SPEECH OF
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INTRODUCING THE BUDGET FOR THE YEAR 1972-73*

Highlights

— *Funds Increased for Social Welfare Schemes*

— *Substantial Increase in the Plan Outlays of the States and Union Territories*

— *Introduction of Changes in the Direct Tax Structure*

— *Special Recognition to Select Class of Income-tax Payers*

Sir, I rise to present the Revised Estimates for the current year and Budget Estimates for 1972-73.

Economic Conditions 1971–72

In many ways, the year that is now drawing to a close has been the most eventful in our recent history. It began in the wake of a clear expression of the will of our people in favour of a bold and radical programme to promote growth with social justice. This verdict has been reconfirmed decisively in the recent Assembly elections. But the beginning of the year also witnessed a reign of terror and repression in East Bengal. By November 1971, some 10 million refugees had sought shelter in our midst; and we stinted no effort or resource in looking after these hapless and heroic people. Despite this massive influx and the cost of a war, which was not of our seeking, we decided not to delay or postpone in any way the equally urgent task of development and social welfare. Instead, we sought to meet the additional burdens by two supplementary instalments of fresh taxation, by greater mobilization of voluntary savings and by a renewed drive for economies in non-Plan expenditure and speedier tax collections.

Above all, we met the challenge by drawing on the strength of a united people; and it is possible now to look back on the events of the

* *Lok Sabha Debate,* 16.3.1972, cc. 204-228.

past year with a degree of confidence in the economic sphere as well. Despite the extraordinary stresses and strains which were compounded by natural calamities over many parts of the country, it should be possible to end the current fiscal year without foreign exchanges reserves more than intact, Government stocks of foodgrains of nearly 8 million ton*, the general price level reasonably stable and a deficit in the Central Budget significantly lower than what one might have apprehended.

To some extent, the events of the past year will continue to cast their shadow over the coming months as well. The honourable members would appreciate that we have to assist the friendly people and the Government of Bangladesh in their immediate task of reconstruction and rehabilitation. To the extent that we have drawn upon the accumulated stocks in the economy and there has been unusual wear and tear of our productive assets, these will have to be made good. But, above all, now that the refugees have been able to return to their homes, we have to redirect our energies increasingly to satisfy the aspiration of our own people. While the resilience and the strength displayed by the Indian economy can give us confidence, there is little room for complacency.

Economic conditions in the recent past contain many pointers to the areas where further sustained effort is necessary. These have been dealt with at some length in the Economic Survey. The rate of growth of the economy has slackened in 1971-72. To some extent, this is understandable as the high rate of growth in the production of major cereals in earlier years cannot—and indeed need not—be continued year after year. But this trend should be counter-balanced by an increase in the growth rate of pulses, commercial crops and industry at large. This has not happened so far. Many of our basic industries, notably steel and fertilizers, are operating well below capacity. Shortage of agricultural raw materials has affected important consumer goods industries such as textiles, sugar and vegetable oils. There are encouraging signs that many capital goods industries and those producing important intermediate products have their order books full and are maintaining a satisfactory rate of growth in production. But, hereagain, progress is by no means uniformly good. Quite apart from tackling the immediate problems of better management, greater capacity utilization, improved raw material supply and industrial relations and a general environment of more active demand, we have to expedite the creation of additional capacity in a number of vital areas, including the generation of electricity and fertilizers and steel where better utilization of existing capacity alone will not sustain demands for long.

* One ton (also known as metric ton) is equal to 1,000 kg.

There are also other trends which we cannot overlook. While imports, other than those of foodgrains, have increased rapidly, this cannot be said of exports. As a result, the trade gap is likely to widen appreciably in the current fiscal year. The various programmes for promoting social welfare which have been taken in hand over the past two years have yet to gather momentum. Again, despite some signs of improvement, the level of savings and investment in both the public and the private sectors is inadequate to sustain a satisfactory rate of growth.

This situation must be rapidly transformed if the objective of growth with social justice and self-reliance is to be realized soon. Nor is a reasonable degree of price stability possible without a rapid increase in the production of the basic necessities of the people. Up to a point, and indeed to a much greater extent than is commonly realized, growth, social justice, self-reliance, investment and mobilization of resources are all mutually reinforcing processes. We have, however, also to quicken the pace by appropriate changes in budgetary and other policies. It is precisely in order to bring about such a coordinated and concerted approach to our economic problems that a Cabinet Committee on Economic Policy has been recently set up.

Revised Estimates 1971–72

Coming to budgetary developments during the current year, 1971-72, the honourable members would recall that the provision of Rs. 60 crore for refugee relief made in the Budget last May had to be increased subsequently on two occasions making a total of Rs. 360 crore for the year as a whole. Against this provision, actual expenditure is now estimated at Rs. 325 crore. At this stage, it is difficult to render any precise account of the aid pledge from abroad which will ultimately compensate us for the expenditure we ourselves have incurred. A significant part of the refugee assistance received earlier or in the pipeline is already being diverted to Bangladesh. But on a rough basis, the budgetary outlay of Rs. 325 crore may be offset to the extent of Rs. 120 crore by assistance received from abroad.

We have already made a sizable beginning with assistance to the Bangladesh Government in the current year itself. Inclusive of a cash payment of about Rs. 20 crore which is being charged to the rehabilitation budget, the commitment so far made for assistance to Bangladesh amount to roughly Rs. 130 crore. It is our intention to provide for a total commitment in this regard of Rs. 200 crore of which Rs. 82 crore might be disbursed during 1971-72 and the balance during 1972-73.

Defence expenditure for 1971-72 is now estimated at Rs. 1,411 crore as against the Budget provision of Rs. 1,241 crore *i.e.* an increase of Rs. 170 crore. The expenditure on natural calamities relief at Rs. 90 crore would also be higher than the Budget Estimate of Rs. 50 crore.

The actual trend in expenditure on Plan schemes during the current year is a mixed one and some shortfall in Plan expenditure cannot be ruled out. But there is reason to believe that the shortfall would not be as great as in the first two years of the Plan. The implementation of important projects in the steel, fertilizer, petrochemicals and atomic energy field has picked up momentum. This is also true of the programmes with an accent on social welfare which were started in the 1970-71 Budget. But the two major programmes for employment in the rural areas and for the educated unemployed which were introduced in the last Budget could not be given proper shape for some time; and actual expenditure is likely to fall short of the Budget provision of Rs. 75 crore. Once again, our experience in the current year, highlights the fact that the momentum of progress cannot be kept up merely by provision of finance. Timely preparation and selection of projects and speedy implementation are equally important.

Receipts under Income and Corporation tax are now estimated at Rs. 83 crore more than the Budget Estimate reflecting in the main the efforts made towards speedier tax collection. Union Excise duties will show only a moderate increase of Rs. 31 crore. On the other hand, Customs revenue will exceed the Budget Estimate by Rs. 118 crore reflecting primarily the spurt in imports.

Receipts from market loans also show a substantial increase over the Budget Estimate—the actual realization being Rs. 294 crore against the expectation of Rs. 168 crore last May. The nationalized banks have continued to make excellent progress in deposit mobilization; and the Life Insurance Corporation and the Provident Funds have also been able to mobilise more funds that was expected earlier. This has greatly facilitated market borrowing by the Centre in the current year. Collections under small savings should amount to Rs. 210 crore against Rs. 180 crore assumed earlier.

The overall deficit is now expected to be restricted to Rs. 385 crore. This represents an increase of Rs. 152 crore over the Budget Estimate. An increase in deficit of this order cannot be contemplated with equanimity in a normal year; and its monetary impact even in the current year was held in check by the policy of restraint followed by the Reserve Bank. But the honourable members would, I am sure, appreciate that it has to be judged against the additional liability on account of defence, refugee relief, assistance to Bangladesh and natural calamities. Expenditure on these four items alone is now expected to be Rs. 1,888 crore as against Rs. 1,351 crore envisaged last May. Even allowing for additional external assistance for refugee relief, this represents an increase of Rs. 437 crore over the Budget Estimates.

Plan Outlay 1972–73

Sir, I come now to the Budget provisions for 1972-73. In keeping with the imperative need to accelerate the pace of growth and social welfare, I propose to increase the budgetary provision for the Central and Centrally sponsored Plan schemes from Rs. 1,455 crore in 1971-72 to Rs. 1,787 crore in 1972-73. This increase of Rs. 332 crore or by nearly one-fourth in a single year represents the sharpest step-up that we have attempted in the Central sphere over the past so many years. The increase in Plan outlay is spread over virtually in all the sectors of the economy. Agriculture, Community Development and Cooperation account for an increase of Rs. 23 crore. Irrigation and Power, Rs. 18 crore; Mines and Metals, Rs. 23 crore; Industry including Petroleum, Chemicals, Steel and Heavy Engineering, Rs. 44 crore; Shipping and Transport, Rs. 56 crore; Posts and Telegraphs, Rs. 14 crore; Railways, Rs. 8 crore and Atomic Energy, Rs. 30 crore.

By far the largest increase is being made in the provisions for those schemes which combine an element of social welfare with future growth potential. Taking all such schemes together, the Budget provision in 1972-73 would be Rs. 240 crore as compared to Rs. 130 crore in 1971-72. An important innovation relates to a new lump-sum provision of Rs. 125 crore to cover the requirements of rural water supply, rural home sites, slum clearance and improvement, primary education and schemes for the educated unemployed. Since there are wide differences in the requirements of different States of these essential amenities, it is felt that a lump-sum provision of the nature would make it easier for us to make an impact in each State in the field where such impact is most urgently needed.

There are large disparities among the States in terms of enrolment of children in schools in the age group 6-11. Expansion of primary education facilities, particularly in the backward areas, will help correct regional imbalance and will also provide scope for larger employment. Of our 5,60,000 villages, some 1,30,000—or almost 25 per cent are cholera-endemic and guinea-worm infected areas. By tackling the problems of rural water supply in these disadvantaged areas, it should be possible to contribute substantially to the well-being of the rural people. The provision for rural home sites should help particularly landless labour. In some States the need would be to concentrate mainly on slum clearance and improvement in congested urban areas or on schemes designed primarily to provide employment to the educated.

Among other schemes, the budgetary provision for the Small Farmers Development Agency is being doubled from Rs. 6 crore this year to Rs. 12 crore next year and for marginal farmers and agricultural labourers from Rs. 3 crore to 6 crore. Similarly, the provision for special nutritional programmes for children is being increased from Rs. 11 crore. The programmes for dry farming development, rural works in drought-prone areas and the crash programme for rural employment are being continued with a total provision next year of Rs. 72 crore. It is our hope that in the light of the experience already gained and the assessment recently made in consultation with the State Governments, it would be possible next year to utilize in full the provision that is now being made.

In addition to the provision made in the Budget, resources are also available for the Central Plan from the internal surpluses of public sector enterprises and by way of contribution from financial institutions. The internal resources of public sector enterprises which would be available for the Plan are expected to increase from Rs. 233 crore in 1971-72 (Budget Estimates) to Rs. 275 crore in 1972-73. Other resources available for the Central Plan including borrowings from financial institutions and contributions by the Reserve Bank from retained profits etc., are expected to increase from Rs. 135 crore in the current year to Rs. 245 crore in 1972-73. Inclusive of budgetary provision as well as internal resources of public enterprises and other extra-budgetary resources, the total Plan outlay on Central Plan schemes is, thus, expected to increase from Rs. 1,823 crore in 1971-72 to Rs. 2,307 crore *i.e.,* by Rs. 484 crore or by about 27 per cent.

State Plans

I am happy to say that there will also be a substantial step-up in the Plan outlay of the States. In the light of the discussions that the Planning Commission has already had with the State Governments, the annual plan outlay of the State and Union Territories for 1972-73 is expected to be Rs. 1,666 crore as compared to Rs. 1,440 crore in 1971-72. This includes a provision of Rs. 782 crore by way of Plan assistance from the Centre to the States and Union Territories. The honourable members would also note that substantial part of the increase in the Central Plan outlay is really on schemes which are initiated and executed by the State Governments themselves.

In addition to Plan assistance, the scheme of special accommodation by way of loans to those States which have substantial non-Plan gaps will be continued; the provision under this head for next year is Rs. 130 crore. But, the State Governments on their own will also have to mobilize resources on a substantial scale if the Plan outlays now proposed for them are to be implemented without recourse to overdrafts from the

Reserve Bank. As the House is aware, the Minister of Planning and I have been in close touch with the States in this regard. I am well aware that there are genuine difficulties in some States in liquidating past overdrafts over a short period. In recognition of these difficulties we have arranged, in consultation with the Planning Commission, that such States would not be called upon to liquidate their existing overdrafts immediately but would be asked to repay next year only 15 per cent of the estimated overdrafts at the end of 1971-72. The State Governments have agreed to take steps to reduce the overdrafts progressively; and we propose to adopt a new set of procedures to ensure that overdrafts are not used in future as a continuing mode of financing State expenditures.

I may also mention in this connection that we proposed to announce soon the composition and terms of the Sixth Finance Commission. In our federal system, the evolution of satisfactory financial relations between the Centre and the States has a vital bearing on progress and harmony in the country at large; and the next Finance Commission will have a very important role to play in laying the base for the Fifth Five Year Plan which will be launched two years from now.

Other Expenditure and Receipts: 1972-73

Outside the Plan, every effort is being made to restrict expenditure to the minimum. The provision for Defence next year is being kept at Rs. 1,408 crore *i.e.,* about the same as the Revised Estimates for the current year. The honourable members, I am sure, would appreciate that apart from providing for normal increases in costs, salaries and dearness allowance, we have also to make adequate provision for recouping the losses suffered during the war and for looking after the families of those who have made the supreme sacrifice for the defence of the motherland. It is our earnest hope and endeavour that out of the anguish and agony if the recent past will emerge a new spirit of peace and harmony in this great sub-continent so that all its 700 million inhabitants can devote their entire energies against their common enemies of hunger, want, disease and exploitation of man by man.

I expect the yield from income tax and corporation tax to increase from Rs. 985 crore (Revised Estimates) in the current year to Rs. 1,060 crore in 1972-73. Revenues from Excise duties should increase from Rs. 2,103 crore to Rs. 2,330 crore and from Customs duties from Rs. 652 crore to Rs. 700 crore. The continuance of special levies which, I am afraid, is unavoidable in the present circumstances, would bring in Rs. 70 crore next year as against Rs. 20 crore in the current year.

Unfortunately, a significant part of the additional revenues will be offset by an increase in food subsidy from Rs. 30 crore in the Budget Estimates for the current year to Rs. 100 crore in the Budget Estimates next year. On the basis of present procurement and issue prices, the burden of food subsidy next year would amount in fact to Rs. 120 crore. I have made a somewhat lower provision of Rs.100 crore as it is our intention not to let this burden grow without appropriate remedial measures to keep it in check.

The welcome increase in foodgrain production has added to the fiscal burden in another way. During 1972-73, the additional financial requirements of the Food Corporation of India for carrying the buffer-stock of foodgrains are estimated at Rs. 120 crore. I am making a budgetary provision in this regard of Rs. 25 crore only so that the balance of Rs. 95 crore will have to be found by the Corporation by additional borrowing from the banking system. At the end of February 1972, the Corporation's borrowing from banking system had already reached the high level of Rs. 350 crore. A further addition of Rs. 95 crore during the coming year will naturally strain the resources of the banking system unduly unless the demands on it from other sectors are correspondingly moderated. That is why net receipts from market loans next year are assumed at the level of Rs. 215 crore only. Thus, directly or indirectly, the procurement of foodgrains is now having a substantial repercussion on the Central Exchequer as also on the distribution of income within the country.

Net receipts from external loans next year are also expected to show a substantial decline from Rs. 469 crore this year to Rs. 374 crore in 1972-73. Recent events have once again served as a reminder that even as we strive for greater growth and social welfare, we cannot neglect the urgent need for reducing the dependence on external assistance. Our policy to be progressively independent of external assistance is not directed at anyone other than ourselves. Its thrust is towards invigorating our own internal efforts. There are a few major areas, such as cotton, oil-seeds, fertilizers, steel, petroleum products and spare parts for equipment installed in the past where our dependence on imports is still high. Similarly, our export earnings can be increased rapidly by creating additional facilities for mining, fishing and manufacture of a large variety of engineering and consumer goods. We are making detailed plans in each of these sectors to increase production rapidly so that our growing requirements can be met without undue dependence on imports and surpluses created for augmenting exports. No effort whether by way of provision of finance or otherwise will be spared to accelerate this process of self-reliance through import substitution and export promotion.

At existing rates of taxation, the overall budgetary deficit next year will be Rs. 375 crore. There will be a surplus on revenue account of Rs. 219 crore but this would be more than offset by the deficit on capital account of Rs. 594 crore.

In Sum

To sum up, the main feature of the Budget for 1972-73 which I am now presenting is the substantial increase in the outlay on the Plan. The budgetary provision for the Central Plan proper is being increased by Rs. 332 crore, or nearly 23 per cent. Inclusive of internal surplus and other extra-budgetary resources, the increase in the Central Plan works out to Rs. 484 crore, or 27 per cent. Taking the Centre, the States and the Union Territories together, the total provision for the Plan for the next year, as now envisaged, comes to Rs. 3,973 crore as against Rs. 3,263 crore in the current year, *i.e.,* an increase of Rs. 710 crore or 22 per cent. A substantial increase in Plan outlay of this order would be a major factor contributing to economic growth over the coming months. It has been our experience that an increase in Plan outlay in the public sector is a pre-requisite for revival of industrial production whether in the public or in the private sector. It is our expectation, therefore, that the increase in Plan outlay next year will serve as a catalyst for the revival of growth particularly in the industrial sector where recent trends leave much to be desired.

Within the total Budget provision for the Plan at the Centre, as much as Rs. 240 crore is being earmarked for schemes with an accent on social justice as well as economic growth. I am well aware that even this provision of Rs. 240 crore is modest as compared to the magnitude of the problem. But, I am sure, the honourable members would agree that it represents a sincere effort towards meeting the basic minimum needs of the most disadvantaged sections of our society.

It is a matter of some satisfaction that despite the substantial increase in Plan outlay and without any credit for mobilization of additional resources, the overall deficit in the Central Budget for 1972-73 is now expected to be limited to Rs. 375 crore. This satisfactory outcome is the result mainly of the fact that during the past critical year, we were able to introduce what amounts virtually to three different budgets with substantial measures for additional resource mobilization. The total receipts on account of the taxation measures introduced last year will be of the order of Rs. 500 crore in a full year.

Important as the Central Budget is as an instrument for furthering our social and economic objectives, it has to be supplemented by basic changes in our economic institutions and policies. During the last year, the Government has taken a number of steps in this direction. The taking over of the management of general insurance, the guidelines given to financial institutions in regard to convertibility of loans into equity and participation in the management of the enterprises assisted by them, continued effort to direct the new vitality of the nationalized banking system towards improvement in the economic conditions of the small and new entrepreneurs in industry and agriculture and the policy of differential interest rates—these are all various facts of the same thrust forward towards the goal of economic progress with social justice. The honourable members may rest assured that we shall continue our efforts in the same spirit and over a broad front over the coming months so that the mandate for creating a socialist society is carried out with speed and vigour.

Sir, without taxing the patience of the honourable members any further, I should proceed now to the business of taxation proper. Having introduced virtually three Budgets in the past 12 months, I might well be expected to declare a holiday from further taxation for at least one year. But, I am afraid I cannot allow myself such unique distinction. A deficit of Rs. 375 crore cannot be left wholly uncovered without danger to price stability. We have also certain commitments to the State Governments to raise revenue on their behalf. Fiscal policy must serve the larger objectives of self-reliance and equity. Nor should I fight shy of making a few concessions. The introduction of a new Budget is also an opportunity for a certain amount of spring cleaning.

The Direct Taxes Inquiry Committee under the Chairmanship of Shri K.N. Wanchoo, ex-Chief Justice of India, submitted their Report last December. It contains a number of valuable and far-reaching suggestions to unearthing black-money, preventing evasion and avoidance of taxes and reducing tax arrears. Copies of the Report will soon be made available to the Honourable members. It has often been said in this House that basic changes in the tax system should be introduced by means of a Taxation Amendment Bill rather than through the annual Finance Bill so as to give the honourable members more time for a detailed consideration in the light of discussion both within and outside the House. Accordingly, I propose to bringforth a separate legislation as early as possible to give effect to those recommendations of the Committee which are acceptable to the Government and which require a major change in the present tax laws.

There has been a feeling for sometime in the country that a family consisting of husband, wife and minor children which constitutes a common unit of consumption and as such a common focal point for the incidence of indirect taxation, is also a more appropriate and equitable basis for purposes of direct taxation subject to certain safeguards for wives at work. The present tax treatment of Hindu Undivided Families has also encouraged tax avoidance. On these two related questions, the members of the Wanchoo Committee have made several alternative suggestions. The Government will examine these suggestions carefully and sponsor separate legislation in due course for restructuring the Income Tax Act and the Wealth Tax Act to the extent necessary.

In the meanwhile, I propose to introduce through the Finance Bill a few changes in the Direct Tax structure which are designed either to produce some additional revenue in a difficult year or to give effect to such recommendations of the Wanchoo Committee as can be easily incorporated in the present tax-laws.

Direct Taxation

On the assumption that no news is good news, I propose to make no change in the rates of income tax as also of surcharge on income tax in the case of tax-payers other than companies.

In order to remove any temptation that people may feel for neglecting their regular duties in favour of any casual or ephmeral or even imaginary pastime, I propose to withdraw the present exemption in respect of casual and non-recurring income when it exceeds Rs. 1,000 in a year. However, a Finance Minister in particular should not frown upon those who are specially favoured by the goddess of good luck. Accordingly, winnings from the States or other lotteries will be taxed on a concessional basis. Those who win a prize in a lottery are perhaps in the same happy position as people who enjoy a capital gain when their property appreciates in value without any effort on their part. On this principle, in computing incomes from such winnings, a deduction of Rs. 5,000 plus 50 per cent of the balance will be allowed. However, even those who are favoured by Fortune should make their offering first at the altar of the Exchequer. I propose, therefore, to provide for deduction of tax at source at the rate of 34.5 per cent from crossword puzzles and lotteries. Casual losses will be allowed to be set off only against the same type of income.

I propose to provide for deduction of tax at source at the rate of 2 per cent of the payments made to contractors by the Government, local authorities, statutory corporations and companies. Payments made in turn by contractors, other than individuals and Hindu Undivided Families, to sub-contractors will attract a deduction at the rate of 1 per cent. I hope this alliance between the revenue department and contractors will lead to prompter payments all round.

With effect from 1 April 1972, the Government will pay a rate of interest of 12 per cent per annum on the amount of refund the payment of which is delayed. The honourable members will recall that at present the rate of interest we pay is only 9 per cent per annum. It is only fair that the interest charged when there is delay in the payment of direct taxes to the Government is also similarly increased from 9 per cent to 12 per cent per annum.

Capital gains arising from the transfer of jewellery held for personal use are not so for chargeable to the capital gains tax. This has given rise to fictitious transactions in jewellery in order to regularize incomes which have escaped taxation. I propose, therefore, to repair this omission.

Dividends received from co-operative societies are at present completely exempted from income taxation. I see no justification for this exemption and propose to withdraw it. Such dividends, however, will be included in the categories of income which qualify for exemption from income tax up to Rs. 3,000 in a year.

These measures are likely to yield Rs. 6 crore in a full year and Rs. 3 crore in 1972-73 of which some Rs. 2 crore will be the share of the States.

Coming to corporate taxation, I propose to do away altogether with the special deduction of 5 per cent of profits in the case of domestic companies engaged in priority industries. This will yield Rs. 6 crore in a full year and Rs. 4.5 crore in 1972-73.

Some months ago when we levied special surcharges, many honourable members had asked why the surcharge on company taxation was fixed at 2.50 per cent when a surcharge of 5 per cent was levied on many other items including railway passenger fares. I propose now to remove this discrimination. For the assessment year 1972-73, the surcharge will continue to be 2.50 per cent of the income tax payable by all companies. However, on income tax payable in advance during the financial year 1972-73, the surcharge would be at the rate of 5 per cent. This change will yield Rs. 12 crore over a full year and Rs. 9 crore in 1972-73.

There are a number of other changes that are proposed in the Finance Bill for preventing evasion or avoidance of taxes and for rationalizing the incentives available for promoting saving and investment. A few changes are proposed, for example, in relation to taxation of Charitable and religious trusts in the light of recommendations made by the Wanchoo Committee. Voluntary contribution received by such institutions will qualify for exemption from income tax only if these are applied to charitable or religious purposes or are accumulated for such purposes in the specified manner. The other important changes relate to audit by a Chartered Accountant and compulsory registration for a trust to qualify for tax exemption, extension of the definition of relatives for judging whether the income or property of the trust is being used in a manner which would constitute disqualification from tax exemption and making the trust liable to pay wealth tax when any part of the corpus or income of the trust is used for the benefit of the author of the trust, a substantial contribution to the trustees and their relatives, etc.

Regarding incentives for investment and saving, investment in industrial proprietary concerns or partnership firms will now be included among assets which qualify for exemption from wealth tax up to Rs. 1.50 lakh. When one category of exempt assets is changed to another category of such assets, the requirement of minimum holding for a period of six months will be reckoned with reference to the period of holding of both the assets. This would remove the difficulty that has been experienced by many recipient of a accumulated Provident Fund contributions. Contributions made towards the Unit-Linked-Insurance Plan of the Unit Trust of India (UTI) will qualify for deduction in computing the taxable income of an individual in the same manner as life insurance premia and contributions to Provident Funds.

The income of approved Gratuity Funds will be exempted from income tax prospectively from the assessment year 1973-74. The amount of gratuity that will be exempt from income tax in the case of employees other than the Government employees and employees of the local authorities will be subject to a uniform ceiling of half of a month's salary for each year of completed service or 15 months salary or Rs. 24,000 which is the least.

I have come to the conclusion that the small but select class of income-tax payers in the country deserve some special recognition from the Government. Accordingly, I propose soon to award to each assessee a distinct and permanent account number of his own. I am afraid, there is no mark of distinction which does not lead to easy detection; and I cannot help it if individual account numbers make it difficult to avoid taxes.

Finally, I come to the demand which has been made by the industry that while the development rebate may be withdrawn, the Government should introduce some other fiscal concessions and announce them in advance so as to impart a continuing momentum to industrial growth in the country. The Government is not averse to the grant of fiscal concessions. It is, however, felt that fiscal concessions for promoting industrialization should not be general or across-the-board in character but should relate specifically to our social and economic objectives. Again, as far as possible, it would be desirable to provide incentives which encourage the use of those resources, such as labour, which are in abundant supply rather than of resources, such as capital, which will continue to be scarce for a long time to come. The Wanchoo Committee has made a number of recommendations with different objectives in view. After examining all those suggestions carefully, we propose to come up with specific provisions in the Taxation Amendment Bill which is proposed to be introduced later in the year. These provisions would be designed primarily to promote industrialization in the backward regions of the country.

The total yield of all the changes in direct taxation will be Rs. 24 crore in a full year and Rs. 16 crore in 1972-73 of which the share of the Centre would be approximately Rs. 14 crore. I could also have taken credit for improvement in tax-collections as a result of the many changes designed to reduce tax evasion. But I have decided not to credit myself with any such gains in advance.

Sir, may I now turn to what are perhaps euphemistically called indirect taxes.

Customs Duties

I have only one main proposal in regard to customs duties. It will be recalled that in December last, we had imposed a regulatory duty at the rate of 2.5 per cent *ad valorem* on most imported products and a higher duty of 10 per cent on a few selected items. The need to exercise a general restraint on imports remains as great as ever. It is also necessary in imposing regulatory duties to ensure that the simplification of the import tariff which was introduced last year is not unduly disturbed. Accordingly, I propose to apply the 10 per cent *ad valorem* rate to all items which pay a duty of 100 per cent or more as well as to the few selected items which were included in the 10 per cent list last December. A new rate of 5 per cent *ad valorem* will apply to all items on which a duty of 60 per cent or more but less than 100 per cent is payable. The remaining items will continue to bear the regulatory duty of 2.5 per cent. However, those items which were totally exempted last December will continue to remain so. These changes will result in an additional revenue of Rs. 8.60 crore in a full year.

I also propose to continue the provisions which enable us to levy a regulatory duty of customs. However, in keeping with the provisions relating to regulatory duty of excise, power is being taken to levy regulatory duty of customs also up to a rate of 15 per cent of the value of the imports.

Excise Duties

Coming now to Excise Duties, I propose to make no addition to the list of commodities which can be subject to such duties. But the honourable members would appreciate that even without exploring fresh fields or pastures new, it is possible to increase the yield by more intensive cultivation; and this is a responsibility which I cannot escape.

Pursuant to the decision to continue the scheme of levying additional excise duties *in lieu* of sales-tax on sugar, textiles and tobacco, we are committed to raise the overall incidence of these additional excise duties to 10.8 per cent of the value of clearances by the end of the Fourth Plan period.

To this end, I propose to transfer to the States the entire proceeds of the regulatory duty of 15 per cent of the effective basic duty on unmanufactured tobacco which was levied last December by converting it into an additional excise duty which is itself being rounded upwards on different varieties. As a result, the States will gain to the extent of Rs. 11.56 crore by way of additional duties whereas the Centre will lose Rs. 9.70 crore by way of regulatory duty. At the same time, the basic and special duties on different varieties of unmanufactured tobacco are being merged in keeping with a general scheme to which I would soon refer. In the process, I have also taken the opportunity of rounding upwards the rates on different varieties to make up, in part, for the loss of revenue to the Centre. The yield of the combined duty, exclusive of the additional duties for the States, will go up by Rs. 9.31 crore.

In the case of cigarettes, a similar rationalisation and rounding off would result in a gain of Rs. 7.63 crore to the State Governments by way of additional excise and a loss of revenue of Rs. 4.64 crore under other duties which would now be combined and shared with the States.

In the field of textiles, I propose to raise some additional revenue for the States from art silk fabrics. At present, taking all the duties into account and depending on the price per square metre, there are four different rates that apply to art silk fabrics, namely, 3 per cent, 5.7 per cent, 8 per cent and 10 per cent. I propose to reduce the 5.7 per cent to rate of 5 per cent and increase the rate of 10 per cent which applies to fabrics worth more than Rs. 5 per square metre to 15 per cent.

Of the additional revenue of Rs. 8.59 crore, the share of the States by way of additional duties will be Rs. 5.80 crore and the rest will accrue to the shareable pool between the Centre and the States.

In short, the revenue by way of additional excise duties will increase by Rs. 25 crore and this entire increase will go to the States. The honourable members would note that I have left sugar entirely untouched in this exercise.

The Fifth Finance Commission had recommended that from 1972-73, the special excise duties which have been levied in the past exclusively for the benefit of the Centre should also be included in the divisible pool. In keeping with this principle, I have decided to merge the special excise duties with basic excise duties and to round off the combined rates so as to introduce a certain measure of simplicity in the rate structure. As a result, with just half a dozen exceptions, all the *ad valorem* rates of excise duties will fall under 6 different slabs, namely, 10 per cent, 15 per cent, 20 per cent, 25 per cent, 30 per cent and 50 per cent. To mention a few examples, in the case of cement, the basic duty of 20 per cent and the special duty of 4 per cent will now be replaced by a combined duty of 25 per cent. Similarly, items which carry a basic duty of 15 per cent and a special duty of 3 per cent will now have a rate of 20 per cent applied to them. There are only four items, *viz.,* latex foam sponge, polyurethane foam, and articles made from that foam, and tyres for motor vehicles where there is a basic duty of 40 per cent and a special duty of 8 per cent. The new combined rate for these items will be 50 per cent. In case the honourable members feel that laws of rounding off always favour the Exchequer, I hasten to inform them that in the case of coffee, the aggregate rate which works out to Rs. 102 per quintal would be rounded downwards to Rs. 100 per quintal. In the case of vegetable non-essential oils, also, the rate is being reduced from Rs. 110.25 per metric ton to Rs. 100 per metric ton.

In the case of wireless receiving sets, the present system of taxing certain component parts, *i.e.* transistors and diodes, has given an impetus to large-scale smuggling. I propose, therefore, to remove the duty on such parts and replace it by suitable changes in the duty on wireless receiving sets in such a way the incidence of duty will increase with the price of the set. The present exemption from duty for sets of a value not exceeding Rs. 165 and manufactured by the small-scale sector is being continued.

The combined result of the rationalisation measures would be a gain in revenue of Rs. 19.79 crore.

There are a few items where the opportunity of merging the special duty with basic duty is also being taken to raise additional revenue. In the case of paints and varnishes, the additional revenue will be Rs. 2 crore and in the case of paper, it will be Rs. 5 crore. The higher rates of duty on paper, however, will apply only to the more expensive varieties of paper and board. Printing and writing paper used for exercise note-books and text books will not be affected. Newsprint would also continue to be exempt from duty and there would be no change either in the case of mill-board and straw-board where the smaller manufacture is involved.

Similar increases are being made in the case of rayon and synthetic fibres and yarn. The more expensive varieties of artificial synthetic fibres and yarn such as polyester fibre and yarn will bear higher duties. However, rayon filament yarn which is a comparatively cheaper item will remain unaffected. The additional revenue from these changes is expected to be Rs. 6.50 crore.

I now come to a few major proposals which are intended to raise revenue for the Centre in a manner which serves at the same time some of our larger social or economic objectives. It will be recalled that last December a regulatory duty at 50 per cent of the effective basic excise duty was imposed on steel ingots, iron and steel products and tin plates so as to bridge the substantial gap between the prices of imported and indigenous steel. Even after these changes, a considerable gap remains between imported steel and indigenous steel prices. It is necessary to economise on the use of steel in the country by charging for it a price which bears a reasonable relationship with international prices. The basic duty on steel products, therefore, is being raised by about 30 per cent and the regulatory duty of 50 per cent will apply to these higher basic rates. The total additional revenue from steel products is expected to be Rs. 36.20 crore of which—Rs. 11.80 crore would be by way of regulatory duties.

For similar reasons, the regulatory duty of 25 per cent on aluminium and its products is being raised to 33.50 per cent of the basic duty. This measure will yield Rs. 4.18 crore.

The honourable members are also aware of our substantial dependence on imports in regard to petroleum products. The duty on motor spirit has been raised substantially in the recent past and this has had the salutary effect of curbing the growth of demand. As a token of appreciation, I propose, therefore, to leave the motoring community untouched this year. I am afraid, I have, however, to make up for the omission last year in the case of kerosene where our reliance on imports is even greater. In addition, the comparatively low rate of duty on kerosene encourages its adulteration with other products, particularly with high speed diesel oil. I am well aware that kerosene is an item of common consumption both in the rural and the urban areas. But in view of the circumstances I have mentioned, some additional taxation of kerosene could not be avoided. I propose, therefore, to increase the duty on kerosene by Rs. 59.75 per kilo litre or roughly by about 6 paise per litre. This will result in an additional revenue of Rs. 28.80 crore in a full year.

In the Budget last May, we had introduced a duty on compounded lubricating oils and greases. Lubricating oils are also manufactured and marketed to some extent by a mere blending of two oils without any added ingredient. There is no reason why these marketable oils should not be made liable to duty. I propose, therefore, to amend suitably the definition of the existing tariff item which will yield an additional revenue of Rs. 5 crore. The duties on asphalt and bitumen as also on petroleum waxes are also being suitably revised to yield an additional revenue of Rs. 3.30 crore.

It has often been said that the agricultural sector which has been witnessing significant growth in income over recent years should also make an appropriate contribution to the overall needs of the country. We have appointed a Committee under the Chairmanship of Professor K.N. Raj to examine the whole question of taxation of agricultural incomes and wealth, steps have also been taken to raise additional revenue from this sector by levying a duty on tractors and on fertilizers. I propose now to raise the duty on fertilizers from 10 per cent to 15 per cent. This will result in additional revenue of Rs. 12.50 crore. Duty at the rate of 10 per cent will also now be levied on power-driven pumps which are designed primarily for handling water. This measure is expected to yield a revenue of Rs. 2 crore.

There are a few other minor items such as synthetic organic dyestuffs and optical bleaching agents where the rate of duty is being changed from 15 per cent to 20 per cent with an additional yield of Rs. 2.63 crore. The duty on aerated waters with blended concentrates is being increased from 10 per cent to 20 per cent with an additional yield of Rs. 1.65 crore. Pistons will now be added to the list of motor-vehicle parts for the purposes of duty. The revenue yield from this would be Rs. 50 lakh.

The merger of special duty with basic duty results in a rate of Rs. 605 per metric ton on hessian and of Rs. 385 per metric ton in the case of other jute products which relate mainly to sacking. I propose to round off these rates to Rs. 600 and Rs. 400 per metric ton respectively. The regulatory duty will remain unchanged at 50 per cent. The net gain to the Exchequer would be Rs. 1.76 crore of which Rs. 1.20 crore would be by way of regulatory duties.

Throughout ages, our spinners and weavers have produced an infinite and everchanging variety of colour, texture and design to beguile our fancy; and the Central Board of Excise and Customs has had a difficult task in evolving a textile tariff which can keep pace with all the subtle nuances of our textile products. I propose to make one more effort and introduce an extensive rationalisation of the textile tariff which has been worked out after a great deal of detailed examination. The honourable members would, I am sure, be happy to note that the overall revenue effect of this rationalisation, at any rate, would be insignificant.

Finally, I would like to round off by a few concessions in excise duties. In the case of some items, duty-free clearance up to a value of Rs. 50,000 is allowed subject to the provision that the total clearance from the unit do not exceed Rs. 2 lakh in a year. In some other cases, clearances up to a value of Rs. 1 lakh are exempted. I propose now to raise the exemption limit in all cases where the lower limit of Rs. 50,000 is allowed today to Rs. 1 lakh subject to the upper ceiling remaining uncharged at Rs. 2 lakh. This measure which is intended to help the smaller units will cost the Exchequer Rs. 1.40 crore in a full year.

Some concessions were introduced in the last Budget to encourage the use of minor oils in the manufacture of soap. In view of the urgent need to reduce our dependence on imports in regard to vegetable oils in general, I propose to increase the incentive by reducing the minimum percentage of use of minor oils from 5 per cent to 3 per cent and by introducing a rate of rebate of Rs. 4.50 per metric ton on the duty leviable on soap as the reduced minimum use of minor oils obtains. This rebate will increase progressively by Rs. 1.50 per ton for every additional percentage point increase in the utilization of these oils. A similar concession in relation to rice bran oils used in the manufacture of soap at the rate of Rs. 1.50 per ton for every additional percentage point of use of rice bran oil beyond a minimum level of 15 per cent will also be given.

To encourage the use of rice bran oil in the manufacture of *vanaspati*, the minimum percentage use of 7 per cent which was prescribed last year is being reduced to 1 per cent without any change in the rate of rebate which would remain Rs. 100 per metric ton on the duty payable on *vanaspati* produced from such oil. Similarly, the incentive for greater use of cotton-seed oil in the manufacture of *vanaspati* is also being increased on a graded basis. The present general concession of Rs. 100 per ton of *vanaspati* produced from cotton-seed oil will be withdrawn and a minimum compulsory usage of 10 per cent prescribed. Beyond this percentage, however, the rebate would be Rs. 200 per metric ton up to 20 per cent of usage, Rs. 250 per metric ton from 20 to 30 per cent of usage and again Rs. 200 per metric ton beyond 30 per cent of usage. These concessions on oils would cost the Exchequer about Rs. 60 lakh.

The honourable members would be happy to know that I have no proposals this year in regard to postal and telegraph rates. The Finance Bill, however, provides for some changes in the sales-tax law applicable to Delhi to remove certain lacunae which act to the detriment of sales-tax revenue accruing to the Delhi Administration.

Taking all the proposals together, the total additional revenue from Excise duties would be of the order of Rs. 145 crore in 1972-73 of which Rs. 97 crore will accrue to the Centre and roughly Rs. 48 crore to the States. In addition, countervailing import duties which will apply in respect of all changes in excise duties other than those relating to iron and steel and aluminum are expected to yield an additional revenue of Rs. 13.41 crore. Other changes in Customs duties will yield, as already mentioned, an additional revenue of Rs. 8.60 crore for the Centre. The additional yield from direct taxes for 1972-73 would be Rs. 14 crore for the Centre and Rs. 2 crore for the States. All in all, the additional revenue at the Centre next year will be to the order of Rs. 133 crore and for the States, Rs. 50 crore. The initial deficit of Rs. 375 crore will, thus, stand reduced to Rs. 242 crore which I think is a reasonably safe level.

Sir, in conclusion, may I express the hope that the Budget proposals I have just presented will be judged in their entirety and against the background of the formidable challenge we continue to face as a nation. The level of investment in the economy needs to be raised substantially at the present juncture. This is necessary not only in the interest of growth, particularly industrial growth, but also for making a tangible impression on the well-being of the most disadvantaged sections of the society. We have also to assist Bangladesh in her immediate task of restoring a measure of stability and viability to the economy. Nor can we let down our guard in regard to the security and integrity of the nation. At the same time, deficit financing must be kept within reasonable proportions.

Fortunately, the bulk of the unavoidable and indeed necessary increase in outlay next year will be financed by the normal growth in revenues. If I have not been able to avoid additional taxation altogether, I hope the honourable members would remember that I have not been unduly cautious either in providing a stimulus to growth and social welfare by a substantial increase in Plan Outlay. Some of my tax proposals will also serve other objectives such as self-reliance. It is in the sense that I spoke at the outset of quickening the mutually reinforcing process of growth, social justice, self-reliance, investment and resource mobilization. I can only hope that taken in their entirety, the Budget proposals will take the economy one stage forward in its march towards our cherished goals.