abused in respect of certain types of expenditure. Unduly large amounts are spent on daily allowance, on unnecessary bookings on planes and trains, on advertisement and on the maintenance of guest houses and suites of rooms in hotels outside the specific places of business, on providing conveyances and in paying high rents for accommodation for their officers and directors and in many other ways. I am afraid this tendency amongst companies is responsible in no small measure for the present high costs and the time has come to put a check at least on some of these expenses. It is not practicable to spell out all the restrictions in detail in the Act itself as some room will always be left for those inclined to evade these provisions to find ways of doing so. I feel it is necessary to have the power to make rules in this behalf where a specific provision is not practicable. A provision has been included in the Finance Bill for this purpose. Subject to these changes I propose to continue the existing corporate tax structure, including the rebate on incomes earned from exports as they are.

I would have liked to discontinue the present general availability of development rebate and to confine it on a graduated basis to certain selected industries. I, however, appreciate that this might cause some difficulties to concerns who have made plans for starting an industrial undertaking on the presumption that this rebate would continue to be available to them in the near future. In view of this, I would like to clarify that the continuance of the development rebate in its present form beyond 1 April 1956 should not be assumed. I believe, it is in the interest of industrial development to give such notice.

On the non-corporate side, I consider that the present rate structure of Income-tax and Super-tax needs revision. The structure has grown over years with annual additions and occasional reductions. A number of surcharges have been added to it under a variety of nomenclature. It has been represented to me that the working out of the tax due under the circumstances is itself a very difficult task even in the case of small and medium incomes and this throws an enormous weight of work on the staff all of which seems unnecessary. I feel it is time that we had a fresh look at the basic structure itself. In this context it is worthwhile mentioning that the motivating factor behind earned incomes should not be altogether ignored. Much of it is due to the incentive, the initiative and hard work of the earner himself, and for keeping up this effort and to enthuse the earner to greater efforts, it is necessary for him to have a feeling that at least some substantial portion of what he earns is left in his hands. In view of the present constitutional position and the need to augment the resources of the Centre, it is proposed to continue to levy a surcharge for the purposes of the Union.

The personal Income-tax structure is being re-graded. This will provide revised and simplified schedule of rates of income-tax and super-tax in which most of the surcharges will be integrated and will mean a reduction of tax at all levels. With this change, the burden on the incomes in the lower brackets will be substantially lower than what it is now.

I propose to fix the Central surcharge on earned incomes above Rs. 1,00,000 at 10 per cent and on unearned incomes above Rs. 10,000 at 12.5 per cent where such income does not exceed Rs. 25,000 and at 15 per cent where it exceeds Rs. 25,000 but does not exceed Rs. 75,000 and at 17.5 per cent above that amount.

The Compulsory Deposit Scheme, which, as the House is aware, is now only applicable to income-tax paying category of persons, who can discharge a part of their liability in respect of additional surcharge by making a deposit, would be discontinued altogether. Income-taxpayers in the small income groups were, I am afraid, hard hit by the scheme, particularly after discontinuance of the scheme for other categories in September last. I did not like to make a change then though I was alive to the need for giving marginal relief even in the current year on some of the lower incomes. I now propose to make a retrospective amendment to the relevant provisions of the Finance Act, 1963 to secure to such assessees appropriate marginal relief from the additional surcharge.

I propose to introduce an Annuity Deposit Scheme to replace the Compulsory Deposit Scheme which will operate at the income level above Rs. 15,000 per annum. This deposit will be at the rate of 5 per cent in the case of assessees having incomes between Rs. 15,000 and Rs. 20,000; at 7.5 per cent for those with incomes between Rs. 20,000 and Rs. 40,000; at 10 per cent for incomes between Rs. 40,000 and

Rs. 70,000 and at 12.5 per cent where the income is above this amount. The deposit which will be compulsory for resident assessees who are citizens of India will be allowed as a deduction in computing the total income for the year in which it is made. It will be repayable in ten annual equated instalments of principal and interest commencing from one complete year after the year of assessment. The deposits in 1964-65 will earn interest at a rate slightly above 4 per cent per annum compound. Deposits which are repaid from year to year will, however, be assessed as part of the income of the assessee in the year in which it is so repaid. In addition, I also propose to extend on a voluntary basis the benefit of this arrangement to authors, actors and artists, who at their option can deposit a further amount not exceeding 15 per cent of their income under this Scheme in order to reduce the taxable income in the year in which it is earned and get it back in instalments over a period of ten years. It is expected that this can be used by them as savings for their future benefit with the advantage of a tax saving. I propose to extend this benefit to taxable gratuity income also. Persons receiving a gratuity liable to tax can make at their option a deposit up to 50 per cent of the amount of the gratuity under this Scheme and get the benefit of saving in tax.

With the coming into force of the Annuity Deposit Scheme the net income in the hands of assessees in the income group of Rs. 15,000 and above will be slightly lower than it has been hitherto, but there will be the advantage of an annual return in this form besides the savings in tax on the aggregate amount. I consider a marginal reduction in the expandable income of this group as something which is justified by the present conditions.

The revised tax structure without taking into account the capital receipts form the Annuity Deposits would mean a lowering of revenue from these sources and a compensatory lowering of tax at all levels. I expect, however, to make good this loss wholly by tightening the tax assessment and collection machinery in a number of ways. As the House is aware there is a general feeling that Government is losing a fair share of its revenue due to evasion and avoidance. This has been attributed in part to the prevailing high rate of taxes. With a reduction in the tax rates now proposed I hope we shall hear less of this reason. The main steps proposed for checking evasion are five-fold. Firstly, every tax return will carry an affirmation about its correctness. This will, I hope, induce to take additional care in repairing their return. Secondly, the tax due according to the return will have to be deposited within one month of the submission of the return, failing which the assessee will be liable to a substantial penalty. This will ensure quicker collection. Thirdly, the existing provision in the Income-tax Act regarding the levy of penalty for concealment of income is proposed to be amended. In the new provision where the income returned by a person is less than 90 per cent of the assessed income, the assessee should be deemed to have concealed his income unless he proves his *bona fide*. Fourthly, it is proposed to take extensive powers to search for evaded wealth. The evil of unaccounted money has become so great that its mitigation, if not its total eradication, calls for drastic measures. It is intended to use the new powers effectively to ensure that no person possessing income or wealth that has escaped assessment remains out of the reach of law. I would like this to serve as a warning to persons entering into transactions involving large sums in cash. Fifthly, it is proposed to do away with the secrecy provision in the Income-tax Act and other similar enactments. The combined effect of all these steps will, it is hoped, prove beneficial to collection of revenues as well as to ensure a fairer deal to the honest taxpayer.

I propose to allow rebate of Super-tax on contributions to recognized Provident Funds, deposits in the 10 and 15 year accounts of the Post Office Cumulative Time Deposit Scheme and premiums on life insurance but the limit for this purpose will continue to be at Rs. 10,000 per annum. Rebate of Income-tax and Super-tax will cumulatively be limited to 50 per cent of the payments or deposits qualifying for relief.

Our tax rates cause some hardship to foreigners working in India. Many of them find it necessary to keep their school-going children in their own country. In western countries there are liberal concessions in Income-tax amongst other things for children's education. In the UK, it is fixed at £150 per child. I, therefore, propose to allow to resident assessees who are not citizens of India a rebate of Income-tax and Super-tax of a sum on Rs. 2,000 per child up to two children under 21 years of age receiving education outside India.

I also propose to extend the scope of two existing concessions. As the House is aware, under our Income-tax Act, certain categories of foreign technicians whose contracts have been approved before their arrival, enjoy exemption from tax on their salary income for a period of three years. In the absence of prior approval, the tax exemption is limited to one year. In some cases, it is found necessary to bring technicians at a short notice when it is not possible to obtain prior approval to their contracts of service. Sometimes it is found that the task for which a technician is brought out takes longer than was expected and the period may go beyond one year. To remove these difficulties, it is now proposed that the tax exemption for three years will be available provided approval is obtained within one year of the arrival of the technician in India. It is also proposed to extend the concession of exemption from tax to foreign teachers and professors coming to India on approved programmes.

Under our law, incomes arising from a business connection are liable to tax. While this principle is generally sound for developing countries, it is found necessary in the context of our present drive for higher exports to exempt from tax such income arising from purchase in India of goods which are exported. In order to encourage our exports, it is necessary to remove the disincentive of tax liability which does not exist in many other countries. I also propose to extend the scope of exemption from tax on interest on approved foreign lending by bringing within its scope investment in approved securities.

The tax on capital gains, which is on the statute book, has certain drawbacks. It applies at the ceiling rate of 25 per cent on any capital gain made above Rs. 10,000. The tax laws as such in respect of capital gains require that the capital gain accrues only when there is a transfer of asset and a payment for it in an encashable form. Certain types of newly-created assets like bonus shares which are in the nature of capital gains do not attract this tax. Apart from the fact that the tax impinges heavily on the lower receipts and lets off lightly larger receipts, it makes no distinction in regard to different types of property on the sale of which capital gain accrues. All these considerations make it necessary for the structure of the tax on capital gains to be revised.

At present, the law does not permit short-term gains made within one year to be treated as capital gains and treats it as income and this is as it should be. Such short-term capital gains will also bear the surcharge in respect of unearned income. But in regard to the other types of capital gains, I propose to make three changes. The main one is that the tax on capital gains will be on a graduated scale in future without a ceiling of 25 per cent as at present. Secondly, the scale will be different for house and landed property and will be at the rate of 75 per cent of the appropriate slabs in the Income-tax-*cum*-Super-tax rate of personal taxation. Other types of property will bear tax at 50 per cent of the average rate of tax on personal income. The third change will be that it is proposed to provide that an investor in share after receiving bonus shares shall be charged to tax on capital gains accruing to him in respect of such shares in the year in which they have been issued to him with reference to the market values of the bonus shares as on the 31st day from the date of their issue. There is no reason why capital gains in respect of bonus shares should be computed only when the shares are actually sold or transferred. Bonus shares result in a definite accretion to the capital of the assessee even before they are sold or transferred. Therefore, they will have to be distinguished from other assets. There is, however, no change in the present exemption limit.

In regard to exporters, the existing rebate of Income-tax and Super-tax on profits derived from exports and on an amount of 2 per cent of the proceeds of exports or sale for exports by manufacturers is proposed to be continued. It has, however, been decided to exclude from the purview of the latter concession such articles as arms, ammunition, photographic in films and newsprint and to include items such as non-jute textiles exported after 29 February 1964.

I have referred to the main changes which are proposed in the Income and Corporate Taxes. There are a few others in the Finance Bill which it is perhaps not necessary for me to refer to here.

In regard to Wealth Tax, I propose to make a few minor changes in the rate structure. It has been decided to re-introduce the rate of 0.5 per cent for Wealth Tax on the first slab of a net wealth of Rs. 4,00,000 but beyond Rs. 1,00,000. Other slabs will be slightly re-arranged but their rates remain the same. It is also proposed to exempt from Wealth Tax the value of a house or part of the house owned or used by the assessee for residential purposes subject to the limit of Rs. 1 lakh where such a house is situated in a place with a population exceeding 10,000. Other exemptions remain.

Estate Duty and Gift Tax

I propose to completely re-cast the tax rate schedules of Estate Duty and Gift Tax. The Gift Tax was introduced as a complement to Estate Duty in order to deal with gifts which ultimately have the effect of reducing the value of the estate subject to duty. The social purposes connected with these two taxes have somewhat been haltingly reflected in the rate structure that now obtains. The time has now come to put a check on the passing on of wealth and property covering large amount by inheritance. It is conceded that the right of a person to own and enjoy the fruits of his labour in his life subject to his social obligations should be ensured. But the acceptance of this principle does not justify allowing large family fortunes being passed on from one generation to another. If there is to be a limit on the amount of wealth to be passed on from one generation to another, we cannot escape from dealing with gifts which can be used as a means of avoiding or reducing the liability to the impact of Estate Duty. In this context, it has been found necessary to ensure that when gifts are made to the same donee over a period of five years, the gifts of such donee should be aggregated with the value of other taxable gifts made by the assessee during the preceding five years.

At present, the rates of Estate Duty are gradually reaching 40 per cent on estates of over Rs. 50 lakh. I propose to replace it by a rate structure in which the rate of 40 per cent will be reached on an estate worth over Rs. 10 lakh, going up to 50 per cent on the next slab of Rs. 5 lakh and to 85 per cent on the value of the estates over Rs. 20 lakh.

As the House is aware, the revenue from Estate Duty will accrue mostly to the State and the revised rates will apply only to property passing on death taking place after the rates have come into force. The total additional revenue expected in 1964-65 is Rs. 300 lakh, of which Rs. 295 lakh will accrue to the States.

I should like to clarify one point in connection with these changes. The Estate Duty covers agricultural lands also. Estate Duty in respect of agricultural land is a State subject. In view of Article 250 of the Constitution, the Parliament has power at present to legislate in this respect also. The State legislatures will, however, have to consider whether they would like the new rates to continue to apply to agricultural lands after the periods mentioned in clause (2) of Article 250 is over and if thought proper, pass necessary resolutions for the purpose. On the passing of such resolutions by some States, further legislation will be undertaken.

In the matter of Gift Tax, in the existing scales the highest rate of 40 per cent is reached on gifts over Rs. 50,00,000. The highest rate which I now propose is 50 per cent which will be applicable to taxable gifts of a value above Rs. 3,45,000. The rate of 40 per cent will apply on gifts between Rs. 1,45,000 and Rs. 3,45,000. The existing exemption limit of Rs. 10,000 is proposed to be reduced to Rs. 5,000. It is hoped that these changes will restrict transfer of property by gift.

In circumstances arising out of the stepping up of the rates of Estate Duty and Gift Tax, and in order to discourage spending, I think it is necessary to reintroduce Expenditure Tax. I have carefully considered the circumstances and difficulties which made my predecessor suspend the collection of this tax. It seems to me that these difficulties arose on account of too many exemptions and the high rates of the tax. Besides, the wording of the charging section of the Act was highly defective and considerably limited to the scope of the operation of the tax. This clause has now been redrafted so as to attract Expenditure Tax on all expenditure above Rs. 36,000 per annum no matter from which source the money for expenditure came. It is also necessary to harmonize the process of lowering of the rates of Income-tax with the imposition and changes in Expenditure Tax with reduced rates. I, therefore, propose to reduce the exemptions and exceptions to the minimum, and to have the rates rising from 5 per cent to 20 per cent on successive slabs of Rs. 12,000. There will be no tax on first Rs. 36,000. The rate of tax will be 5 per cent on the next Rs. 12,000, 7.5 per cent on the slab of Rs. 12,000 after that and 10 per cent on the next slab of Rs. 12,000. It will be 15 per cent between Rs. 72,000 and Rs. 84,000 and 20 per cent on expenditure above Rs. 84,000. I also propose not to apply the highest slab of 20 per cent for the expenditure in the years 1963-64 and 1964-65. I also propose to prescribe a compulsory return for certain categories of persons in order to ensure that evasion is reduced.

As a result of all the changes I have proposed in the direct taxes, there will be an additional revenue of Rs. 15 crore to the Centre. The abolition of the Compulsory Deposit Scheme and the introduction of Annuity Deposit Scheme will result in a net credit of Rs. 50 crore in 1964-65 on the capital side after allowing for drop of Rs. 7 crore in the accretion to the Iron and Steel Equalization Fund.

The combined effect of the changes in taxes and deposits will be a net gain to revenue of Rs. 40 crore and to capital of Rs. 50 crore leaving an overall gap of Rs. 86 crore as against Rs. 176 crore that is contemplated. Given the present economic situation, to which I have referred earlier, this order of deficit, I think, should serve best the requirements of growth as well as reasonable stability in prices. Honourable members would note that in my remarks today, I have given attention to the overall deficit, rather than to the position on the revenue account. With the growing importance of capital expenditure in our budgets, it is no longer sufficient merely to balance the Revenue Budget. Indeed the Revenue Budget must yield an increasing volume of surplus if the requirements of public investment are to be met without continually growing reliance on private or foreign savings.

In presenting the estimates for the coming year, I have taken substantial credit for higher collections of revenue by improvement in administration and stricter enforcement. On the other hand in estimating expenditure, I have enforced very tight budgeting. I have emphasized the role of savings in the community and Government itself should set an example by economizing in expenditure and by not investing in less essential fields. Economy in administration is fully compatible with efficiency; and it shall be my constant endeavour to ensure that the administrative machinery of the Government is reorganized so that it is fully responsive to this need.

Our standards of performance be it in economy in expenditure or in efficiency in collection, have to improve if we are to put our limited resources to the best possible use. In formulating these proposals, my attempt has been to correct anomalies, to rationalise the structure of taxation, to initiate steps to plug loop-holes, to create incentives and to reduce unearned profits. Generally, I have attempted to create some cushion in our tax structure which could be relied upon in the event of an unforeseen contingency. We are passing through difficult times. We might perhaps have to face a rehabilitation problem of some dimension. Our defence requirements may also any day make a larger demand on our resources. We have to be ready to meet any such unforeseen contingency by keeping a margin for safety in our budgetary transactions. But above all, we must prepare ourselves for shouldering ever-increasing responsibilities in the sphere of development, social justice and social security where, despite what has been done so far, the road ahead is still long and arduous. I hope that in framing my Budget proposals, I have been able, at least in some measure, to keep my gaze fixed at this distant and difficult goal even as we prepare for meeting the requirements of the immediate future.

Sir, I Conclude.