

DEMAND NO. 76—ADMINISTRATION OF JUSTICE

"That a sum not exceeding Rs. 2,03,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Administration of Justice'."

DEMAND NO. 77—MISCELLANEOUS EXPENDITURE UNDER THE MINISTRY OF LAW

"That a sum not exceeding Rs. 4,84,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Miscellaneous Expenditure under the Ministry of Law'."

DEMAND NO. 106—DEPARTMENT OF ATOMIC ENERGY

"That a sum not exceeding Rs. 6,51,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Department of Atomic Energy'."

DEMAND NO. 107—ATOMIC ENERGY RESEARCH

"That a sum not exceeding Rs. 1,83,33,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Atomic Energy Research'."

DEMAND NO. 146—CAPITAL OUTLAY OF THE DEPARTMENT OF ATOMIC ENERGY

"That a sum not exceeding Rs. 6,21,96,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Capital Outlay of the Department of Atomic Energy'."

DEMAND NO. 108—DEPARTMENT OF PARLIAMENTARY AFFAIRS

"That a sum not exceeding Rs. 1,37,000 be granted to the President to complete the sum necessary to defray the charges which

will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Department of Parliamentary Affairs.'"

DEMAND NO. 109—LOK SABHA

"That a sum not exceeding Rs. 82,31,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Miscellaneous Expenditure under the Lok Sabha'."

DEMAND NO. 110—MISCELLANEOUS EXPENDITURE UNDER THE LOK SABHA

"That a sum not exceeding Rs. 27,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Miscellaneous Expenditure under the Lok Sabha'."

DEMAND NO. 111—RAJYA SABHA

"That a sum not exceeding Rs. 30,22,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Rajya Sabha'."

DEMAND NO. 112—SECRETARIAT OF THE VICE-PRESIDENT

"That a sum not exceeding Rs. 50,000 be granted to the President to complete the sum necessary to defray the charges which will come in course of payment during the year ending the 31st day of March, 1957, in respect of 'Secretariat of the Vice-President'."

FINANCE BILL

Mr. Deputy-Speaker: The House will now take up consideration of the Finance Bill, 1956. As the House is aware, 15 hours have been allotted for the disposal of this Bill. Out of these 15 hours, ten hours might be devoted to general discussion—unless the House otherwise directs; this is a proposal—four hours to clause by clause consideration and one hour to the third reading.

Regarding time-limit for speeches, the usual practice of allowing 15 minutes to all Members and 20 minutes to Leaders of Groups will be followed.

The Minister of Finance (Shri C. D. Deshmukh): I beg to move*.

"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1956-57, be taken into consideration."

It is customary on these occasions to explain some of the important provisions of the Finance Bill. This year, however, I have circulated to hon. Members a memo explaining in detail the various changes in income-tax, customs and excise duties proposed in the Bill. I shall, therefore, not take the time of the House by repeating what is already contained in the memo, but shall confine myself to give a fuller justification for one or two important proposals and to explain certain minor changes which I propose to make, with the approval of the House.

Since the introduction of the Bill, many representations,—some from hon. Members of this House and the other House,—have been addressed to me about various proposals in the Bill. I regret it has not been possible for me because of sheer numbers to reply to each of the representations individually or meet as many people as I might have wished to see or might have wished to see me and I take this opportunity to assure the House that I have had the representations most carefully examined and the changes to certain proposals are the result of this examination.

Taking first the direct taxes, I should like to refer first to the corporation tax which I promised on an earlier occasion to discuss in some detail. As hon. Members are aware, the basic rate of corporation tax has been increased by two annas in the rupee. But, simultaneously, the rates of rebate have been so adjusted that in certain circumstances an Indian company will pay the corporation tax at the same rate as hitherto. If, however, during the relevant previous year the company has issued bonus shares or has distributed dividend in excess of certain percentage of its paid up capital, the amount of corporation tax payable on its total income will be increased, the increase being effected by

reducing the rebate admissible. There has been a certain amount of criticism against making bonus shares a subject-matter of tax on the ground that it is contrary to the recommendation of the Taxation Inquiry Commission. This criticism is apparently due to the misunderstanding of the scope of the proposal. It is not proposed to tax the shareholder himself on the value of the bonus shares as if it were a dividend in his hands. He himself does not have to pay any extra tax on account of what he receives in the shape of bonus shares. What is proposed is that the issue of bonus shares should be taken into consideration while calculating the corporation tax payable by a company on its total income. The burden does fall on the company and not directly on the shareholder. Whatever may be said about bonus shares, it certainly cannot be said that the issue of bonus shares is a mere accounting formality. It certainly does confer certain advantages on all concerned. The Taxation Inquiry Commission has not objected to any and every kind of levy on bonus shares or under any circumstances. Indeed, they appear to have thought that there was the case for the levy of a stamp duty on the company itself, having in view the benefits of the shareholders, and to the company, arising out of the issue of bonus shares. Moreover, as I said in my budget speech, this tax is part of the integrated scheme of corporate taxation. As the effective rate of corporation tax is linked to paid-up capital, it is but reasonable to levy a charge when this base is widened by the issue of bonus shares.

Taking all these factors into consideration, the proposed levy which works out to 12½ per cent of the face value of the bonus shares cannot be regarded as excessive. The proposal to levy an extra corporation tax in cases where the dividends distributed exceed six per cent of the capital, has been assailed in some quarters on the ground that the levy is too high and is likely to damp investment. I am afraid I cannot accept the validity of this criticism.

If we take as typical the case of a company, six per cent of whose paid-up capital equals 60 per cent of its distributable profits, that is, total profits less normal tax, the extra tax which will be payable if the whole of the distributable profits of the company are distributed, will amount to only 3·8 per cent

*Moved with the recommendation of the President.

[Shri C. D. Deshmukh]

of the total profits, that is about, six pies per rupee. As few companies would in any circumstances distribute the whole of their profits, the actual incidence should be much less in ordinary practice.

I am therefore convinced that on the whole, the scheme of corporation taxes proposed in the Finance Bill does not require any change, any major change. I propose, however, to make some changes of a minor nature, which will meet the needs of certain special types of cases. Firstly, share premia which are in fact receipts of capital from the shareholders themselves will be included in the capital base, with reference to which excess dividend is computed for the purpose of calculating extra corporation tax. Secondly, if bonus shares are issued out of share premia, they will not be taken into consideration for the purpose of calculating the extra corporation tax leviable on the occasion of the issue of bonus shares. Thirdly, in the case of companies whose profits consist of taxable as well as non-taxable income, the provisions relating to the extra corporation tax will be applied, after taking into consideration, only such proportion of the dividends, bonus issued and capital employed, as the taxable income of the company bears to its total profits, including non-taxable income.

Now, I turn to two changes I propose in regard to tax on registered firms and their partners. My original proposal in the Bill was that all registered firms with total incomes of more than Rs. 40,000 should pay income-tax at graduated rates on the whole of their total income. In order, however, to give some relief to partners of firms whose share in the income of the firm is small, I propose to exempt from tax the first slab of Rs. 40,000 of the total income of the registered firms.

The next change I propose is with regard to the super-tax payable by a partner of a registered firm on his share of income-tax from the firm, other than business income. I propose that in the case of such incomes, super-tax shall not be payable by a partner on an amount equal to the tax attributable to such incomes paid by the registered firm. This would give relief among others to partners of professional firms like those of accountants, lawyers, etc.

Then, coming to the excise part of the Bill, its very length is likely to give the

impression that something of an extensive and formidable character is being attempted. As a matter of fact, the only extra proposals are an increase of six pies per square yard on cotton fabrics, except coarse *dhotis* and *saris*, and new duties on vegetable oils, and diesel and industrial fuel oils. The duties proposed for hand-made soap and for strawboard are essentially in the nature of adjustments in the coverage of an already existing excise tax on the soap and paper industry. These adjustments are not so much for revenue reasons as for restoring a balance between one sector of the industry and another, and to give encouragement to the genuine small-scale sector. On a careful examination of all the comments, I have come to the conclusion that the proposals are essentially sound and that the deficiencies, if any, are of a character which can be remedied by administrative adjustments.

Some, for instance, have expressed the fear that in the vegetable oil industry, some of the marginal units might break up in order to secure the benefit of the 125-ton exemption and thus get an unfair advantage both over the organised and the village *ghani* sectors. I do not myself share this fear. But any such tendency would be carefully watched and appropriate remedies applied at the appropriate time.

In the case of one particular vegetable oil, namely, cotton-seed oil, I am satisfied that a measure of relief is needed. Due to various handicaps peculiar to cotton seed, less than 10 per cent of it is being utilised for crushing at present, and it has been recognised that measures should be devised for its greater utilisation both for the production of oil and recovery of the valuable by-product called linters for use in the rayon and other industries. Also, a large crushing of cotton-seed in mills would help to divert crushing of other seeds such as groundnut to village *ghanis*. I have therefore, decided that, as a measure of encouragement to the crushing of cotton-seed, the duty on cotton-seed oil should be proposed to be halved, that is to say, brought down to 3 pies per lb. Immediate effect is being given to this decision by executive notification.

Regarding soap, I would emphasise that the allegation about a burden having been imposed on the cottage section of the industry is wholly misconceived. The levy does not touch anyone who does not produce more than 200 tons per annum. Two hundred tons, as hon.

Members would agree, is a large quantity which works out to 20 maunds per day, valued at approximately Rs. 800. Moreover, apart from the fact that lower duties have been prescribed for this hand-made soap sector the real incidence of the duty on total production is a great deal less than the actual rates, as the first slab of production of 200 tons is exempt from duty. Thus, a person producing 300 tons pays per year only one-third of the prescribed rates and one producing 400 tons pays one-half.

I have given notice of my intention to move the amendments necessary to give effect to the changes now proposed and I hope that thus amended, the Bill will be acceptable to the House. With these words, I move.

Mr. Deputy-Speaker : Motion moved :

"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1956-57, be taken into consideration."

Shri T. S. A. Chettiar (Tiruppur) : I think it will be in the fitness of things to discuss during the discussion on the Finance Bill the matter of parliamentary control over the finances of this great country.

At present, Mr. Deputy-Speaker, Parliament exercises this control by two Committees, the Estimates Committee and the Public Accounts Committee. Everybody will appreciate that the House, by its very size, cannot exercise direct control over detailed matters of the finances of the country. Naturally, in every democratic country in the world, Committee work has been devised so that Committees can—and do—effectively go into the matter of the expenditure of the country in various directions.

In the United Kingdom, according to which our own country is modelled, with the Constitution and the History of which many of us are familiar, we know that formation of Committees constitutes a very recognised method by which matters of finances of the country are being controlled. We have followed that example, and we have constituted two committees, the Estimates Committee and the Public Accounts Committee. The Public Accounts Committee goes into the expenditure of the Government of India, in all departments

of the previous years and then criticises it *post mortem*. But, even that has great value because wrong expenditure, extraordinarily large expenditure, all these come in for criticism and that does have a check on the Government even though that criticism is *post mortem*.

The Estimates Committee takes certain Ministries at a time and then goes into them in detail. But, what have we found about the working of these committees? The reports of these committees are circulated to Members of the House but are not discussed in this House. The reports of the Public Accounts Committee, which are very important, the Audit Reports of the Auditor-General, which are very important, are not discussed in this House at all. Not only that; even though it is a committee which has been constituted by this House, the findings of that Committee are not binding upon the departments concerned. The Ministries may accept them or may not choose to accept. The result is that parliamentary control over the finances of this country is almost nil today. That is a matter of concern not only for the elected representatives of the people, but to my mind, to the people who are holding responsibility. After all, though they hold the responsibility, they expect the other Members of this House to help them to hold that responsibility. They depend upon them to keep the responsibility and they are not wholly responsible for everything that is happening in the Ministries.

Shri Shree Narayan Das (Darbhanga Central) : The House is at liberty to discuss the reports if it thinks proper.

Shri T. S. A. Chettiar : But, in view of all this, it is open to us to think over and find out some means for better control of the expenditure so that the country and the people may get 16 annas worth for every rupee that is spent.

We know, we are short of money. We are expecting foreign aid. We have also evidence of the fact that large amounts of expenditure have been misused in many of our projects and for that very reason the Minister of Finance has announced in his Budget speech that he is going to constitute a high-power committee with the Vice-Chairman of the Planning Commission as Chairman with some other officials and, may be, some non-officials. But, let me point out that

[Shri T. S. A. Chettiar]

that committee does not mean parliamentary control over the finances of this country. It does mean going into the finances of certain projects. It is not necessary that there should be Members of Parliament; it is not necessary that it should be authorised by Parliament; it is not necessary that its reports should be submitted to Parliament. So, that committee should not be misunderstood to mean that it is arranging for the control of Parliament over the finances of this country. When we are going to embark on large expenditure amounting to nearly Rs. 5,000 crores—the Plan was for Rs. 4,800 crores but the Finance Minister has now said in another place that another Rs. 300 crores may be added to that and so the Plan will be for Rs. 5,100 crores—in view of this large expenditure, in view of

the shortage of income we have in view of the facts that have come before this House repeatedly that in many cases large amounts of expenditure have been incurred wastefully, I would like to put it before this House whether it is not necessary that we should think of the control of Parliament over this expenditure in greater detail. The work has grown but the committees which have gone into these matters have remained the same.

5.30 P.M.

Mr. Deputy-Speaker : The hon. Member may continue tomorrow.

The Lok Sabha then adjourned till Half Past Ten of the Clock on Wednesday, the 18th April, 1956.
