SPEECH OF
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INTRODUCING THE BUDGET FOR THE YEAR 1968-69*

Highlights

— *Introduction of Public Provident Fund Scheme*

— *Speedy Completion of selected Major Irrigation Projects*

— *Appointment of a Finance Commission in advance of the due Date*

— *Concessions to Promote higher Agricultural Productivity*

— *Export Markets Development Allowance*

Sir, I rise to present the Budget for the year 1968-69. The Indian economy is emerging now from one of the most difficult periods since independence. Successive droughts, shortage of food and raw materials, rising prices, subdued industrial demand, inadequacy of exports and savings and sluggishness in the capital market had combined to create a feeling of despondency which has afflicted us in the recent past. The honourable members, I am sure, would agree that we can now look back on the past two years with a sense of relief. With the help of our friends abroad and the efforts of our own people, we have been able to avoid a major disaster and to impart at the same time a new sense of dynamism to our programmes of agricultural development.

I look upon the coming financial year with a certain degree of optimism and with the expectation that, given the right policies, it can become a year of revival. With the sharp increase in agricultural production and rising incomes, there would undoubtedly be some increase in the demand for industrial products. Recent trends in exports have been encouraging. The price level is registering a decline. The objective of policy in the coming year must be to consolidate the gains so that a major developmental programme can be undertaken in our Fourth Five-Year Plan which will be launched in the following year.

* *Lok Sabha Debate,* 29.2.1968, cc. 827-855.

The honourable members are already familiar with the various aspects of the new agricultural strategy. The availability of nitrogenous fertilizer has been more than twice as high this year as in 1965-66. Arrangements are in hand to maintain supplies at a high level in the coming year. The area under high yielding varieties of seeds is expected to increase from 15 million acre, this year to 21 million acre next year. In recent years we have concentrated on minor irrigation works in order to get quick results from investments. In the current year, 3 to 3.5 million acre were covered by new minor irrigation facilities and the target for the coming year is another 3.5 million acre. Major irrigation schemes on which substantial progress has been made also deserve our prior attention.

We have to make earnest efforts to ensure that we introduce the same kind of technological advance in commercial crops as we have achieved in respect of foodgrains. Increased productivity per acre is essential if adequate returns to the farmer are to be reconciled with reasonable prices to domestic consumer and competitiveness in export markets. The processing industries can make a valuable contribution in this regard and I shall have occasion later to refer to a measure I propose to introduce to encourage these efforts.

Assurance of remunerative prices to the farmer for his products is an integral part of the new agricultural strategy. I should like to assure the House that inadequacy of finance will not be allowed to stand in the way of purchase by Government and the Food Corporation of such supplies as may be forthcoming at the procurement prices. The target of procurement is 7 million ton*, and well-planned procurement measures by all concerned will have to be undertaken to reach this target. Even with this target, import of substantial amount of foodgrains appears to be necessary in order that the long unfulfilled programme of building up a sizable buffer stock can be achieved after making allowance for replenishment of private inventories and some increase in consumption. An agreement has already been signed to import 3.5 million ton of foodgrains from the U.S.A. under P.L.-480.

The steady rise in prices over the last few years has been a matter of all-round concern. Over the four years ending March 1967 prices had risen by 60 per cent and there was a further rise during the earlier part of the current financial year. In recent months there has been a downward trend. A part of the recent decline is no doubt seasonal; but it is reasonable to hope that the increasing flow of foodgrains and consumer articles will help in the stabilization of prices at reasonable levels.

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*One ton is equal to 1,000 kg.

Sir, I am happy to say that the Government was able to get agreement this year that a part of the increase in dearness allowance which was due to the Government employees be credited to their provident funds instead of being paid in cash. These special contributions can be withdrawn in the coming year. But, may I request my honourable friends to join me in an earnest appeal to the Government employees not to withdraw these contributions as that will help in maintaining a climate of price stability. Economics, they say, is a dismal science; and I see no escape from saving more in order to preserve the value of the savings.

A substantial part of increase in incomes would need to be ploughed back into further Investment, if an adequate tempo of development is to be achieved and maintained. In part, investments will be undertaken directly by those who save out of larger incomes. The farmers will wish to purchase pumps, tractors and other equipment. In part, however, savings of all classes have to be mobilized for outside investment, public or private.

The small savings movement has a vital role to play in securing this objective. Net small savings have been relatively low in the recent past, in consequence of the droughts. I am making a number of modifications in the small savings schemes and necessary notifications are being issued in this regard. Briefly, we are introducing a new five-year deposit scheme with a tax-free return of about 4.5 per cent and are accordingly revising the return on the existing five-year cumulative time deposit scheme, and the 12-year and 10-year tax-free savings certificates. With a renewed drive for collection, particularly, in the rural areas, these measures should help in greater mobilization of resources.

The return on provident fund accumulations of the Government employees is also being raised; I propose to do so, however, on the first Rs. 10,000 of accumulations only. Those who are self-employed do not have the facility of saving through provident funds. I propose, therefore, to introduce a public provident fund scheme under which all sections of the community will have the opportunity of contributing to a provident fund, and to avail of the income-tax benefits provided for under the law in respect of contributions to such funds. It is my hope that in time, this provident fund scheme will secure substantial resources for the Exchequer. Self-employed persons such as doctors, lawyers, artists, actors and actresses; like old soldiers, are never known to retire. But they too reach their prime some day. Something laid by legitimately, and with considerable saving in tax liability should prove valuable even to those who have a greater claim to immortality than most of us.

A moderate increase in exports has occurred during the current year; and the increase in imports has been less than that in exports. Nevertheless, our foreign exchange reserves declined by $ 60 million between April and mid-November 1967; and it became necessary to draw $ 90 million from the International Monetary Fund. In recent weeks there has been a welcome increase in reserves in response to better export performance, which may be expected to continue. The fact that we have been able to get some debt relief this year has also helped in managing the over-all foreign exchange position. With the revival of industrial activity, import demand will be strong once again; and this underscores the fact that we cannot restore viability to our balance of payments without a sustained increase in export earnings. Basically, this is a question of increasing the production of exportable goods and increasing efficiency and savings all round. Export policies have also to be geared promptly to changing circumstances.

That is why we announced a number of changes in export duties on 7 February without waiting for the presentation of the Budget when every Finance Minister likes to mix the bitter with the sweet. The urgency of the situation was such that I had to forego the certainty of receiving at least one bouquet in the midst of whatever brickbats that may be in store. We have been giving cash assistance to some of our exports, particularly the newer manufactures. Certain adjustments in these rates of assistance have already been made. The Government proposes to maintain the new structure of assistance intact—encouraging neither uncertainty nor perpetual expectations of further assistance. We have also recently streamlined and simplified the procedures for release of foreign exchange for the purpose of export promotion.

One of the important needs of the export sector has been the provision of adequate and cheap credit. During the year, the Industrial Development Bank enlarged the facilities for medium-term export credit; and the Reserve Bank also took measures to ensure that credit for exports of newer manufactures was available at particularly concessional rates. It is desirable that credit should be available for exports generally at a relatively low rate of interest. I am, therefore, making provision in the Budget for the coming year for grant of a subsidy towards interest charges on export finance provided by the banks. The Reserve Bank will announce the details of the scheme which will include the prescription of a ceiling on interest charges qualifying under the scheme.

An adequate expansion of India’s export earnings is only possible within an appropriate international framework. It is a matter of gratification for us that the second session of United Nations Conference on Trade and Development (UNCTAD) is being held in New Delhi. It is our earnest hope that the deliberations of the Conference will help in promoting cooperation in trade and aid between the developed and the developing countries, and among the developing countries themselves.

As the honourable members are aware, we took a series of steps during the year to stimulate industrial output. With the revival of agricultural production and the consequent rise in incomes, a number of consumer goods items such as cotton yarn and vanaspati are showing an increase in production. There are also signs of a revival in the production of commercial vehicles. Industries supplying the needs of agriculture have done well even in the recent past and continue to do so. The level of private investment should pick up in response to the generally better economic outlook. Continued increase in exports and progress towards reducing the dependence on imports will also be necessary to create and sustain a climate on industrial revival. In this connection, it is a matter of satisfaction that our capital goods industries have won valuable export orders in the recent past and that we hope to get sizeable orders for wagons, rails and other steel products from the Soviet Union. I expect an increase in the industrial production of the order of atleast 5 to 6 per cent in the coming year. This increase, though moderate as compared to our past performance, would represent a significant advance over the rate of growth in the last two years.

The working of Public Sector Undertakings has been engaging our earnest attention. The public sector has been particularly hit by recession because it is mostly engaged in the production of capital goods or producer goods. The general recovery in the economy will undoubtedly help, but the basic problem of achieving a long-term improvement in efficiency and yields will have to be tackled urgently. The recommendations made by the Administrative Reforms Commission are being actively studied and I trust before long certain concrete steps will be taken to effect a lasting improvement.

Now that I have taken you through a survey of savings and exports, of prices and production, I could perhaps turn safely to some inconvenient facts of life. In my Budget Speech last year, I had referred to the need to avoid deficit financing in the circumstances then prevailing in the country. These circumstances have changed for the better; but unfortunately, not my budgetary fortunes so far. In actual practice, the current year is expected to end with a large deficit of Rs. 300 crore at the Centre. Honourable members would appreciate that it is neither an easy nor a pleasant matter for me to come to this House with this particular piece of information. It is some solace that worsening in the budgetary position has little to do with unexpected increase in expenditure. The deterioration has come about on account of shortfalls in revenues and foreign aid utilization which in turn have been due to the low level of economic activity and also, because of a decline in the resources of the States and Public Sector Enterprises. To some extent perhaps, we were also misled into undue optimism by the oft repeated charge of under-estimation of resources. As soon as the picture regarding shortfall in resources started emerging, I tried to make judicious readjustment of outlays. The manoeuvrability for such an exercise in the midst of the year is extremely limited, particularly if this is super-imposed on a tight budget. There was also the consideration of the effect which any drastic cut in public spending would have had on the recessionary situation. In fact, there were suggestions from most quarters to step up expenditure in one way or the other. Some steps were also taken in this direction. However, the expenditure estimates in totality have been contained; and on this count at least I can claim some credit for having taken to heart the admonitions of the Honourable members.

The Budget which I presented in May last had assumed the utilization of external assistance, other than PL-480, of Rs. 865 crore. Actual aid utilization is not expected to amount to more than Rs. 756 crore, thus, showing a shortfall of as much as Rs. 109 crore. The receipts from import duties will be about Rs. 125 crore less than assumed in the original Budget. Further, the Railway revenue shows a shortfall of Rs. 17 crore, their ordinary working expenses being at the same time Rs. 23 crore higher—in all, a deterioration of Rs. 40 crore. On the Posts and Telegraphs side also, there is a similar deterioration of Rs. 22 crore. The internal resources of Public Sector Undertakings have gone down by Rs. 41 crore, the bulk of which is in respect of Hindustan Steel.

There is one other factor which has also contributed to the large deficit this year—I am referring to the overdrafts of States. Last March we had provided Rs. 55 crore to some States in order to enable them to clear their overdrafts with the Reserve Bank which were likely to be outstanding at the end of 1966-67. In the Budget that I presented last May, I had also made a provision of Rs. 50 crore for the same purpose. In the event, a total of Rs. 113 crore was given to the States in respect of their overdrafts at the end of the last fiscal year; it was hoped that with the burden of past overdrafts taken care of, the States would be able to avoid similar overdrafts in the current fiscal year. Unfortunately, some of the States are still running overdrafts and I have decided to provide Rs. 50 crore more in the current year's Revised Estimates to clear the overdrafts once again at the end of the current year. While we have thus decided to safeguard the Plans of the States next year, honourable members would appreciate that we cannot allow a similar situation to develop next year also. I trust that the State Governments will not precipitate a situation in which we will be obliged to reconsider the existing banking facilities enjoyed by the States with the Reserve Bank.

Next year's Revenue Receipts at existing levels of taxation are estimated at Rs. 3,132 crore, being Rs. 138 crore more than the current year's Revised Estimates. The major increase of Rs. 86 crore occurs under excise duties. Income-Tax is likely to show an improvement of about Rs. 10 crore only as the profitability in the corporate sector this year will be reflected in the assessment next year. Customs revenue is expected to show a slight fall of Rs. 3 crore, the anticipated improvement under import duties being more than offset by reduction under export duties. The rest of the increase in revenue next year occurs mainly under Interest Receipts. Of the total Revenue Receipts, Rs. 423 crore will be transferred to the States as their share of Central taxes and duties.

External aid, other than PL-480, is placed at Rs. 775 crore. Next year's repayment liabilities are Rs. 193 crore, thus, giving a net figure of Rs. 582 crore. The rupee accruals in respect of PL 480 imports as also the dollar credit under the new agreements are placed at Rs. 274 crore as against Rs. 366 crore this year.

Next year's Expenditure Estimates include Rs. 1,015 crore for Defence as against Rs. 970 crore in the Revised Estimates, thus, showing a rise of Rs. 45 crore which is mostly accounted for by dearness allowance increases and somewhat larger provision for replacement stores. Included in these estimates is also an increase of Rs. 2 crore for pension charges and Rs. 7 crore under Capital Expenditure. Border roads account for a provision of Rs. 48 crore which is Rs. 5 crore higher than in the Revised Estimates.

Sir, I am well aware that our Defence expenditure should receive the utmost scrutiny so that the resources available for development are not unduly eroded. The question of reducing the magnitude of Defence expenditure without detriment to national security has been continually receiving our earnest attention. Significant progress has already been achieved towards improving the teeth-to-tail ratio and further measures to improve this are in hand; likewise, other measures for improving the cost-effectiveness of our Defence outlays are also under consideration. It is obvious that with the substantial increase in the price-level that has taken place over the recent past, some increase in Defence expenditure would become unavoidable. Honourable members would, however, be interested to note that as a percentage of gross national product, Defence expenditures have already come down from 4.4 per cent in 1963-64 to an estimated 3.2 per cent in 1967-68.

The Budget Estimates for 1968-69 include Rs. 243 crore on account of non-Plan grants to States and Union territories. A provision of Rs. 223 crore has also been made for giving non-Plan loans to States and Union territories of which Rs. 105 crore is for purchase and distribution of fertilizers, seeds and pesticides, and Rs. 20 crore for scarcity relief. The provision of non-Plan expenditure under the developmental heads is estimated at Rs. 237 crore as against Rs. 214 crore this year in part as a result of increased provision for export promotion. Rs. 186 crore are provided under heads relating to Administration as against Rs. 177 crore this year, the bulk of the increase being on account of higher dearness allowance. The total interest charges are estimated at Rs. 550 crore as against Rs. 508 crore this year.

The resources for the Plan next year on the basis of the estimates just mentioned and a number of miscellaneous items not mentioned here, are placed at Rs. 1,544 crore of which Rs. 170 crore are to be contributed by the Public Sector Undertakings including the Railways and the Posts and Telegraphs.

The requirements of meeting the Plan outlays of the Centre and those of the Union territories as well as for providing Plan assistance to States are, however, much larger. In making provision for the Plan at the Centre, a balance has to be struck between the constraint of resources and the need to maintain the progress in respect of continuing schemes and the initiation of new schemes in sectors of high priority. On this basis, a sum of Rs. 615 crore has been allocated for providing assistance to the States as against Rs. 595 crore this year. Rs. 65 crore have been provided for Union Territories—one crore more than this year. The provision of Rs. 1,179 crore for the Centre’s own Plan will only be marginally higher than the current year’s budgeted outlay of Rs. 1,172 crore and the expected outlay of about Rs. 1,150 crore. In the aggregate, the provision for the Plan in the Centre’s Budget for the coming year amounts to Rs. 1,859 crore as against the expected outlay of about

Rs. 1,809 crore in the current year. This would, of course, be augmented by the resources that the States themselves are able to raise for their Plans. The Honourable members may like to note that a provision of Rs. 140 crore is being made for building up a buffer stock of foodgrains which has a valuable part to play in underpinning our plans for development. If account is taken of this, what may be broadly called "Planned outlays for development" would show a significant increase over the current year.

I would also like to point out that of the Plan assistance of Rs. 615 crore to the States, Rs. 590 crore has been already allocated among the different States by the Planning Commission and the remaining Rs. 25 crore is being specifically earmarked for a speedy completion of selected major irrigation projects. It is my earnest hope that the State Governments will provide adequate resources for the urgent requirements of minor irrigation and rural electrification. Over the year, depending on the economic situation, I will do my best to supplement the efforts of the States in these two priority areas.

The main items forming part of the Centre's outlay of Rs. 1,179 crore are: Rs. 172 crore for the Railways, Rs. 153 crore for iron and steel of which Rs. 110 crore are for Bokaro, Rs. 82 crore for petroleum and Rs. 70 crore for chemicals including fertilizers. The provision for agriculture is Rs. 53 crore, that for Posts and Telegraphs Rs. 48 crore and for financial institutions Rs. 35 crore, I quite realize that these provisions do not meet the requirements of all the Ministries, but the constraint of resources has left me with no choice.

The Honourable members would note that we have decided to appoint a Finance Commission in advance of the due date so that its findings are available for the formulation of the Fourth Plan. A copy of the notification constituting the Commission and incorporating its terms of reference is being laid on the Table of the House today. I have been particularly keen for sometime that the various financial problems between the Centre and the States, and among the States themselves, should be objectively reviewed so that solutions are found which are not only just but accepted as such by all concerned. The recommendations of the Commission, I am sure, will serve this purpose and contribute towards national integrity and harmony.

Sir, I now come to the much awaited and perhaps much dreaded part of my Budget speech. I trust the Honourable members will not take me to task if the proposals I unfold do not fulfil the expectations of dread. With resources available for the plan next year of Rs. 1,544 crore and the proposed Plan provision of Rs. 1,859 crore, there is a gap in the Centre's Budget of Rs. 315 crore. A deficit of this kind is usually an invitation to a Finance Minister to sharpen his knife for a major operation for mobilization of additional resources. On this occasion, I propose to engage myself essentially in a minor operation in the nature of plastic surgery—taking out a little flesh here and adding a little bit there in order to make the tax system more efficient and attractive.

A number of radical suggestions for tax reform have been made from time to time by the Honourable members, individual scholars and associations of labour, trade and industry. The final report of Shri Bhoothalingam has been received and will be made available to the Honourable members. The Public Accounts Committee has also recently made a number of suggestions in this regard; and we are awaiting the recommendations of the Administrative Reforms Commission. Over the year, I have given the most anxious consideration to the revision and simplification of the tax structure, both direct and indirect. While some changes are obviously desirable and could be introduced without further delay, fundamental changes in the tax system should not be made without a very thorough study of all the implications. I am having such a study undertaken in earnest and am hoping that the climate of the country will be conducive to the acceptance of more thorough-going changes in the next budget.

Direct Taxes

Coming to direct taxes first, my main proposals in the field of corporate taxation relate to the discontinuance of the 'dividend tax' on excess distributions of equity dividends and a reduction in the surtax on company profits from 35 per cent to 25 per cent. The abolition of the 'dividend tax', apart from making for simplification, should improve the climate for equity investment. The reduction in the surtax on company profits is intended as a spur to efficiency.

I propose to introduce a number of concessions to promote higher agricultural productivity, particularly by encouraging the efforts of user industries. I propose to make a provision for the deduction, in the computation of business profits of companies, of an amount equal to one and one-fifth of the expenditure incurred by them in providing agricultural inputs, such as, fertilizers, seeds, implements and pesticides, and extension services, in spheres related to the particular industry in which the company is engaged. This weighted deduction will be available where the qualifying expenditure is incurred by the company directly and also through approved associations or organizations. The development of the seed processing industry occupies high priority in our agricultural programme. I, therefore, propose to accord to it the 'priority industry' treatment.

As part of the measures designed primarily to assist export promotion, I propose to extend the concession of development rebate at the higher rate of 35 per cent of the cost of new equipment, to the manufacture of vegetable oils and oilcakes through the solvent extraction process, processed concentrates for cattle and poultry feeds and processed fish and fish products. I propose also to provide for the grant of an Export Markets Development Allowance to tax-payers other than foreign companies at the rate of one and one-third of the revenue expenditure incurred for the development of export markets. Further, to encourage export of technical 'know-how' and technical services by Indian companies, I propose to exempt from tax the whole of their income consisting of dividends, royalties and fees derived through these activities from foreign companies.

In the field of taxation of personal incomes, I have reached the conclusion that in the interest of simplification of the tax structure and convenience of taxpayers, the Annuity Deposit Scheme should be discontinued. Accordingly, I propose that no Annuity Deposits will be required to be made on incomes arising after the current financial year.

Last year, as a measure for stimulating investment in equities, Indian company dividends were exempted from income-tax in cases where the total income from dividends of the tax-payer during the year did not exceed five hundred rupees. I propose to extend this concession by exempting the first five hundred rupees of such dividend income from tax even where the total dividend income exceeds five hundred rupees in the year.

For several years past, the rate structure of tax on personal incomes has included the levy of separate surcharges in relation to unearned incomes and earned incomes in excess of specified limits. Under our integrated scheme of direct taxation which comprises, besides income-tax, an annual tax on wealth and taxes on gifts and inheritance, I do not see any need or justification for differentiating between unearned and earned incomes through the levy of surcharges on income-tax, which result in complications in tax calculations. I, therefore, propose to discontinue the levy of separate surcharges on unearned and earned incomes. Simultaneously, in order to maintain the progressiveness of the income-tax, I propose to step up the basic rates of income-tax on incomes over Rs. 1 lakh from the present rate of 65 per cent to 70 per cent on income in the slab between rupees one lakh and rupees two-and-a-half lakh and to 75 per cent on income above that level. I also propose to step up the rates of ordinary wealth-tax on wealth in the slab over Rs. 10 lakh by half per cent, that is, from 2 per cent to 2.5 per cent on wealth between Rs. 10 lakh and Rs. 20 lakh and from 2.5 per cent to 3 per cent on wealth above Rs. 20 lakh.

In a situation where both the husband and the wife are tax-payers in their own right, it would be improper for any outsider to decide as to who is dependent on whom. At present, we avoid this ticklish question by allowing both parties to claim a spouse allowance. This still leaves open the question as to who brings more tax benefit to the partnership through marriage. To eliminate this unintended strain on the relationship of marriage; I propose to provide that where both the husband and the wife have taxable incomes, the spouse allowance will be available to neither.

As a measure of relief to totally blind individuals, I propose to provide for the deduction of Rs. 2,000 in the computation of their taxable incomes.

I also propose to simplify the existing basis of the calculation of tax on partnership incomes derived from registered firms. This will be done by deducting the tax borne by the firm itself in computing the partners' shares in the income of the firm. At present, we grant rebate of tax at the average rate to the partners on the proportionate amount of the tax borne by the registered firm. In order to maintain the overall incidence of tax, I propose to make a consequential upward adjustment in the rates of tax on registered firms. Some rationalisation is also being undertaken in regard to rate structure of tax on the incomes of cooperative societies and Local Authorities.

There are a number of changes I propose to introduce in regard to the computation of income from house property, deduction for the cost of maintaining a vehicle by salaried employees, procedure for grant of refunds and withholding of tax from interest payments. It is not necessary for me to go into the details of all these changes which are spelt out in the Explanatory Memorandum on the Finance Bill.

I shall now refer to some of the measures that I propose to introduce for countering tax evasion and avoidance. In this context, I propose to take steps for setting up, departmentally, an organization for valuation of lands, buildings and other assets. Further, I propose also to have administrative instructions issued to secure that, as far as possible, the same value is adopted for an asset for the purposes of income-tax, wealth-tax, gift-tax and estate duty.

Another measure is to classify as short-term capital gains, the gains arising from the sale or transfer of capital assets within 24 months of their acquisition, as against the present period of twelve months.

The deductible amount of entertainment expenditure in businesses and professions is already subject to certain limits. These limits are often circumvent through entertainment undertaken out of entertainment allowances or 'expenses accounts' operated by employees. Henceforth, such expenditure will also be brought within the purview of the limits. The existing restriction in the case of companies on the deductible expenditure on provision of perquisites, benefits and amenities to their higher paid staff will be extended to non-corporate enterprises. An alternative monetary limit of Rs. 1,000 per month for each employee will also be laid down. Further, depreciation allowance and maintenance expenditure admissible to the employer on residential accommodation and household equipment such as refrigerators and air-conditioners provided by him to the employees free of charge, will also be brought within these limits.

Tax liability is sometimes artificially reduced by diverting profits to relatives and associate concerns in the form of excessive payments for goods and services. Claims are also made for deduction of expenses in large amounts shown to have been paid in cash, often with a view to frustrating investigation as to the identity of the recipients and the genuineness of the claim. To plug these loopholes, I propose to provide that payments made in businesses and professions to relatives or associate concerns will have to pass the test of reasonableness in order to qualify for deduction. Further, I propose to provide that payments made in amounts exceeding Rs. 2,500 after a date to be notified later will be allowed as a deduction only if these are made by crossed cheques or by crossed bank drafts.

In order to expedite tax assessments, I propose to reduce the period of time limitation for completion of assessments, in original proceedings for 1969-70 and later years from four years to two years from the end of the relevant assessment year. As a corollary to this, the time limitation for making applications for refund of tax will also be reduced, likewise, to two years from the end of the relevant assessment year.

I propose to lay down very stringent penalties on those who continue to avoid taxes by concealing their incomes or wealth. For this, the penalties for concealment of income or wealth will be stepped up to a minimum of 100 per cent and a maximum of 200 per cent of the concealed income or wealth. In the case of persons defaulting in the statutory obligation to deduct tax at source and pay it to the credit of the

Central Government, I propose to provide for punishment of rigorous imprisonment up to six months and a fine of not less than 15 per cent per annum of the tax in default, on conviction before a court. Currently, such punishment is only a fine up to Rs. 10 for every day of default.

The changes proposed by me in regard to corporate taxes and the taxes on personal incomes will take effect prospectively *i.e.,* in relation to incomes on which advance tax is payable or tax is deductible at source during the coming financial year, 1968-69. Similarly the proposed increases in the rates of ordinary wealth tax will take effect prospectively from the assessment year 1969-70. The discontinuance of annuity deposits from the coming financial year is expected to bring in, in a full year, additional tax revenue to the order of Rs. 18 crore due to non-deduction of deposits in computing the taxable income. Other changes in the taxation of personal incomes are likely to result in a reduction in revenue to the extent of about Rs. 4 crore in a full year, leaving a net gain to revenue of about Rs. 14 crore. I have not taken into account the gain to revenue on account of increase in the rates of wealth-tax as the benefit of it will accrue only during the financial year 1969-70. Together with the changes in corporate taxation, which imply a loss in revenue next year of about Rs. 4 crore, the yield from direct taxes would show an increase of Rs. 10 crore next year as a result of all the changes I have proposed.

Before concluding the subject of Direct Taxes, I should like to add that I have been impressed with the view expressed in the honourable House that the medium of the Finance Bill should not be utilized to make too many changes in the Income Tax law. Accordingly, I have brought up only such changes in regard to which delay would have been inadvisable, leaving out changes concerning structural or administrative matters to be considered and brought up separately in the course of the year.

Indirect Taxes

I now, come to Indirect Taxes. In keeping with the objective of maintaining price stability for items of essential consumption, I have maintained the utmost restraint in proposing changes in excise and customs duties. At the same time, some additional taxation of items of less essential consumption cannot be avoided. There is also need to deploy the instrument of indirect taxation for assisting export promotion and import replacement. I have also taken the opportunity of removing anomalies and introducing a measure of rationalisation and simplification.

It is proposed to levy an excise duty on six new commodities, namely, confectionery and chocolates, leather cloth, embroidery, parts of wireless receiving sets like valves and transistors, steel furniture and crown corks.

The duty on confectionery and chocolates is proposed at 80 paise per kilogram which is expected to yield an annual revenue of Rs. 2.4. crore. The duty on embroidery and steel furniture will be at the rate of 20 per cent *ad valorem* which together will yield a revenue of Rs. 5.4 crore in a full year. Leather cloth will bear a duty of 25 per cent *ad valorem* yielding an annual revenue of Rs. 1.52 crore. On crown corks a duty of one paisa per piece is proposed which will yield an annual revenue of Rs. 1.50 crore. The statutory rate of duty on valves and transistors is proposed to be fixed at Rs. 5 per piece, but the effective rates at present are being fixed at Rs. 3 and Re. 1 per piece respectively by exemption notification. The likely yield would be Rs. 2.90 crore. The new levies on confectionery, embroidery and steel furniture will be confined to the organized sector of these industries manufacturing the products with the aid of power. These new levies will collectively yield a revenue of Rs. 13.72 crore in a full year.

Among the commodities which are already excisable, the existing rates of duty on all varieties of un-manufactured tobacco other than tobacco dust are proposed to be stepped up by about 10 per cent. On this occasion, I have decided to be impartial between the different devotees of nicotine, be they addicted to the humble *bidi, hookah* and chewing tobacco or to cigarettes, cigars and the pipe. These increases will yield an additional revenue of Rs. 6.36 crore in a full year. Another item on which increase has been proposed is jute manufactures of which the rate of basic excise duty on hessians is being increased from Rs. 375 to Rs. 450 per ton and on other manufactures from Rs. 175 to Rs. 250 per ton. These increases will yield an additional revenue of Rs. 4.02 crore in a full year.

My next proposal is to increase the basic excise duty on complete refrigerators and air-conditioners from 20 per cent to 30 per cent *ad valorem* and that on component parts from 30 per cent to 40 per cent. This measure will appeal to at least those honourable members who pulled me up in the last Budget session for overlooking such obvious items of less essential consumption. The increase in duty on these items will yield an additional revenue of Rs. 2.40 crore in a full year.

It will be recalled that as a part of the Budget proposals last year the duty on sized cotton yarn of fine and super fine counts was increased substantially. Representations have been received from the powerloom weavers that the burden of this duty at the weaving stage is rather heavy. It is, therefore, proposed to re-adjust the rate structure in such a way that relief is afforded on sized yarn and duties suitably stepped up at the processing stage of powerloom fabrics. The overall budgetary effect will only be marginal. It is also being ensured that the incidence of the duty on composite mill fabrics, handloom fabrics and hosiery remains more or less unchanged. Particular care is being taken to see that the handloom sector is left unaffected, and in fact, some relief is proposed to be given to this sector by exempting totally hank yarn in plain straight reels of new French counts 29 or more but less than 34—the latter being equivalent to a shade more than 40 British counts. This will involve a loss of about Rs. 10 lakh in a full year. Representations have also been received from the smaller producers of aluminium that the effect of the Budget proposals of last year has affected their profitability adversely. It is proposed to afford some relief to these smaller producers by reducing the effective duty to the extent of Rs. 150 per ton this concession will be available only to those ore-based producers whose clearance of aluminium and products made out of aluminium had not exceeded 12,500 ton in the previous financial year. The revenue effect of this concession will be a loss of about Rs. 25 lakh in a full year.

Rationalisation of the existing concessions to certain paper manufacturers and exemptions applicable to some varieties of paper are being given effect to by notifications, the overall revenue effect of which will be a nominal gain of Rs. 15 lakh in a full year.

The ceiling rates fixed in the Mineral Products (Additional Duties of Excise and Customs) Act, 1958 have now been found to be inadequate. The over-recoveries in the hands of the oil companies which have to be appropriated to the Consolidated Fund through levy of these additional excise duties require a higher rate of levy. It is accordingly proposed that the ceiling rates in respect of Motor spirit, Refined diesel oil and Petroleum products not otherwise specified be raised sufficiently and the effective rates which are fixed by notification issued by the Central Government stepped up suitably. These changes will yield an additional revenue of Rs. 10.13 crore in a full year, but the consumers will not be affected as the duties, though recovered from the oil companies, cannot be passed on by way of price increases to the consumers. The cumulative effect of all the proposals relating to excise duty will be an additional revenue of Rs. 36.43 crore in a full year.

It is proposed to continue the levy of special excise duties at the existing rates for another year. The provision for levy of regulatory duty of excise in the same manner as in section 42 of the Finance Act, 1967 is being continued though there will be no levy of this duty at present.

For some time past I have been exercising over the administrative burden on the excise department and the complaints of abuse associated with the existing system of physical control. I have accordingly decided to extend the system of self-assessment by the manufacturers, to all manufacturers, big and small, making exception in respect of a few excisable commodities only which present complications in assessment or where there is substantial movement in bond. A large measure of trust will, thus, be placed in the manufacturers their declarations and their accounts. Day-by-day verification of clearances by Central excise officers will be dispensed with and replaced by periodical check of the self-assessed documents and accounts to ensure that the amounts due to Government have been properly assessed and paid. This change in procedure will, however, necessitate certain essential revenue safeguards. To this end, the penal provisions for unauthorized removal of the goods or other contraventions of the rules and regulations with intent to evade payment of duty are proposed to be made more stringent.

I have also reviewed the existing system of control on the tobacco growers for the purpose of levying excise duty on un-manufactured tobacco. Steps are being taken by which the need for the excise officers to contact the growers will be considerably reduced. The excise control on sparse growing areas is also being simplified.

The levy of local sales tax by the States on goods declared to be of special importance in inter-State trade is limited to 3 per cent at present. On a request from some of the States, suitable amendment is being made in the Central Sales Tax Act deleting mill-made silk fabrics from this list of goods. This will give the States freedom to levy sales tax on it without any restriction.

I was reminded last year that in spite of my much discussed aversion to alcoholic liquors, I had not made any proposals in this regard. I should retrieve my reputation now; and I propose to increase the import duty on whisky, brandy, and a few other alcoholic liquors by about Rs. 9 per bottle. I also propose to increase the import duty on cloves, cassia and cinnamon by about Rs. 12 to 13 per kilogram. There is a high margin of profit in respect of these spices and their use is confined to the comparatively affluent sections of the community. The proposals with regard to these consumer goods will yield an extra revenue of Rs. 2 crore.

My next proposal is in regard to chemicals, plastics, synthetic resins and miscellaneous articles not otherwise specified in the Customs tariff schedule. The present effective rate of 50 per cent *ad valorem* is proposed to be raised to 60 per cent *ad valorem* with some exceptions. This will yield an additional revenue of Rs. 12 crore. The proposed increase is not likely to cause any hardship because the cost of chemicals is usually a small fraction of the price of the manufactured article, and secondly, because imported chemicals are usually not required in the manufacture of articles consumed by the common man; wherever they are, the existing rate is proposed to be maintained. Thus, though the tariff item regarding chemicals covers drugs and medicines too, the present rate on the latter as also on the chemicals and intermediates required for their manufacture is being maintained by issue of exemption notifications. Similarly, the existing rate on carbon black and red phosphorus will be continued by issue of an exemption notification. Further, sulphur, dye intermediates recommended by the Tariff Commission and various other chemicals, the duty on which had been specially reduced or exempted wholly in the past, will continue to pay duty at the existing rates. In this connection I should like to make a special mention of an exemption that is proposed for chemicals and intermediates used in the manufacture of insecticides, pesticides and fungicides. Some of these have already been exempted, but it is now proposed to issue an omnibus exemption notification covering all such chemicals and intermediates as are not manufactured in the country. This connection is being given to encourage the use of these products as an aid to agricultural production.

The last proposal on the Customs side is an increase in duty on some of the iron and steel products which at present carry a specially reduced rate of 15 per cent *ad valorem*. This rate is proposed to be raised to 27.5 per cent *ad valorem* as a specially reduced rate is no longer justified in view of the indigenous production which is coming up. The revenue effect of this proposal will be an additional yield of Rs. 1.50 crore in a year.

The special duty on Customs is being continued for another year but a notification is being issued exempting imported goods from this levy so as to maintain the *status quo*. The provision for levy of regulatory duty of Customs in the same manner as in section 39 of the Finance (No. 2) Act. 1967 is being continued though there will be no levy of this duty at present.

As a result of the proposals relating to excise duties, there will be an additional yield of Rs. 3.80 crore on account of the increased collections under countervailing duty. The aggregate additional revenue under import duties will be Rs. 19.30 crore.

Posts and Telegraphs

I had occasion to mention earlier that the deterioration in the Revenue Budget of the Posts & Telegraphs Department this year would be of the order of Rs. 22 crore. The result is that they have not only not been able to pay the due dividend liability to the General Revenues but have not also been able to cover their working expenses this year. The working expenses of the Post Office Branch have particularly gone up very rapidly due to the increase in staff costs. It has been agreed that the shortfall of this year and the last two years should be made good over a period of three years commencing from the next year. On this basis and at existing tariffs, it is anticipated that the deficit in the Revenue Budget of the Posts & Telegraphs Department next year would be Rs. 23.83 crore. Honourable members are aware that a Tariff Enquiry Committee under the Chairmanship of Shri Mahavir Tyagi had been appointed to evolve definite principles on which the tariff policy of the Department might be based. The Committee's interim report covering the Post Office Branch has since been received and based on the principles suggested by the Committee, it is proposed to revise the postal tariffs. The interim report and a Memorandum showing the proposed changes is being circulated separately along with the Budget papers and I shall, therefore, mention only the more important changes. The postage on letters up to 15 grams is proposed to be increased from 15 paise to 20 paise and that for a letter-card from 10 paise to 15 paise and for a post card from 6 paise to 10 paise. The postage for books, pattern and sample packets and book packets containing printed books and registered newspapers will also be raised. The money order commission which is 15 paise per Rs. 10 will now be 20 paise per Rs. 10 up to Rs. 200 and 30 paise per Rs. 20 thereafter. The postage charges for foreign mails will also be revised. The Committee has not yet reported on the tariffs for other branches, but in view of the loss in the working of the Telegraphs Branch, it is proposed to make a small increase in some of the inland telegraph rates. These changes are expected to bring in an additional revenue of Rs. 24.70 crore on the Postal side and Rs. 1.08 crore on the Telegraphs side in a full year. The changes would be given effect to from dates to be notified later and are expected to cover the deficit of the Posts and Telegraphs Department next year.

I might add that I have already taken account of the increases in the posts and telegraphs rates in preparing the Budget Estimates for 1968-69 so that they will not count towards reduction of the initial deficit of Rs. 315 crore. Similarly, the changes in fares and freights announced by my colleague, the Railway Minister, have also been taken into account before striking the deficit.

Summing Up

To sum up, the additional revenue next year from the measures of taxation I have proposed would be Rs. 65.73 crore of which Rs. 10 crore would be under direct taxes, Rs. 36.43 crore under excise and

Rs. 19.30 crore under customs. Of this, a sum of about Rs. 15 crore will accrue to the States leaving a balance of Rs. 50.73 crore available for the Centre's Budget. I hope the State Governments will utilize this addition to their resources for minor irrigation and rural electrification.

On capital account, the abolition of the Annuity Deposit Scheme will mean a loss to the Central Exchequer of Rs. 35 crore next year. Part of this loss will be made up by contributions to the new public provident fund for which I am taking credit for Rs. 10 crore only. There will, therefore, be a net loss on capital account of the order of Rs. 25 crore. The net gain to the Centre's Budget on Revenue and Capital Account taken together of all the changes will be of the order of Rs. 25 crore so that the initial deficit of Rs. 315 crore goes down to about Rs. 290 crore.

The honourable members may well appreciate the immense reservation with which I have reconciled myself to a large deficit next year. A number of considerations have weighed with me. In so far as the Plan outlays are concerned, it is clear that any further reduction can only lead to dislocation of the progress of continuing schemes even in critical areas such as agricultural development, fertilizer production and family planning where we are poised for substantial achievements. We have also to keep in mind the problem of unemployment among technicians which is already a matter of concern. Besides, it would be shortsighted to retard the process of recovery by putting an undue curb on Governmental spending. I am sure that no section of the House would have commended such an approach. The other alternative was to put up proposals for massive mobilization of resources. It is my judgment that this would hurt the economy and retard the process of growth.

I have done my best to restrict the outlays on Defence and Administration. I am happy to note the earnestness in all parts of the Defence Services to eschew every form of avoidable expenditure. I am anxiously awaiting the finalisation of the Reports of the Administrative Reforms Commission. I need hardly reiterate that Government would go into the recommendations of the Commission with earnestness and promptness in order that the objectives of efficiency and economy in administration can be fulfilled as early as possible.

In estimating the resources at the existing rates of taxation, having been bitten once, I have assumed a modest recovery in industrial production. If, as I hope, the modifications in taxation I have proposed, succeed in improving the climate for saving, investment and export, the economy might revive more vigorously and this would help in moderating the actual deficit. The honourable members may rest assured that I have not changed my belief that we cannot afford to indulge in large budgetary deficits year after year. If I have reconciled myself to a deficit next year, it is in the expectation that by assisting the revival of the economy at this stage, we shall be able to achieve a more satisfactory budgetary balance before long.

No Finance Minister can claim either perfect foresight or absolute wisdom. But I do feel that the situation is as hopeful as it is challenging. The utmost cooperation, discipline and even a measure of self-denial by all sections of the community will be necessary if we are to meet the challenge. I would like to appeal to all the honourable members for their cooperation and constructive suggestions so that, together, we can turn the present challenge into hope and opportunity for the future. On my part, I can only assure a continuous watch on implementation of economic policies and a readiness to take appropriate action from time to time. In conclusion, it is my earnest hope that the Budget I have had the honour of presenting today reconciles as best as possible the variety of concerns that are so anxiously felt in this honourable House and in the country as a whole.