

17.03 hrs.

**\*FINANCE (No. 2) BILL, 1962.**

**Mr. Speaker:** The House will now take up Finance (No. 2) Bill, 1962.

As the House is aware, fourteen hours have been allotted for all the stages of the Bill. I would like to take the sense of the House as to how these fourteen hours should be distributed among the various stages of the Bill.

**Shri Surendranath Dwivedy** (Kendrapara): Ten hours and four hours.

**Mr. Speaker:** Ten hours for Consideration and four hours for the clauses: would it be all right?

**Shri A. K. Gopalan** (Kesergod): One hour for Third Reading.

**Mr. Speaker:** From out of the four hours? Ten hours plus three hours for clause by clause and one hour for Third Reading?

**Hon. Members:** Yes.

**Mr. Speaker:** The time limit will be, as usual, 15 minutes for Members and 25 or 30 minutes in certain cases for Leaders of Groups.

**The Minister of Finance** (Shri Morarji Desai): Sir, I move\*:

"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1962-63 be taken into consideration."

The Bill has now been before the House and the public for over several weeks. It has been examined and commented on by all sections from different points of view. I have met a number of deputations and so have my officers, here in Delhi as well as in a number of other places. With this, I think, I can now reasonably claim that we have a fair idea of the public reaction.

It gives me great satisfaction to find that the need for taxation of this order has been universally accepted. It shows the intense desire of the people to get on with the planned development of the country and their determination not to mind unavoidable sacrifices called for in the process. I am, at the same time, not unaware of feeble voices of criticism raised in some quarters. I have noted and considered these also.

One line of this criticism has been 'Economise on all non-developmental expenditure'. I have assured the House in the past, and do so again, that this will continue to be our aim. Government will continue the strictest scrutiny of all expenditure, existing as well as new.

The second line of criticism has been 'Ensure that there is no waste in the execution of the Plan'. This too is an objective wholly accepted by Government. There may be and will be individual differences as to which expenditure is avoidable or where a waste occurs. I can, however, assure the House that all such instances when they come to our notice will be most carefully looked into.

Not only has the overall size of the tax effort been widely accepted, but its spread over the direct and indirect fields has also found general acceptance. The part that direct and indirect taxes play in our economy is now well established and generally appreciated.

**Shri Nambiar** (Tiruchirappalli): No, no.

**Shri Morarji Desai:** I am saying 'generally'. My hon. friend is not in the general line.

I do not propose to go once again into the question at this stage.

There have been some suggestions in this House as well as in the other

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\*Moved with the recommendation of the President.

House during the course of the general discussion of the Budget and later about the hardships and inconveniences of individual taxes and the manner of their operation.

The House will recall that when replying to the general discussion on the Budget last month, I had assured it that all such suggestions and criticisms will receive my most careful attention. I have had the benefit of receiving the valued comments from several Members of both the Houses, from some State Governments as well as from a large number of individuals and organisations which have been affected by them as well. I have been able to enquire in some detail into the various difficulties which have been brought to our notice. I am indeed grateful to all those, whether within this House or outside, who have carefully examined these proposals. As a result of these studies, I have come to the conclusion that relief in certain directions would be justified. I propose to refer to them now so as to facilitate the discussions and save the time of the House in considering the Bill.

On the direct taxes side, I have no changes to suggest except on three or four points of drafting and one in respect of long-term capital losses.

Under section 24(2B) of the income-tax Act, 1922, corresponding to section 74 of the 191 Act, losses in respect of capital assets could be carried forward for eight years. Losses which have been or will be assessed up to the assessment year 1961-62 have acquired this right and I do not propose to deprive them of it. They will be allowed to be carried forward for the remaining period, as losses on short-term assets or other than short-term assets, as the case may be. Provision has already been included in respect of old short-term losses in clause 7 of the Finance Bill. I am giving notice of an amendment to include in this long-term losses also. On further consideration, I think it

will be equitable to allow future losses in respect of long-term capital assets also to be carried forward. The eight-year period is, however, too long, in the present conditions, and I propose to allow them to be carried forward for a period of four years only. The revised draft of clause 7 of which notice is being given covers this also. The loss of revenue on account of these changes will be nominal and has been estimated at Rs. 10 lakhs.

The other amendments proposed in respect of direct taxes are of a drafting or clarificatory nature. The amendment proposed in clause 2(7) clarifies that the share of a partner in the tax paid by a registered firm need not necessarily be regarded as unearned income. The next amendment relates to clause 6 and clarifies that the whole of a business loss will be carried forward for being set off against business profits of subsequent years where the assessee has no income under any other head in the year in which the loss is incurred. The last amendment relating to income-tax clarifies that the definition of subsidiary company will apply not only for the purpose of regular assessment but also for the purpose of deduction of tax at source from dividends paid by a subsidiary company to the holding company.

There is only one more amendment in respect of direct taxes and this proposes to raise the figure of 2 per cent mentioned in rule 2 of the Schedule to the Wealth Tax Act to 2.5 per cent to bring in conformity with the change in the maximum slab rate from 2 to 2.5 per cent.

On the Central Excise side, the largest volume of suggestions has been on the textiles. The two trends have been that the individual increases will cause hardships to certain sections and that the full effect of the revenue from the increase in rates of processing has not been taken into account.

[Shri Morarji Desai]

As I have explained in the past, estimates of revenue on account of new duties or changes in duties have to be based on available statistics. It is impossible at the time of framing the Budget to make any open enquiries on these points. Certain taxation studies of course go on throughout the year and they provide a source which can be depended on for obtaining relevant facts. When, however, an item is to be newly taxed or a part of an item has to be separated for a different treatment, it becomes necessary to rely on the statistics available at the time.

For example, in this year's budget when it was decided to increase the rate of duty on mercerised cloth, separate figures of cloth which is mercerised were not available, nor could they be collected. Figures which could be collected after the budget was presented, show that a larger quantity of cloth is mercerised, particularly from the powerloom sector. This is a matter in which not only are the revenue authorities likely to go wrong; it happens also to the best of persons right in the business and in day to day touch with it. If our figures proved to be an underestimate, those given by the industry during the first few days after the presentation of the budget proved to be very much of an over-estimate. I mention this not to find any fault or to provide an excuse but only to stress the inherent difficulty of the situation. I have, however, now taken into account the revised estimate of revenue from mercerised cloth.

I propose to exempt cloth certified to be genuine khadi by the All India Khadi and Village Industries Commission, from the processing duty even where such processing is done by power. This is in keeping with our general principle to encourage the use of khadi.

Turning to handlooms, the budget proposals ensured that the differential

margin of 10 nP per kg. which was being enjoyed by the handloom sector from last year, when duty was first imposed on yarn, was not disturbed. Nevertheless, it has been represented that even the small duty is likely to adversely affect the interests of the handloom weaver. While opinions may differ as to how far these fears are well-founded, I recognise that the needs of this particular sector require special consideration. That being so, I have now decided to totally exempt all single cotton yarn, whether bleached or grey, as well as unprocessed (grey) folded cotton yarns, if issued in hanks, upto 40 counts. As the major portion of yarn used by the handloom industry is below 40 counts, this should afford substantial relief to this particular sector of the cotton textile industry, the bulk of whose yarn supply would thus continue to be totally free.

Coming next to powerlooms, it has been represented that the increase in respect of units having between 50 to 300 looms, which were enjoying the facility of paying duty on the fabrics produced by them at compounded rates, and which have now been called upon to pay duty at the standard rates, would be much too steep for them to bear in one jump. I have, therefore, decided to allow them to pay duty at half the standard rates for the period upto the 28th February, 1963 and at 3/4th of the standard rates during the year ending 29th February 1964. Relief during this interval is, in my opinion, necessary to enable them to readjust their economy and also to work out schemes to ensure that they get yarn at a reasonable price. Corresponding marginal reliefs in the rates of compounding for units having 5 to 49 looms is also being simultaneously proposed.

Turning to the rates of excise duty on processed cloth, it is considered desirable to reduce the rates proposed in the Finance Bill in respect of mercerised and waterproofed fabrics,

especially those in the coarser categories. It is claimed that the rates proposed in the Bill might seriously affect the demand for such cloth and thus affect overall offtake. This argument is not wholly without substance. It is accordingly proposed to reduce the rate for mercerising and waterproofing (including rubberisation) from 25 nP to 10 nP per square metre in respect of fabrics of an average count of below 26s, i.e. coarse and medium B categories, and to 15 nP. per square metre for fabrics having higher average counts, i.e. for the medium A, fine and superfine categories. Further, in order to afford some relief to those handloom and powerloom fabrics many of which have to be taken to independent operators for processing, I propose to reduce the effective rates in such cases to 4/5ths of the standard rates. These reduced rates shall apply only to handloom and powerloom fabrics when these are processed by units which are not in any way connected with a spinning or weaving unit. Moreover, such independent processing units which were in existence on the 24th April, 1962, but were not required to take out a central excise licence because they were confining their activities solely to the processing of handloom or exempted powerloom fabrics, would now be given the benefit of exemption for the first 20,000 square metres of cloth bleached, dyed or printed by them, in any month. This is in partial relaxation of the condition which at present precluded them from availing of this concession on the ground that they had not been licensed before the 23rd April 1962. In view of the recent appraisal of the quantity of cloth which is mercerised, even after these concessions, the additional revenue of Rs. 12:10 crores from this item estimated at the time of presenting the Budget will be fully realised.

On considerations similar to those applicable to cotton textiles, woollen fabrics produced on handlooms or powerlooms, i.e. units not having their

own spinning plants, would be charged only 2/3rds of the standard rates if such fabric is processed in a unit which is not in any way connected with a spinning or weaving mill. This should provide substantial relief to the small scale producers of woollen fabrics who do not possess their own processing facilities.

Newsprint produced in India is still very much lower in quality and higher in price than that imported. This places users of indigenous newsprint at a disadvantage which is aggravated due to greater wastages. I am satisfied that there is force in this contention and I propose to reduce the duty on newsprint from 22 nP. to 5 nP. per kg. This should afford the newspaper industry substantial relief in this particular matter. At the same time, in accordance with the general practice, it is proposed to levy countervailing duty at the same rate on imported newsprint.

The Finance Bill reduces the rate of duty on patent and proprietary medicines from 10 per cent to 7.5 per cent. Complete exemption has also been notified for vaccines and sera. I have since received representations requesting that certain other drugs also need concessional treatment. While I do not find it possible to agree to further lowering of rates in respect of all the items proposed I have decided to reduce the rate of duty to 2.5 per cent *ad valorem* in respect of certain drugs like penicillin, streptomycin, quinine, insulin and a few other items which are commonly used as basic remedies for prolonged treatment of certain endemic diseases like malaria, tuberculosis, leprosy and dysentery.

The excise duties proposed on certain acids and gases have had an indirect repercussion on certain chemical fertilizers. It was represented that any substantial increase in the price of fertilizers which might thus be brought about, would tend to discourage their use and this in turn would adversely affect agricultural production. In view of this, it has

[Shri Morarji Desai]

been decided to subject ammonia and carbon dioxide used for the manufacture of fertilizers in the same factory, to a nominal duty of Rs. 25 per tonne as against the standard rate of Rs. 125 and Rs. 500 respectively, on the basis of tariff values since fixed. As a further concession, I also propose to exempt nitric acid used in such a factory for the production of fertilizers, provided duty is paid at the above mentioned concessional rate on the ammonia content of this acid. These reliefs should go a long way in reducing the ultimate incidence of these duties on chemical fertilizers.

In view of the representations received, I propose to exempt coal tar totally from the excise duty for the present.

I also propose to reduce the duty on telecommunication cables as well as winding wires which were assessable as the tariff stands at 15 per cent *ad valorem*, to the lower tariff rate, namely, 5 per cent *ad valorem*. To provide relief to the small scale sector in some of the industries affected by the proposals in the Finance Bill, I propose to exempt from payment of duty all units producing without the use of power, not more than 50 tons per annum of hydrochloric and nitric acids provided duty paid sulphuric acid is used in their manufacture. The quantity of nitric acid which is a high value item included in this total of 50 tons is proposed to be confined to 15 tons per annum only. I propose to exempt coarse plywoods used mostly in the manufacture of packing cases when produced in units whose total output in a year does not exceed 4,000 square metres, and who do not use power in such manufacture except for the purpose of making veneers. I also propose to exempt all re-rollers who use mainly re-rollable scrap and who do not ordinarily get a quota of billets exceeding ten tons a year, provided the re-rollable scrap or billets, used by them for a re-rolling, have themselves paid duty at appropriate rates.

In addition to the specific proposals which I have just enumerated, steps are also being taken in several directions to simplify procedures particularly those relating to *ad valorem* assessments in respect of a number of commodities which have been subjected to *ad valorem* rates of duty. This is being sought to be achieved either by fixation of specific rates through exemption notifications, or by the declaration of tariff values, also by notification. This has already been done in respect of most of the items of iron and steel products, and acids and gases. Further notifications would now be issued to cover processed woollen fabrics manufactured on handlooms or powerlooms, plywoods and other wood boards, liquid petroleum gas, asbestos cement products, most electric wires and cables, and certain parts of mechanically operated gramophones. It shall be my endeavour to continue this process of simplification to the extent practicable, even after the Bill has been passed, so that the duties proposed could be collected in the most efficient and effective manner. In this connection, I might also mention that I am proposing to accept certain compounded rates in respect of small-scale manufacturers of battery plates, whose product has recently been subjected to a preferential duty. These changes are being effected through the issue of appropriate notifications.

Ordinarily, it is not the practice to give retrospective effect to such exemption notifications or tariff values on the theory that the duties would, in the normal course, have already been passed on to the consumer in a large majority of cases. It seems to me, however, that it is only fair, having regard to the somewhat exceptional circumstances in the present year, to depart from the normal practice and to give effect to all the reliefs retrospectively instead of only prospectively. The change about countervailing duty on imported news-

print will, however, have only prospective effect. The notifications have been so worded as to give effect to this decision.

The net effect of these concessions in excise duty is estimated at Rs. 1.16 crores in a full financial year and at Rs. 1.09 crores for the current financial year. After taking into account the loss on the direct taxes side and the increase on account of the counter-vailing duty on imported newsprint, the reduction in additional revenue estimated at the time of presenting the budget will be about Rs. 77 lakhs.

With these remarks, I move that the Bill be taken into consideration.

**Mr. Speaker:** Motion moved:

"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1962-63, be taken into consideration."

**Shri Sham Lal Saraf** (Jammu and Kashmir): May I know whether the woollen shawls, plain and embroidered, will come under the exemption or not?

**Shri Morarji Desai:** We will tell you later on.

**Mr. Speaker:** That can be studied by the hon. Member.

**Shri Nambiar:** In view of the several changes announced now, we must get time to study.

**Shri U. M. Trivedi** (Mandsaur): In the course of the speech, while introducing the Bill, the hon. Minister said that he is moving certain amendments and he has suggested them already. But the amendments are not before us. They have not been supplied to us. Printed lists 1 and 2 have been supplied, but the amendments of the hon. Minister are not before us. Therefore, we want time to study these things; we may adjourn now.

**Some Hon. Members:** Yes, yes.

**Mr. Speaker:** I am in the hands of the House. It can decide as it desires and I have no objection absolutely. But one thing might be remembered. A demand was made that 15 hours may be allotted. All the time that was available up to the last stage has been taken into consideration, and we have allotted 14 hours. If hon. Members want that we should disperse now, either we will have to make up for half-an-hour some other day or forgo the half-an-hour and make it 13½ hours. It is for the House to decide.

**Shri Prabhat Kar** (Hooghly): We could sit for half an hour more tomorrow.

**Mr. Speaker:** Very well.

17.25 hrs.

*The Lok Sabha then adjourned till Eleven of the Clock on Wednesday, June 13, 1962/Jyaistha 23, 1884 (Saka)*