

**COMMITTEE ON PETITIONS****Second Report**

Shri Barman (Cooh Behar-Reserved-Sch. Tribes): I beg to present the Second Report of the Committee on Petitions.

**ESTIMATES COMMITTEE****First Report**

Shri B. G. Mehta (Gohilwad): I beg to present the First Report of the Estimates Committee (Second Lok Sabha) on the action taken by Government on the recommendations contained in the Thirteenth Report of the Estimates Committee (First Lok Sabha).

**PUBLIC ACCOUNTS COMMITTEE****Second Report**

Shri T. N. Singh (Chandauli): I beg to present the Second Report of the Public Accounts Committee relating to the regularisation of Excesses over Voted Grants/Charged Appropriations disclosed in the Appropriation Accounts (Civil) 1954-55.

**ADDITIONAL DUTIES OF EXCISE  
(GOODS OF SPECIAL IMPORTANCE) BILL**

Mr. Speaker: The House will now resume discussion of the Additional Duties of Excise (Goods of Special Importance) Bill, 1957. Out of three hours allotted to this Bill, one hour and nineteen minutes have already been availed of. One hour and forty-one minutes now remain.

Some hon. Members: What about the point of order?

Mr. Speaker: Before I allow further discussion, let me dispose of the point of order raised the other day that under article 272 of the Constitution, the principles according to which the amount is to be distributed ought to be formulated by

Parliament. It was said by both the hon. Finance Minister and the hon. Law Minister that the Scheduled itself formulated the principles.

I find generally that principles have not been formulated in the Bill, but only percentages are given, except in one case where it may be treated as a principle. But, all the same, I find that an amendment has been tabled to the long title stating that the provisions of the Bill are in accordance with the principles that have been laid down in the Finance Commission's Report. The Long Title also is put to the vote of the House as it forms part of the Bill.

I have read the Finance Commission's Report. They have stated the basis of consumption, the basis of population,—consumption alone they are not satisfied with. It is not possible for them to say that it is on consumption only, or on population or on collection of excise. They have not definitely formulated one, two or three principles. Many principles are there. They have been applied to various points. It is said in the amendment tabled by the Minister that the distribution has been made in accordance with the principles mentioned in the Finance Commission's Report. I would not accept the long title normally if it referred to a report which is an ordinary report by somebody, or even by the Government. The present is a report from a statutory body. After the President under article 280 appoints a Finance Commission, the Commission makes its Report and it is laid on the Table. Therefore, in view of the large number of principles enunciated there, the whole report will have to be transported into this Bill. The elucidation in the long title, I think, is sufficient and it meets the objection.

Hon. Members will realise that if there is a defect of this character in a Bill, the Speaker does not take the responsibility of disallowing it. Even when a Bill is beyond the jurisdiction

of this House, I leave it to the House to decide.

Therefore, I accept the statement that in one case the schedule itself should be treated as formulating the principles. In the other cases the lacuna has been made up by the amendment to the long title which has been tabled by the hon. Finance Minister.

The Government has introduced an amendment to the long title. If hon. Members are not satisfied with it, they can table amendments and say in what way it should be done

In the circumstances, the Speaker will not take the responsibility of disallowing a Bill on the ground that certain principles have not been enunciated in it. I do not, therefore, think I should interfere or refuse further discussion on this Bill.

Shri Mahanty (Dhenkanal): I wish to raise another point of order. Under rule 81 of the Rules of Procedure and Conduct of Business in Lok Sabha, you will kindly notice that if any Member desires to move an amendment which under the Constitution cannot be moved without the previous sanction or recommendation of the President, he shall annex to the notice required by the rules such sanction or recommendation conveyed through a Minister and the notice shall not be valid until this requirement is complied with.

Then under article 110 of the Constitution, this is a money bill. Under article 117 of the Constitution an amendment is sought to be made in that Bill.

Mr. Speaker: Article 117?

Shri Mahanty: I first referred to rule 81 of the Rules of Procedure. This is a money bill under article 110, and for the reasons laid down under article 117 of the Constitution relating to the special provisions as to a financial bill.....

Mr. Speaker: There is no good merely referring to all that. I must come to a conclusion. Does article 117 say that no amendment shall be made except where an amendment raises a duty?

Shri Mahanty: It says:

"A Bill or amendment making provision for any of the matters specified in sub-clauses (a) to (f) of clause (1) of article 110 shall not be introduced or moved except on the recommendation of the President".

You will kindly see that my objection comes under sub-clause (g) of clause (1) of article 110, which reads: "any matter incidental to any of the matters specified in sub-clauses (a) to (f)"

The change in the long title is incidental to this Bill I therefore venture to think the President's sanction to this amendment to the long title should have been obtained before the House can discuss it.

Mr. Speaker: Hon Member read sub-clause (g), but he has also read article 117 where (g) is excepted. Hon. Member will see that (g) is a residuary sub-clause in article 110, clause (1). Sanction is necessary only for items (a) to (f) of clause (1) of article 110 under article 117, and not for (g). This comes only under (g). No recommendation is necessary.

Shri Mahanty: But under rule 81 of the Rules of Procedure, I think the President's assent has to be obtained

Mr. Speaker: Only where under the substantive provisions of the Constitution the President's sanction is necessary the rule says that it ought not to be admitted. The hon Member, by his own statement, has put himself out of court.

Article 110 sets out in clause (1) sub-clauses (a) to (g), but (g) is a residuary sub-clause. Referring to article 117 which makes provision for the recommendation of the President, recommendation is necessary only in

[Mr. Speaker]

cases covered by sub-clauses (a) to (f) of article 110(1); (g) is not included there.

Shri Mahanty: But it comes under rule 81

Mr. Speaker: The rule must be read consistently with the Constitution. The rule cannot go beyond the provisions of the Constitution. All that the rule means is that wherever under the Constitution the President's sanction or recommendation is necessary, without that recommendation we ought not to go on with the proceedings in the House. That is all that the rule says. I do not think there is anything in the rules. Now I shall place the motion before the House.

Motion moved:

"That the Bill to provide for the levy and collection of additional duties of excise on certain goods and for the distribution of a part of the net proceeds thereof among the States and to declare those goods to be of special importance in inter-State Trade or Commerce, be taken into consideration."

Who was in possession of the House? Nobody

Shri Naushir Bharucha (East Khandesh): I wish to be that.

Mr. Speaker: Any hon Members whose groups have not been represented yet?

Some Hon. Members rose—

Shri Mahanty: We have not spoken on the Bill

Mr. Speaker: Shri Mahanty was called for this, he raised merely a point of order? Yes Shri Khadilkar.

Shri V. F. Nayar (Quilon): Do we take it that the time taken for the discussion of the point of order will be taken into account?

Mr. Speaker: Yes, certainly.

Shri V. P. Nayar: Even for you, it took some time to consider whether the point of order should be upheld or not. It is a very important matter, and if Government did not cover it, do we have to suffer for that?

Mr. Speaker: There is no suffering. Hon Members raised a point of order. We discussed it. So far as the time for my consideration was concerned, I did not spend it in the House; I spent it elsewhere. Therefore, how can that be taken into account?

Shri V. P. Nayar: For 1½ hours we discussed the point of order, which means that the point of order was of such great importance

Mr. Speaker: All right. We are pressed for time.

Shri Naushir Bharucha: It may be extended.

Mr. Speaker: Hon Members will be brief, as a number of hon Members want to speak.

Shri Khadilkar (Ahmednagar): The measure brought forward here, in fact, is based on one of the recommendations of the Finance Commission, and in my opinion, in some respects it is a welcome measure,—because the collection of sales tax on such commodities like tobacco or mill-made cloth or sugar, at least at the local level, creates in some respects a certain amount of harassment and later on leads to certain evasions in its execution, in collecting the revenues as laid down by the sales tax schedule. Therefore, from that angle, though I welcome this measure, I have certain criticisms to offer.

Primarily criticism relates to the recommendations of the Finance Commission. This time, the Finance Commission has given undue weightage, according to me, to the question of population which determines States share from collections and the question of collection and consumption have, to that extent, been considered of less importance. This is likely to

affect States like Bombay which are more advanced from the point of view of administration and which are far better than the other States in regard to social services. So, taking the report as a whole, one is led to the conclusion that the States will be made more and more dependent on the Centre, without simultaneously making efforts to raise their standard of administration and social services.

I shall take the instance of Bombay which is likely to be affected considerably, though some persons who were evading tax would be brought in from the administrative point of view. Some measure of relief in some way will perhaps benefit the consumer. Accepting all these advantages, I would like to suggest that States like Bombay where the general standard of administration has been comparatively high, and which is the only State—I am talking of the State with the former boundary—where one of the Directive Principles of State Policy, namely prohibition has been accepted *in toto*, should receive special consideration. If these recommendations of the Finance Commission are to be accepted as they are, and the Directive Principles of State Policy like prohibition are to be implemented burdens are put on the people of States more. As a result other social services are bound to suffer. This burdens must be therefore transferred to the Centre, and the Centre should find out ways and means to come to the aid of State. The Centre should make good the loss of revenue on account of prohibition.

Again, if the present scale of distribution of the central excise duties is accepted, the Bombay State would be put to a loss. From 40 per cent, the share will become 25 per cent. The new Bombay State, after reorganisation, has some territories added to it, where the level of administration was backward, and where social services were almost non-existent. Now, these areas have to be absorbed and assimilated so as to bring them to the same level of administration and to

the same standard of social services. I would submit that the revenue of the Bombay State, if attached due to the recommendations of the Finance Commission should be made good by providing more aid from the Centre.

Therefore, I would suggest, that along with this measure, some machinery should be made available at the State level augmenting its revenue. When a State gives assistance to a local municipality or corporation for health services or for other services, it lays down the condition that a certain level of taxation will be reached by the local authority, and then only the grants are sanctioned. Because of this handy revenue which is made available to the State, and because of the fact that even loan services are taken over by the Centre, they are not to worry about the raising of resources. This type of dependence would ultimately lead to an unhealthy concentration of power at the Centre in the financial sphere, on the one side, and would, on the other, never encourage local initiative in order to pursue certain social objectives which we are pursuing according to the Plan.

Therefore, I would like to suggest that the principle of giving grant-in-aid or a share in revenue should not be of a dead uniform character. It must take into consideration the standard of administration. For instance, we do recognise that in Bombay, or for that matter, in Madras or to some extent in Bengal also a certain standard of administration has been maintained as compared to the other States. I do not wish to cast aspersion on the administration of other States. There is a certain amount of past tradition still persisting. And this standard has been maintained even after attaining freedom. Now, if we are going to take away part of the revenue from such States, which is really due to them because of higher consumption and because of higher collection, then they will be put at a disadvantage. Formerly, the States were allowed 20 per cent extra on the basis of collec-

[Shri Khadilkar]

tion. Now, they will hardly get 10 per cent. So, their resources will be thus depleted. At the same time, the sources of revenue at their disposal are not easily flexible to enable them to raise more money. So, there will be a tendency on their part to depend on the Centre, without making any effort themselves to raise their revenue and bring the level of taxation to a particular norm.

So, while welcoming this measure, I would suggest that some provision must be made whereby the Centre would give aid to a State only when the State has brought its taxation up to a certain level. As regards loan services local credit of the State should be maintained and strengthened in the market. At present, in view of the policy that is being pursued, the independent credit of the States, is for all practical purposes non-existent in the market, and it would be completely shattered in future. So, a provision on the lines that I have suggested should be made.

So far as the division of collections by the Centre is concerned, I would suggest that consumption as well as collection must also receive better considerations along with population. I do not say that we should altogether ignore population.

With these few suggestions, I support the measure.

Shrimati Parvathi Krishnan (Coimbatore): I also join in welcoming this measure, because we have been asking for a long time for uniformity in excise duty, and taxation and so on. But while welcoming it, I would like to add my voice to that of the previous speaker and say that certain States should be given some more attention; particularly, for instance, West Bengal which has got its vast problem of resettling refugees and of absorbing new people into the State should be given a certain special consideration. I hope that will be borne in mind.

While speaking on this Bill and welcoming it, I want to draw the attention of the Minister and the House to one fact, and that is that coffee has not been included in it. At the time when the announcement was made that Government had taken a decision to refer mill-made textiles and sugar and tobacco to the Finance Commission, the coffee manufacturers in the south had also sent a memorandum to Government requesting that coffee should be included in this reference, and that matter might also be looked into. The reply of Government, as usual, was that the matter was receiving consideration. But when finally the reference was made to the Finance Commission, coffee was not included. Until now, no reply has been received.

As far as I am aware, there is general unanimity amongst the coffee growers and the merchants that it would be far better and far more helpful if coffee were included in this particular measure and there was to be a uniform excise duty on coffee, because the production and the distribution of coffee is under the Coffee Board, and Government are already collecting an excise duty, but because of the disparity in the mode of taxation that is administered by the various States, the dealer has to pay sales tax at three different points, and when he pays these various taxes, in the final or ultimate analysis, this burden is passed on to the consumer, and it is the consumer who suffers. Therefore, I would request the Minister to consider this matter dispassionately and to find out ways and means of including coffee also in this measure. The Finance Minister may give the stock answer that the Finance Commission's recommendations are there, and since they have given their opinion after Government has referred the matter to them, it is very difficult now to change, and so on and so forth. But I am sure if he really wanted to, and if he would really consider the interests that are

involved and deal with them sympathetically, he would be in a position to do it. I am told also that as far as the cashew industry is concerned, such suggestions are being made and the matter is under consideration by the various sections concerned; because what is happening with regard to these various commodities which are primarily produced in one part of the country but are consumed all over the country, is that on account of various sales and other taxes that exist in the different States, there is a tendency for these goods to shift over to that State where the tax is less and the market is changing, and there is definitely difficulty for those people who are in the areas where actually the production takes place

Apart from this, I would like to take this opportunity also to appeal to the Finance Minister to consider once again the question of the very high rate of excise duty being levied on tobacco. In the beginning, this tax was levied at the rate of one anna per lb. and today the excise duty is so high that it is the primary producer who suffers in the end. To have such a high rate of taxation is, in my opinion, really short-sighted because what is happening, for instance, in my State is that those who have been going in for tobacco cultivation are shifting over to other crops. So whatever calculation or assessment there may be in the mind of Government as to the amount they expect from this particular excise duty, it is surely going to come to very little because the cultivator is changing over from tobacco to other crops.

Now, mainly the crop that is grown in my State is chewing and cigar tobacco. Those who have been cultivating tobacco, during the last two or three years have been requesting the Government, have been sending memoranda and in whatever way possible have been putting their point of view before the public and Parliament, that the excise duty should be decreased.

It was very strange indeed that after making the various promises from election platforms, the ruling party comes back with its majority and instead of fulfilling the promises and giving relief to those who have been facing great difficulties, it has enhanced this tax, and tobacco cultivators and agriculturists are really suffering.

I would also like here to refer the hon Finance Minister to what was said on a much earlier date when the Excise Duty Bill was being discussed on the floor of the Central Assembly in 1943. Referring to this excise duty and to the fact that the high rate of duty on tobacco would definitely militate against the consumer and those who were working in the bidi industry and would, therefore, tend to lead to increased unemployment, this is what was said at that time by an hon Member who was addressing the House:

"In fact, those people who smoke bidis are people whose income is below the marginal level of subsistence. Naturally, when the prices of bidis they smoke are increased, consumption goes down and there is a lesser production of this bidis. There is a certain amount of justification in the plea of bidi manufacturers when they say that if they increase the price of bidis and pay the workers more, consumption drops. In a way it has been a matter of Hobson's choice. The workers have to be paid. Manufacturers would not pay them more. If we drive the matter to a strike, these workers will have to go out into the street. That is the position in which these workers are situated. Still, the hon. Finance Minister assures us that the officers who investigated the position has given him an assurance that everything will be all right when the proposed tax is imposed".

[Shrimati Parvathi Krishnan]

Now, you may be wondering who this hon. Member who opposed the excessive excise duty at that time was. It was an hon. Member whose name is Shri T. T. Krishnamachari.

Now, I would like to remind him of his own words and remind him that today also it is very necessary that he should bear the interests of the consumer and the agriculturist in mind.

Mr. Speaker: But times have changed. A Member can become Minister.

Shrimati Parvathi Krishnan: I am also speaking in changed times, of course, to a changed person—because of the changed orientation of the mind of the Minister.

I would tell him that today it is even more important that he, as a member of a Government that has been popularly elected on the basis of various programmes and promises made to the common people, should bear those interests much more in mind. At that time, he was using it as a debating point. At that time, in between his various business trips, he was coming here to the floor of the House to defend certain interests. Willy-nilly, it served his purpose. Today, it will serve his purpose more if he would consider this matter of the excessive tobacco duty, if he would go into it and decrease it. It will serve his purpose because then the agriculturist would not be driven away from having a tobacco crop; he would certainly go in for the tobacco crop and the income that would accrue to him out of it would be more than it is today since because of the excessive excise duty, the agriculturist is being driven away to other crops.

This would guarantee that not only Government gets its revenue but it would also guarantee, at the same time, that the indigenous tobacco industry in our country, the cigar and the bidi industry, is safeguarded. I make this request and when discussing this Bill I take this opportunity of

putting before the Finance Minister the difficulties that have arisen and have been faced by the agriculturists who have been going in for tobacco crop. It is now quite a few months since the new duty was imposed. One has had time to go into the situation; one has had time to find out whether whatever opposition there was to that excessive duty was justified or not. That is why I have put this before the Finance Minister today, when discussing this Bill.

I would once again welcome this measure because this uniformity is definitely going to help, and it will certainly help both the States and the Centre. The only thing is that a certain amount of flexibility will be necessary in finally deciding the various quanta; the various requirements and necessities of the States will have to be taken into consideration so that one State is not made to suffer because another is being given more than it is really entitled to.

Shri Somani (Dausa): I would like to confine my observations on this Bill to the effects on the textile dealers and the industry by the additional excise duty that is going to replace the prevalent sales tax in the various States.

Shri N. R. Munsamy (Vellore): Think of the consumers also.

Shri Somani: I am in general agreement with the principle of the Bill. As a matter of fact, a large number of honest dealers throughout the States has been undergoing great harassment and difficulty upto this time due to the administration of the sales tax in the various States. I have no doubt that the replacement of sales tax by the excise duty will certainly enable a large number of honest dealers to function more smoothly without being called upon to undergo the various complicated formalities of complying with sales tax rules. To that extent, therefore, this Bill will relieve the dealers from this avoidable harassment and difficulties and will enable the

trade to function more smoothly and effectively, and it is, for that reason, very welcome.

But, I would like to take this opportunity to place before the hon. Finance Minister certain facts and figures in regard to the incidence of the additional excise duties that are going to replace the sales tax that was prevalent up to this time. In my opinion, there has been a considerable under-estimating of the revenues that will be realised by the additional excise duty rates on the various categories of cloth.

The hon. Finance Minister said the other day that he is estimating to realise Rs. 21.9 crores from these additional excise duties on cotton textiles, on art silk fabrics and on woollen textiles. But, according to my calculation, these additional excise duties on cotton textiles alone will fetch a revenue of something about Rs. 24.5 crores, leave alone the realisation from the art silk fabrics and the woollen textile.

It appears, therefore, that somebody in the Finance Ministry has made a great mistake in making the necessary calculations of revenue from the additional rates of excise that have been imposed on the various categories of cloth. I think it is not the intention of the hon. Finance Minister, while replacing the sales tax by these excise duties on cotton textiles, to place any additional burden; and, therefore, it is appropriate that the hon. Finance Minister should get the various rates that he has calculated for the various categories of textiles to be re-examined. And, if he is satisfied that there has really been some mistake in the calculations, then the rates on the various categories of textiles should be properly readjusted.

I beg to submit that there cannot be any justification for imposing an additional Rs. 4½ crores on cotton textiles and that the rates should be readjusted in a manner which will bring to the Government the same amount of revenue which was being

collected by the various States on these cotton textiles.

Another thing in this connection that I would like to draw the attention of the Finance Minister is about the very heavy incidence which these additional excise duties will impose on the fine and superfine varieties. Indeed, in certain varieties of superfine cloth the incidence will go up to as much as 70 to 75 per cent of the value of the cloth and an inference can easily be drawn that under the present conditions the consumer assistance the production of fine and superfine cloth will suffer.

As a matter of fact, ever since these excise duties on textiles have been introduced, never has an attempt been made to have a scientific and proper formula to have a uniform incidence on the various categories of cloth. Sometimes the fine and superfine have had to bear a disproportionately heavy incidence; sometimes the medium and sometimes the coarse. And, this has affected the production, shifting from one category to another and thereby causing avoidable inconvenience to the functioning of the industry. I wish, therefore, that the Finance Minister should have taken the present opportunity for basing the excise duty on a proper, scientific and sound calculation of the differences between the various categories so that the incidence should have been properly distributed.

So far as relief in medium cloth is concerned, the relief has been announced to be operative only up to 31st March. That means, on the annual basis the relief of half an anna would have come to Rs. 10½ crores. Actually in 3½ months the relief would come to about Rs. 3 crores. When the Finance Minister has already imposed more than Rs. 4½ crores additional burden by way of readjustment of excise duties on the various categories of cloth, it is clear that no relief has been given.

In this connection, I can only say that I quite realise the anxiety and determination of the Finance Minister

[Shri Somani]

to raise the necessary resources for the implementation of the Plan, to create more production and more employment. But, certainly, the matter has to be considered whether, in this process of releasing the resources for the Plan, it is worth while creating more unemployment in the existing industries.

As it is, about 24 mills in the textile industry today are totally closed and notices have also been given from several others of their intention to have to curtail their second and third shifts in the industry. Even this morning we have received a report from Kanpur of a serious situation which the local textile mills in U.P. are facing and how the employment position in U.P. is going to be seriously affected. Whilst it is very gratifying to learn from the hon. Minister that a constant watch is kept on the functioning of the textile industry, still it is clear that no proper appreciation has been made of the difficulties under which the industry is suffering

I am just giving him a picture as to how the functioning of the industry has been affected recently. When this heavy increase in excise duty took place in September 1956, the entire incidence of that increased excise duty has been borne by the textile industry. Even the Government statement admits that there has been a fall of about 5 per cent in the cloth prices compared to the prices that were prevalent in September 1956. According to calculations, the incidence of the additional excise duties that were imposed in September comes to about 9 per cent. That means that there has been a fall of about 14 per cent in the realisation from cloth to the industry. Over and above that, there has been a steep increase in the prices of cotton and stores. Then, there has been an appreciable increase in the dearness allowance payable to the workers. In Bombay city alone, the dearness allowance has gone up from Rs. 68 to Rs. 78; that was payable for

November last. That shows that there has been a fall of about 20 per cent. in the realisation to the industry since the increased excise duty came into effect from September last.

According to the Reserve Bank bulletin, the profits which the industry made from 1950-55 were 6½ per cent. of the total realisation. Therefore, it is clear that there has been a reduction of something about 20 per cent. in the realisation against the profits which the industry had made of 6½ per cent. from 1950-55. The serious nature of the repercussion of the decline in realisation can well be imagined. I, therefore, submit for the consideration of the hon. Finance Minister that this premier textile industry should not be allowed to work in a manner which will lead more and more mills to curtail their production

I only appeal to him that Government should decide that, if the present burden is to remain, then, there must be some voluntary basis of a planned curtailment of production which, I think, will enable the industry to set its house in order. Otherwise, steps will have to be taken to ensure that the industry is in a position to work economically under conditions which will at least leave some adequate margin for the functioning of the industry.

Over and above that, I would also like to draw the attention of the Finance Minister to the move made by the Bombay Government ever since the sales tax has been withdrawn to impose fresh sales tax on machinery and stores that is consumed by the industry. This means that while the sales tax on cotton textiles has been withdrawn by the Bombay State, they have tried to impose an additional burden by way of sales tax on stores and raw materials and various items of machinery. That additional sales tax by the State Government should also be taken into account.

1½ hrs.

Lastly, I would like to draw the attention of the Minister to the proposed levy about which he referred the other day on the existing stocks. This has created a lot of confusion. As the hon Minister is aware these stocks which are lying with the dealers have paid increased excise duty on medium cloth that was prevalent up to a few days back. Therefore it would have been only fair that the existing stocks lying with the dealers should have been left to be sold free. As it is the various State Governments have now asked for declarations of the existing stocks and as a matter of fact business of the dealers has simply come to a standstill. Due to the suspense deliveries were meagre, ever since the announcement of the Bill and the action of the various State Governments, trade has come to a standstill and the dealers are in a fix as to what is to be done with the existing stocks. Before this confusion is cleared no fresh orders from the dealers would be forthcoming. I think it was quite worth-while to have left these stocks with the middlemen alone because 70 to 75 per cent of these stocks are of medium variety and since the Government wanted to give some relief and since these stocks have already paid the increased excise duty on medium cloth which was prevalent up to a few days ago, I think even the Minister could advise the State Governments concerned to clear this confusion and to allow the stocks with the dealers to be passed on to the consumers without any additional realisation of sales tax.

These are the few points I would like to make. I would particularly like these calculations to be rechecked, and if it is the intention of the hon. Minister to replace the present sales-tax by the existing duties, then there is no reason why in making these calculations there should be any occasion for an additional Rs. 4½ crores to be added to the revenues of the State. I think there has been some mistake

and these calculations should be revised.

The Minister of Finance (Shri T. T. Krishnamachari): May I ask a question? The hon. Member has been waxing eloquent on the figures being wrong. Has the hon. Member's advisers taken into account the fact that 16 per cent. of our production goes in the shape of exports. Assuming it is Rs. 24 crores, he will have to deduct 16 per cent.

Shri Somani: I have got calculations with me and I am prepared to place full facts, according to the average width in each variety, fine, medium and coarse, at his disposal; according to those calculations and the present production in each category, the present additional duty on cloth only for internal consumption will bring a revenue of Rs. 24.5 crores. These figures can be easily checked. It is a question of fact; it is not a question of argument. And if the hon. Finance Minister is satisfied that according to present production of various varieties of cloth for internal consumption, the estimated yield is Rs. 24.5 crores, then naturally the necessary adjustments should be made.

After all it is a question of pure facts and calculations; it is not a question of argument. The hon Minister has got figures of production of various categories last year and according to the average width and according to the rates per square yard, which he can convert into average linear yard basis, the average yield would be Rs. 24.5 crores from the textile industry. If there is a shifting of production from superfine to coarse or fine, to some extent this estimate may vary. But according to the present calculations, leaving aside the exports, the estimate of yield is Rs. 24.5 crores. At the present moment when the industry is suffering terribly, I would earnestly request him to examine carefully, and if he is satisfied that the realisation from the duties will be of this order, see his way to readjust the duties on fine and superfine varieties which otherwise are bound to suffer.

**Shri Barman (Cooch Behar—Reserved—Sch. Castes):** Mr. Speaker, Sir, on the last occasion when the Central Excise Tax Act was being amended, I placed my submission before this House and the hon. Minister regarding the difficulties of growers, especially of hookah and chewing tobacco. At that time, so far as I remember, the hon. Finance Minister said that maybe 10 per cent. of the growers may be affected. He said that if after enquiry he found that there was some difficulty, he would do justice by them under his rule-making powers.

At that time I placed the cause of tobacco growers of Northern India, because as a Member of the Committee of Petitions I got representations from several people of North India. So, I thought that the tobacco growers of other parts of India had no serious objection. Otherwise the hon. the Finance Minister would not have given a reply in that manner.

Later on petitions have been placed before this House through three hon. Members: Sarvashri Venkatasubbiah, M.P., R. N. Reddy and Kumari N. Veda Kumari, on behalf of the West Godavari district. It is stated in the petition that the poorer sections of people had to cut down consumption of their only luxury. Moreover, the excise duty has been fixed on quantum basis regardless of the price fetched by tobacco. That is a new criterion on which the tobacco duty has been based. Formerly tobacco duty was based on the criterion of use. Now that has been completely changed. Consequently 75 per cent. of the tobacco stocks are lying undisposed of and since stocks deteriorate in quality by being stored over a long period, the growers have been obliged to dispose of the stocks at whatever price they could get.

In this connection I would like to mention the difficulties that are being experienced by tobacco merchants of District Kaira, because stocks of tobacco crop of 1952-53 are still with them. The duty being high they can-

not dispose them of without incurring serious loss. These facts will clearly prove that the duty that has been enhanced by the last amending Act is causing some serious difficulties to the tobacco-growers, because the dealers while purchasing the tobacco will calculate all sorts of losses they will have to incur during the transactions.

This is not a Bill on which I can ask the hon. the Finance Minister to reduce the tax that has been passed by this House. But I have some other point to place before him which I think directly relates to this Bill. Another point that I placed at that time is perfectly relevant to this Bill also. That relates to *churan* tobacco or dust tobacco that necessarily accumulates while tobacco is bound into bundles and made fit for trade purposes. Section (5) at page 4 of the Bill defines granule tobacco. Item 6, under the heading 'tobacco' refers to other than flue cured and not otherwise specified. That is to say, if the *churan* or dust tobacco that automatically accumulates while processing if it does not increase in size beyond 1/16 in size and below 1/4 inch, that will be taxed as three naye paise. But, if other than flue cured and not otherwise specified and if the size is above 1/4th of an inch and below 1/16th of an inch, it will be taxed at 20 naye paise. According to Raghuramaiah Committee tobacco is being taxed on the size and not on the criterion of use it is put to. It has been contended that tobacco which is above 1/16th of an inch and below 1/4 of an inch is used in *biri*. Therefore, hookah tobacco, if it is of the same size, will be taxed at that rate. This principle has been causing hardship unjustly to the hookah tobacco growers. According to these growers, this tobacco cannot be used in *biri* preparation and I am told that even if the Tobacco Directorate be asked, they shall confirm this. He may also ascertain from the Eastern and Northern part of India where

hookah tobacco is grown and also from his own Directorate whether it is correct or not. If hookah tobacco cannot be used in any size or form in the preparation of biri there is no justification that because the size is such, it should be taxed at this higher rate.

Again, supposing that this size can be used in the preparation of biris, is it not possible for a man to buy whole leaf tobacco, instead of this churan, and then pound it and use it in biri? What is the logic in taxing the whole leaf tobacco at half the rate and the other at double the rate? The biri maker will certainly purchase the whole leaf tobacco at half the rate and pound it. Why should he purchase this dust. There is no advantage in taxing the whole leaf at half the rate and the dust that comes out of it at double the rate. I hope the hon. Minister will enquire whether there is any justification in taxing it at double the rate.

**Shri Sonavane (Sholapur-Reserved Sch. Castes):** What is the use of this dust?

**Shri Barman:** It can be used as hookah tobacco mixing with molasses. It is definitely sold at a much lower price than whole leaf tobacco. Whether the duty is reduced or not, I submit this is a kind of illogical taxation between the same kind of tobacco.

If the hon Minister's argument is that he can just make it dust by pounding and that they will attract a lower rate, I may tell him that in spite of this fact that these bits are taxed at lower rate, there will be the additional cost of pounding it and bringing it to a size which will not exceed 1/4th of an inch and will not fall below 1/16th of an inch. No justice can be done on these lines.

Apart from that my main contention is this. If it is the opinion of

the Administration that these bits of tobacco can be used in biri, what is the reply to this question? Cannot the whole leaf be pounded and used in biri? Where is the logic in taxing one part at half the rate and the other at double the rate. I hope the Minister will enquire into the matter.

I have made another representation to the Member, Board of Revenue, Mr. Banerjee and he has written back that he will enquire into the matter. I hope he will give his best consideration to this matter. The tobacco growers are already hard hit by increasing the taxes. Let them not be further unjustly and illogically taxed.

**Mr. Speaker:** Before I call upon any hon. Member, I would like to know this. The time that has been allotted to the various stages of this Bill, as I read out, is 3 hours. Including the point of order, we have spent one hour and nineteen minutes before we started today. An hour and forty-one minutes remain. About an hour was spent on the point of order. We started at 12:20 today, and we should conclude by 2 O'clock, that is, if we stick to three hours. Ordinarily, the time spent on the point of order is within the time allotted but having regard to the peculiar nature of the issue and also because a number of hon. Members want to participate, I am willing to extend the time by half an hour.

**Some Hon. Members:** One hour.

**Mr. Speaker:** There are no amendments to this except only one.

**Shri Nanjappa (Nilgiris):** I shall move it.

**Mr. Speaker:** How long shall we devote to the clause-by-clause consideration?

**Shri Nausahir Bharucha:** For this and the final stage, half an hour would be enough.

**Mr. Speaker:** How long would the Minister take?

**Shri T. T. Krishnamachari:** Ten minutes.

**Mr. Speaker:** At 3 O'clock we will conclude the whole of this debate. This Bill must be finished by that time. At 2:30 the consideration motion will be concluded. I would call upon the hon. Minister at 2:15. The clause-by-clause consideration will be taken up at 2:30 and by 3 O'clock the whole thing will be concluded. Each hon. Member will take not more than ten minutes.

**Shri Basappa (Tiptur):** What about my amendment?

**Mr. Speaker:** It has just now been given. When we come to that let us see.

13-19 hrs.

**Dr. Krishnaswami (Chingleput):** This bill seeks to levy additional duties of excise on goods of special importance. It is claimed for this piece of legislation that it is more convenient to have excise duties on commodities instead of sales tax imposed by the various States. The reason for effecting this reform is that sales tax rates have varied from State to State, and have been a source of inconvenience to traders. Besides, there has been evasion, and the decision in our various courts of law on this subject bear eloquent testimony to the devices employed to avoid payments of taxes levied by different jurisdictions. On grounds of uniformity and convenience the Union has taken upon itself the responsibility of levying excise taxes, which have the advantage of being levied at the source.

So far so good. But, what are the principles which should guide us in the distribution of these duties? I do not propose to traverse the ground covered by many of my hon. friends when they raised the point of order. But one must confess that the lucubrations of the Finance Commission have left us no wiser in spite of a long-winded report on divisible excises. One has only to pursue the

report to realise that there has not been any clear enunciation of principle. They start with professing an attachment to principle, but end up by abandoning all principles.

On page 44—and it is apposite that we should devote some attention to the discussion of this matter—they point out that the previous Finance Commission suggested, and I quote the choice expression from the Commission's report. "The last Finance Commission suggested that consumption of the taxed commodities could provide a suitable basis for distribution but, in the absence of any reliable data of consumption, they recommended population as indicating the nearest measure of consumption. They also suggested that arrangements should be made for the collection of statistics of consumption of the more important commodities subject to excise. Such statistics are still not available so that in this matter we are in no better position than our predecessors." And, then they conclude: "While it is possible to hold that consumption, if accurate data were available, may provide a suitable basis of distribution, it must be borne in mind that distribution on the basis of consumption may operate in favour of the more urbanised States which are also in a position to raise substantial revenue from sales taxes on such consumption."

Now, Sir, at the outset I ask: How is it that after the first Finance Commission said that we should have definite data on consumption we have not progressed in the least?

13-23 hrs.

[MR DEPUTY-SPEAKER in the Chair.]  
The Second Finance Commission claim that they have examined adoption of consumption data as the base, but that they find themselves powerless to do so. Five years ago one Commission recommended consumption as a base and now another Commission comes to the conclusion that they are unable to do so. Then

follows what must be considered an arbitrary method of dividing the divisible excises; 25 per cent. of the net proceeds in respect of tobacco and sugar, which are items in this Bill, are to be given to the various States and then they have to take up what should be....

**Shri T. T. Krishnamachari:** May I point out to the hon. Member that, while I should certainly be very grateful for any guidance that he may give me in regard to future, the recommendations of the Finance Commission in respect of this Bill are confined to Chapter XV commencing from page 59?

**Dr. Krishnaswami:** I am quite aware of my hon. friend's point, but I have to elaborate this argument and show how this is linked up with that found on pages 61 and 62 to which I shall advert shortly. This is linked up with that because this 25 per cent. has to be taken into account when we actually distribute the other divisible taxes which we are to levy in lieu of sales taxes.

The Finance Commission laid down a principle on page 61, as my friend reminded me, and I am quoting paragraph 170 on page 60. There they have laid down the principle that additional excise duties are to replace sales tax, which are taxes on consumption and that the proper basis for distribution should be consumption. Indeed, the Finance Commission have gone a step further, and I am very much indebted to them for having given me this valuable information. They have stated that the National Development Council also recommended the same basis. But in the absence of accurate data the Finance Commission have used a combination of such data as were available for arriving at the percentage of distribution for the remaining portion of the duties collected. In other words, the basis which they have chosen appears to be receipts derived from sales tax, and for the remainder consumption or popula-

tion. It is an arbitrary weightage that has been used, and this is my first criticism.

I should like however to point out, in fairness to my hon. friend, that the one thing which he has safeguarded himself against is that during the initial period the distribution of collection of excise duties will be the same, as that which the States obtained by way of sales taxes. But in considering this piece of legislation we have to adopt, if I may point out to my friend—and I hope he will not accuse me of a cliché—a dynamic approach. Consumption patterns after all, change, and it is precisely when we consider how consumption patterns change through time that we realise the value of having criteria which are not arbitrary in character.

Indeed, on another occasion, an hon. Member of the Central Legislative Assembly speaking on a topic which was similar to what is being discussed, pointed out that there was a great danger facing this country. I quote:

"Bureaucratic omniscience is a well known phenomenon in this country, bureaucrats sitting in their room under electric fan can produce a blue print for every activity of human beings. But are these blue prints going to be as perfect when they are put into operation?"

My hon. friend in those unregenerate days, when he was an hon. Member of this House gave expression to this classic truth, and I take the opportunity of reminding him of what he said then. Old wine is good wine.

What is the justification for the procedure adopted? What is the basis of criticism of this Bill? If consumption pattern change, which is most likely to happen in a developing economy where some States are likely to develop faster than others, then the share of the States will be incal-

[Dr. Krishnaswami]

tic. At a time when the concern of everyone should be to increase the elasticity of revenue of States this system of distribution is likely to be arbitrary and only tends to increase the dependence of States on the Centre. We are not solving the problem by having an arbitrary method of distributing these excise duties. What I do suggest is that we ought to have taken thought early when the first Finance Commission itself reported of how to collect data on consumption, and if this had been done, distribution would have been fairer and more proper.

After all, let us remember that these excise duties are levied in lieu of sales taxes which are taxes on consumption. Notwithstanding all the arguments that have been put by the Finance Commission—and I agree that they are learned in a way—I am not in the least convinced by what they have said. Indeed it has to be confessed that even they feel that they have come to the conclusion that is somewhat arbitrary. No wonder my friend, when the question of principle was raised, was very shaky and found it difficult to indicate the principles on which distribution is based. But we surely have an obligation to fulfil as Members of Parliament, and if I invite the attention of my friend to this aspect of the matter it is because I feel that at least in the near future some thought will be given to this problem, some thought as to how we are going to have a more rational system of dividing these divisible excises as between the various States. In paragraph 170 the Finance Commission point out:

"The National Development Council is also reported to have contemplated consumption as the basis. Therefore, we made an attempt to estimate the state-wise consumption of these taxable commodities. The data available

to us were the consumption figures of mill-made cotton textiles, sugar and certain forms of tobacco contained in the report of the fourth round of the National Sample Survey, the estimates prepared by the Textile Commissioner, the statistics of the clearance or off-take of sugar prepared by the Sugar and Vanaspathi Directorate and the statistics of consumption of tobacco contained in the Report of the Marketing of Tobacco of the Agricultural Marketing Directorate, prepared on the basis of surveys and enquiries undertaken in 1950-51."

Having considered these estimates they have come to the conclusion that it is impossible to accept them as they are not very accurate and, therefore, they have provided a sort of arbitrary way in which the thing should be distributed. But, as I have pointed out, from the point of view of economic development this matter has to be considered sooner rather than later, because when once consumption patterns change some of the States which develop faster would be put in a more disadvantageous position and would certainly have to depend much more on the Centre.

A simple point was raised by one of my hon. friend as to why the present figures are a bit higher than the receipts derived from sales-tax. My hon. friend, in his opening speech, pointed out that it was because there was.....

**Mr. Deputy-Speaker:** I am reluctant to ring the bell, but ten minutes have gone.

**Dr. Krishnaswami:** I shall finish in a minute. He pointed out that it is because they had made allowance for evasion. I think this argument is

irrelevant and not quite correct. If receipts are tallied up and, then, averaged the incidence would be the same. But what we apparently have done is—I do not know, I can only guess from the figures that have been supplied to us—to take the State where the sales-tax rate is the highest and then multiplied for the states.

But this increases the total incidence. It may not be very serious, but there is one thing which I would like to bring to the notice of this House. It may be that in most cases the incidence might be less. There is, however, one particular case in which the incidence might be greater than previously. Even if the excises raised are the same as the sales-tax, there would be a tendency, and it is only in a limited case, if an excise duty replaces a single point sales-tax levied at the final stage, for the price of the commodity to be higher, because of the pyramiding that would take place in our country.

As one knows in our economy prices are calculated by traders on the basis of cost plus. This probably is one of the reasons for price rising much higher than the excise duty levied.

Shri Dasappa (Bangalore): I had an idea that the scope of this Bill was limited, but it looks as though the discussions have traversed a very wide ground and not necessarily confined to the provisions of this Bill. I would like briefly to refer to one or two points which have arisen during the course of the debate and also refer to certain points which, I believe, merit consideration, apart from what has already been placed before the House.

The hon. lady Member from Coimbatore said that it would be well if a similar provision is made for the collection of excises on coffee and obviate the different sales-taxes prevailing in the different States in India. On this question, I believe there is room for difference of opinion. It may be that there is some technical objection

to the provisions being amended by an amendment of this nature because of the sanction that is required from the President and so on, but, quite apart from the technical points that may be raised against such things, I would say coffee is a commodity which is consumed by certain sections of the people in the country more than the other sections. When the coffee excise was levied and was distributed, I believe the principle that was followed was not on *per capita* or the population basis but the consumption basis to which my hon. friend Dr. Krishnaswami just now referred. On the contrary, in regard to most other excisable articles the division used to take place on a *per capita* basis. With regard to coffee, it was more or less on consumption basis, and I believe there were sufficient data for them to find out what exactly was the consumption in each State. So, I feel that there is some difficulty in trying to introduce coffee as one of the excisable articles under this Bill.

The basis of dividing the pool should, I am afraid, be altogether different so far as coffee is concerned. I think the people hailing from South India are notorious coffee addicts and I believe we would have a justification to say that a much larger share of coffee excise should go to the South than what would be permissible under one or other of the provisions of the Bill. I think that is a suggestion which merits a much deeper consideration. I would suggest that it may be postponed for a later occasion.

Then, with regard to textiles, I have got a certain difficulty and I would be grateful to the Finance Minister if he could enlighten me on that. We find here at page 5 of the Bill there are different rates prescribed for the different varieties and categories of cloth. I take it that this applies only to the mill cloth, the cloth that is produced by composite mills and not by the sector known as the power loom sector. At present, the excise on textiles produced by power looms is collected as a

[Shri Dasappa]

slightly different basis from what they do in case of composite mills. That is on the loom system and on the shift system. If this is all that is provided by the hon. Minister, I would like to know whether there is any idea of applying this also to the power loom sector or exempting the power loom sector from the operation of this Bill when it becomes an Act. If the hon. Minister assures me that this does not apply to power loom fabrics at all, and that there is no idea of collecting excise on cotton textiles produced by power looms, then, I would not have much to complain. But, if there is the idea of extending the provisions of the Bill to cotton textiles produced by power looms, then, I would like to know the method that can be adopted, because, at present it is done on the loom basis. I think some power should be taken by the Finance Minister to apply the existing system to the power looms or, in the alternative, the only course would be to exempt the power loom cloth.

I would make a plea in favour of the power looms for not taxing them under this Bill. As things obtain at present, I know for a fact that many of the power looms, especially the smaller ones, stand to suffer a great deal because of the collection of excise from the power looms. For a long series of years they were totally exempt from this excise. Later on, this excise duty was also made applicable to the power loom fabrics, but, as I have already said, that was on a different basis, namely, the loom basis and the shift basis.

The composite mills have a distinct advantage over the power looms because they produce all the yarn and they are able to transfer the yarn from the spindles to the looms on practically the ex-factory price of yarn. They do not have to pay for any profits on the yarn for the wholesale dealer; they do not have to pay any insurance charges or any sales-tax. In fact they have got to pay

nothing except to transfer the yarn, at the cost of production in the spindle sector, to the looms. But in the case of these power looms, there may be some consideration. I would beg of the Finance Minister to consider this aspect of the case.

Reference was made to cashew. I do not want to argue on that matter. Whatever I said with regard to coffee applies equally to cashew.

With regard to tobacco, I do not generally agree with any section of the House which says that tobacco cannot stand greater excise duty. In this case, let me assure those who are complaining about tobacco that it is going to be levied at the same stage as the usual excise. My feeling is, with the provisions as they are, I am pretty sure that all those connected with the trade will welcome this consolidated excise duty in preference to the thousand and one pin-pricks that they suffer from sales-tax.

I am very sorry there is no time for me to elaborate that point. I think the whole tobacco industry deserves a comprehensive consideration. In Turkey, the manufacture of cigarettes is a monopoly. A very substantial portion of the revenues of Turkey comes from the manufacture of cigarettes. In view of the shortage of finances in the country and the huge commitments that we have got, if the hon. Finance Minister, whose courage nobody can dispute, could think of taking the whole of the cigarette industry into his hands, I am sure it will be a very fruitful source of revenue.

There is one suggestion made by Dr. Nanjappa with regard to that very section to which Mr. Burmah referred. I think that would merit the sympathetic consideration of the hon. Finance Minister. There is not much to be gained by taxing this dust tobacco. I would be very thankful to him if he can just exempt it from the levy of this tax.

**Shri Namsit Bhatnagar:** Mr. Deputy-Speaker, I think the principle on which this Bill has been based is quite welcome, because it does make for considerable convenience both to the trade and the consumer. The evasion of sales-tax has been rampant and this will, though not completely stop it, very largely reduce such evasions. On those grounds, which I need not repeat, the Bill is welcome, though I wish the principle of this Bill were extended to other commodities.

A case has been made in respect of coffee. If the hon. Finance Minister has another conference of Finance Ministers of States and finds out what are the other categories of goods which may be declared as goods of special importance, in that case I think the provisions of this Act should be extended to other commodities.

However, the main purpose of my speaking just now is totally different. In the course of his speech, the hon. Finance Minister said that he would impose a sort of sales-tax on floating stocks or have some other method by which he will compound the amount. My submission is that in law this will not be a sales-tax. Between the time that this Act comes into force and the additional excise duties are collected and realised, what happens to the goods which have already gone out and which are with the traders? My submission is that legally and constitutionally, it would be impossible for the hon. Finance Minister to collect sales-tax on what we call "floating stocks". Why? If we see the definition of sales-tax, the tax can only be collected whether it is a single point tax, two-point tax or multi-point tax, when a sale has been effected. "Sale" in law means transfer of ownership in goods from the vendor to the purchaser. Until that particular transfer of the ownership in the property takes place, no sales-tax can be levied.

If we try, even by compounding this sales-tax, what will be the position? The position will be that in-

der item 86 of the Seventh Schedule, we would be levying tax on the capital value of assets and not sales-tax. Under item 86, a definite tax has been mentioned, namely, taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies. So, stocks would be assets of individuals or companies. "Individual" includes "firms" also. If you impose any kind of sales-tax or try to collect sales-tax, the shop-keeper will say, "How are you entitled to collect it? I have not sold the goods". Under your definition of sales-tax, only when the sale is effected, you can collect it. That is an important point. Under the definition of "sale", the Bombay High Court held the entire sales-tax Act *ultra vires*.

Therefore, I do not know under what authority, the hon. Finance Minister even proposes to compound this sales-tax. The man has got a right to say, "No; I am not bound to pay this tax". What is the Finance Minister going to do then? If it is sales-tax, the sale must take place. The shop-keeper might say "The goods are in my shop; I have not sold them. You have no right to collect sales-tax". I may tell the House that precisely the same point arose in the Bombay Legislative Assembly when we were discussing the Bombay Sales-tax Act. There one of the clauses in the Bill was that sales-tax should be paid when the business is sold by one person to another on the entire stock in trade. I raised a point of order there that if you levy sales-tax on the entire stock in trade, it cannot be sales-tax; it can only be a tax under item 86, which the State Legislature had no right to impose. We have, of course, got the right to impose it. If a separate Bill is brought, it is a different point. But if it is imposed at the stage when the business is transferred, then the stock is not sold within the meaning of the sales-tax law, with the result that the point of order was upheld and the Government had to with-

[Shri Naushir Bharucha] draw that clause. The same point arises here when we talk of compounding the sales-tax on floating stocks. You cannot do that under the sales-tax Act. Under this Bill, of course, you cannot do it.

Shri T. T. Krishnamachari: Is he reflecting on any part of the Bill or on my speech?

Shri Naushir Bharucha: I am only referring to your speech. I am saying what will be the difficulty in implementing this Bill.

Shri T. T. Krishnamachari: I am not legislating in that way.

Mr. Deputy-Speaker: That is not contained here in this Bill.

Shri Naushir Bharucha: I appreciate that I am pointing out what will be the difficulty in implementing the provisions of the Bill. A large part of the revenue will escape. That is the point I am making. If it were in this Bill, I would have raised it as a point of order. I am not now raising it as a point of order. I am simply pointing out the difficulty in implementing the provisions of the Bill, that a large chunk of the revenue to the extent of Rs 7 crores to Rs 8 crores will escape taxation.

Therefore, I want the hon Finance Minister to tell me how he is going to plug that loophole. The hon Member Mr Somani, pleaded that these stocks must be allowed to go scot-free. I think constitutionally they have got a right to go scot-free. So, nearly Rs 7 crores to Rs 8 crores will escape. What does he propose to do? That is what I wanted to point out.

Shri Damani (Jalore): Mr. Deputy-Speaker, I thank the hon. Finance Minister for bringing out the present Bill in the current session. By introducing this Bill, the suspense and agitation prevailing in the trade have been removed. The replacement of sales-tax by excise duty on three items will bring more revenue to the Government and it will enlarge the scope of inter-State business and trade.

I will touch on the position of addi-

tional excise duty on mill-made cloth only. The textile industry expected better treatment and they were disappointed to find that the excise duty was much higher than what they expected, even higher than the previous sales tax. I want to give some examples as to how it will affect the prices of coarse count, medium count, fine and superfine counts.

In the case of medium count cloths like sarees, mulls and long cloth the average price will be ten annas per yard with 44" width. The excise duty will be Rs 0-2-9 and sales tax Rs. 0-0-5. So the total will be Rs 0-13-2. According to the new rate, the duty for a cloth of 44" width will be Rs. 0-2-2, after reducing 6 pies of the excise duty. The additional excise duty will be 10 pies. So, the price of the cloth will be 13 annas. The difference is only two pies, whereas the reduction given is 6 pies. Actually, the benefit given will be only to the extent of 2 pies.

In the case of fine dhoties, sarees, mull and long cloth of a width of 44", the price is Rs 0-12-0. The excise duty is 4 annas and sales tax one anna. The total comes to Rs. 1-1-0. The new additional tax will increase the price by 7½ pies. So the increase is only 7½ pies. In the case of super fine cloth also the price will rise simultaneously.

At present there is accumulation of stocks with the textile industry and, naturally, this burden will fall upon the textile industry because there is consumers' resistance.

I am glad that the hon Finance Minister has granted a reduction of 6 pies per yard in the excise duty. But it is disappointing to know that this reduction is granted only for a small period, and that also for the medium count. If it had been given for the coarser cloth, it would have been much appreciated because coarser cloth is manufactured for poor people and it is manufactured mostly in smaller mills situated in small towns.

At present the textile industry is passing through a difficult time and it is well-known to the Finance Minister and to the House. Now about 24 mills have already been closed down and many mills have reduced their capacity. Many mills are at the point of closing down. The mills which are closed down are mostly situated in small towns, and by their closure thousands of labourers and middle class people have become unemployed. And by their unemployment the entire economy of those towns has been affected.

This is a difficult situation through which the textile industry and the country is passing through. Therefore, sympathetic consideration should be given to the difficulties of the textile industry. I hope our Finance Minister and the Minister of Commerce and Industry will look into their difficulties, that is, why the mills are closing and what are their difficulties. If you look into their balance sheets for last year and this year, you will know their position. I request that sympathetic consideration should be given to them because the textile industry is one of the major industries of this country. It employs about 9 lakhs labourers and a big amount is invested in it as capital. It gives revenue to the Central Government and to the State Governments to the extent of more than Rs 125 crores. Therefore, it should not be neglected and full consideration should be given to this industry.

**Shri N. E. Manisamy:** Before I deal with this Bill I will only say this. The consumer, the trade and industry certainly feel that the consumers will have to pay less or need not pay at certain points. For example, so far as Madras and Andhra Pradesh are concerned, where there are multi-point sales-taxes, the consumers need not pay anything more than the scheduled rates. With regard to other States, where there is no single point tax, they will have to pay much less than what the other people are paying. Therefore, so far as the consu-

mers are concerned, to the extent that they are not asked to pay over and above what is scheduled, they are happy. But, ultimately, so far as the additional duties of excise are concerned, the consumer has inevitably to pay more than what he has to pay now. What he is now asked to pay, he will not be asked to pay when the commodity is transferred from the dealer to the consumer; he will not be asked to pay the extra sales-tax. But that amount of excise duty is included in the sale price in full, he has to pay extra amount to that extent and he feels very much.

So far as the trade is concerned, various cumbersome methods are adopted by them for submitting their accounts to the sales tax officer. If they are not asked to give any accounts at all, to that extent they will be happy. They need not prepare any account.

So far as the industry is concerned, instead of having to pay twice over, they will have to pay at the time of production the additional excise duty, barring the excise duty which they had to pay prior to the passing of this Act. Here in clause 3 it is said:

"There shall be levied and collected in respect of the following goods, namely, sugar, tobacco, cotton fabrics, rayon or artificial silk fabrics and woollen fabrics produced or manufactured in India and on all such goods lying in stock within the precincts of any factory, warehouse or other premises where the said goods were manufactured, stored or produced, or in any premises appurtenant thereto, duties of excise at the rate or rates specified in the First Schedule to this Act"

It would mean that only commodities which are produced in the factory or kept in warehouses or premises will have to pay tax. What about the stock which is in transit? And what about the stock which is now with the dealer? What about the stocks which he is, likely to purchase hereafter? Suppose the dealer has entered

[Shri N. R. Munisamy]

into a contract for the purchase of some goods. The goods may be in transit. Now we have to pay sales tax only on goods which are in the possession of the trader. It will not apply to goods in transit. Therefore, to that extent, this Act has no application.

Evidently, that is the point which Mr. Bharucha has raised by saying that when this Act comes into force, if the sales tax is still levied on the stock which the dealer is in possession of, there will be duplicity. And so far as the stock which he takes from the millowner is concerned, he need not pay, because the millowners are paying.

Therefore, to that extent there is some difficulty. That is what he has stated. Now, so far as section 7 is concerned, it is very clear. It reads:

"It is hereby declared that the following goods namely, sugar, tobacco, cotton fabrics, rayon or artificial silk fabrics and woollen fabrics are of special importance in inter-State trade or commerce and every sales tax law of a State shall, in so far as it imposes or authorises the imposition of a tax on the sale or purchase of the declared goods, be subject as from the 1st day of April, 1958, to the restrictions and conditions specified in section 15 of the Central Sales Tax Act, 1956."

But, here, before the Schedules, it is stated:

"It is hereby declared that it is expedient in the public interest that the provisions of clause 3 of the Bill shall have immediate effect under the Provisional Collection of Taxes Act, 1951."

14 hrs.

It would mean, so far as the stocks are in the possession of the textile industry, they will have to pay excise duty forthwith and as regards the other things which are now passed on to the dealers and which are now in their stock, they are allowed to charge sales-

tax. To this extent, there is an anomaly which the hon. Minister has to consider while examining this position.

One small aspect and then I will finish. I find, there has been a good deal of agitation so far as the elimination of the rebate of half an anna is concerned. The mill owners have been agitating over it because the rebate was given with a view to give an incentive for production and in view of that, they have produced large quantities. They took advantage of the rebate by producing coarse cloth. Government found that by having this rebate of half an anna, there is not only extra accumulation of cloth in the mills, because there is no off-take, but there is also change of pattern of production. Then, the Government thought evidently that it is no use having this extra rebate. There has been much agitation on this and there has been agitation in the National Development Council also. Therefore, I would request that so far as this aspect and the stocks with the dealers are concerned, they may consider as to how best this could be achieved.

Shri Sadhan Gupta (Calcutta-East): Mr. Deputy-Speaker, I welcome this Bill inasmuch as it provides for the substitution of an additional Central excise duty in lieu of sales-tax because the sales-tax position between the different States was absolutely chaotic and was harmful both to the consumer and the trader. But, I have a certain apprehension, I should say, a certain disagreement with the principle or lack of principle of distribution that is involved in this Bill.

It seems that the Finance Commission's report on which this Bill is based is in love with consumption as the criterion for distribution. That may be correct in the abstract because those who will pay the excise duty will get back apart of it. But, in the context of a backward country like ours where consumption varies from centre to centre, where urbanised population having a higher standard of living is

in a position to consume more and where industries are also not distributed evenly, the insistence merely on consumption or for the matter of that merely on one particular principle such as collection or population is going to be hard on other States. That is why I am not in love with any inflexible rigid principle. We have to evolve a kind of weightage in which every relevant thing has to be taken into account. I wish the Finance Commission had gone into what is the proper weightage to the different circumstances like consumption, collection and population.

Apart from these three principles, I am extremely sorry to find that proper weightage has not been assigned to the peculiar problems facing the different States. We are in the midst of a developing economy in which the more lucrative sources of revenue are in the hands of the Centre. The yield from excise revenue is bound to be considerable and bound to increase more and more. On the other hand, the sources of revenue which were open to the States and which are open to the States today are gradually becoming less and less lucrative. For instance, due to the policy of prohibition, there is going to be a considerable loss in excise revenue if that policy is implemented. Also because agriculture is being hard hit and agriculturists are not in a position to pay, there is going to be considerable loss in revenue from agricultural sources. Due to the abolition of landlordism, perhaps, gradually, revenue from income on agriculture or on agricultural wealth will also decrease although it may be considerable now. In these circumstances, the revenue that would be derived from the distribution of Central excises becomes very important. Therefore, the peculiar problems of certain States must be taken into account. Population basis or any other basis would give no indication of these problems.

I come from a State which has to face the tremendous problem of rehabilitation. One-fifth of its population consists of displaced persons who have

to be rehabilitated. They are a huge burden on the State, impeding the progress of the State. They create a problem which three or four crores of settled population would not create for a State. Unfortunately, the Finance Commission has not taken these peculiar circumstances into account. A State like West Bengal needs a greater share of the excise revenue than is warranted either by population, collection or consumption, for the simple reason that it has to face the very gigantic task of rehabilitating millions of refugees whose responsibility they cannot deny. Therefore, this problem of rehabilitation must be taken into account and weightage must be given to the necessities arising out of this problem in every State. There are refugees to be rehabilitated in different States, West Bengal as well as in other States. The magnitude of the problem in each State should have been taken into account and proper weight assigned to it. As to what weight should have been assigned, would be a fit subject for the Finance Commission to go into. Weight should have been given and that contingency should have been provided for.

Regarding the State of Kerala, they have their peculiar problem. They have, like the State of West Bengal, a huge unemployment problem coupled with the fact that it has a huge population and an undeveloped economy, without any industries. This problem also should have been taken into account. These problems of providing employment to a large unemployed population, of having to rehabilitate a large body of displaced persons and also the problems arising from high prices in a particular State, should have been taken into account in determining the distribution of excise revenue. Without taking into account these factors, the whole scheme becomes unreal and the whole scheme has no relation to the needs of the different parts of India. I am not going to plead for one State as against others. We must look at it from the

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point of view of the country as a whole. The problem of rehabilitation, the extra problem of unemployment in a particular State, the problem of high prices in a particular State, affect the country as a whole and proper weightage should have been given, and as a result, States like West Bengal and Kerala should have been given more consideration. On the other hand, I understand that they have lost, at least West Bengal has lost due to the new system of distribution. That would be a very odd result of the formulation of new principles.

Shri Kamalnayan Bajaj (Wardha): Mr. Deputy-Speaker Sir, I welcome this Bill without any reservation because it has a feature which is beneficial not only to the Government, the trade and the consumer, but which will also eradicate evasion completely, to my mind, because when we collect the excise duty, there is no corruption there, and the entire amount is easily collected. But the sales tax is very complex and very difficult to realise, and evasion becomes comparatively very easy. To stop the corruption and evasion and also the harassment, this is a very good feature, for which I compliment the Finance Minister for his foresight and understanding.

I would only request him to find out the possibility if similar facilities could be extended to other products, especially where the excise duties are levied in different places on different goods. For instance, engineering goods like lamps and fans and many other things can profitably be removed from the sales tax family and excise duties can be increased at the source, because when you collect excise duty at source, the administrative expenses are less and it is also very easy to collect, but the sales tax is like collecting from every leaf of the tree. It is very difficult to reach every leaf of the tree, and the administrative expenses are also very much increased.

There are other goods also, like ready cotton. All the cotton is now being baled in ginning presses, and if instead of levying sales tax on them, excise duty is collected at the source, at the ginning presses, it will be very easy for the trade, and most of this harassment and corruption will be removed.

There were many States where there were no kind of taxes, either municipal or octroi taxes, wealth tax or income-tax, but after we have become independent, in the last five or six years, the whole family of taxes has been imposed on them, and the ordinary trader whose income is from Rs. 1,500 to Rs. 5,000 very often does not understand how to keep accounts when a single, double or multi-point tax is there, and on different commodities the percentage is also of a different nature. When he goes to ask for advice he is not able to get suitable legal advice, and very often the lawyers tell him: do it this way; and when he does it even appropriately, at the end of the whole thing when the tax officers find that the books or other things are not kept properly, he has to go back to the lawyer, and the lawyer says: "I did not tell you like this; it was like this". Sometimes he might have misunderstood the legal advice but it has also been noticed that the legal advice was also not properly tendered. This complicates the trade. Traders who have been there for centuries, who have not known any kind of tax in certain States, have been confronted all of a sudden with the complexity of taxes. If at least the sales tax is removed, much of the harassment of the honest trader will go away.

I know the difficulties of the States. Some of the States do not like that this power should go into the hands of the Centre, that sales tax should be removed and that the Centre should collect it by way of excise duty, because their source of income, by directly taxing their own people, is removed. But I would argue this way. If the Centre shows large-hearted-

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ness in its approach and gives an equitable share to some of the States like Bengal or Bombay, the States which are likely to suffer the most because of this new arrangement. I believe there should not be any difficulty for bringing other goods also under this arrangement, and we may completely do away with the sales tax family.

The sales tax may be all right for a nation which is industrially very much advanced, where the traders and other people dealing with it are properly and systematically organised, but today in our country for many industrial goods many of the manufacturers are finding it very difficult to have a sales organisation of an all-India nature; and if they have to have sales organisation, they give it to somebody as an all-India agent, and that agency—I have tried to work it out rather approximately—has to spend only on the sales tax side, for keeping their accounts, taking legal opinion etc., something like five to ten per cent of the net profits which they get. Sometimes it may account for 1/4 or 1/2 per cent of the total or gross returns of that organisation. And very often, the difficulty for an all-India organisation is this, that in a particular State there is a two-point or multi-point sales tax on particular goods, while in the neighbouring area, only 10 or 20 miles away, it may be single point, and the sales organisation of an all-India nature finds it very difficult to organise it properly.

If this kind of harassment has to be removed, the Centre must make very great efforts to convince the States of an equitable distribution of the excise revenue that is collected instead of sales tax. Then there should not be any difficulty why the States cannot be persuaded to agree to the complete removal of sales tax in this country.

**Shri T. T. Krishnamachari:** I am grateful to hon. Members for the support that they have given to the Bill generally, and I do not think there was any hon. Member who felt there was any reason to oppose this Bill. But

one point that hon. Members, I think, should understand is that in this particular measure three items were brought in because they were suggested by and large by the majority of the States. It may be that other commodities can be added, as an hon. Member opposite mentioned about coffee, and there are other items which could be added, but the suggestion has necessarily to meet with the approval of the majority of the States.

The House would also like to know that we have been able merely by using our good offices to get the States to agree to uniform rates of taxation on a number of commodities, about 16 of them I think. We prepared a fairly big list, but ultimately we could get agreement only on about 16 commodities where they have agreed to levy uniform sales tax, so that no person will find an advantage to go from one State to another to buy his goods. There might be pockets even now, but generally when that comes into operation, the evasion would be a little less.

Therefore, hon. Members should understand that while undoubtedly the Centre has taken the initiative in this matter, the Bill is largely the expression of the wishes of the majority of the States, rather than anything that has been imposed upon them.

**Shri Kamalnayan Bajaj:** But if the hon. Finance Minister makes a further effort, we will be satisfied.

**Shri T. T. Krishnamachari:** I am quite prepared. After all, I am a servant of this House. Whatever the House directs, I must try to do to the best of my ability. If it is the wish of the hon. Members here that we should move in a particular direction in order to get the States to consider the matter, I should certainly have to undertake to do whatever the House wishes. But there are also other points to be noted in this connection.

The hon. Member opposite, **Shri Khadilkar**, raised certain very important issues. In fact, the import-

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ance of the issues might perhaps get blurred because of a number of other issues which are equally important. While he welcomed the measure, he felt that this was making the States dependent on the Centre to a considerable extent. I would put it the other way. It detracts the responsibility of the States to their own people to some extent, because they can always say that the Centre has done it. If tomorrow something goes wrong, say, in regard to any particular provision in this particular Bill, it is easy for people to say, well, it is the Centre that has done it, and we are not responsible. Even in the Taxation Enquiry Commission, when it was sitting, I had an opportunity to discuss it informally. I did mention this fact that the centralisation of the sales tax altogether would not be a correct thing because if the power of taxation is shifted to the Centre, there is no responsibility left so far as the States are concerned. So, we have also to keep the number of commodities that will come within the purview of Central taxation, however beneficent it might be, to be restricted rather than enlarged, though, I do not, for one moment, say that there is no room for enlarging the present list.

The next item of importance is that hon. Members, by reason of the fact that they felt that the incidence of tax on particular commodities here was heavy when it was totalled up along with the excise duties now prevalent, tried to make use of this opportunity for suggesting to Government certain home-truths. As for my hon. friend opposite I would not detract the value of anything that she has said because of the fact that I have known her as a girl . . .

**Shrimati Parvathi Krishnan:** All this personal reference is quite unnecessary.

**Shri T. T. Krishnamachari:** I merely said that I would not detract the value of whatever she says.

**Dr. Krishnaswami:** Charming.

**Shri T. T. Krishnamachari:** She was quite correct in quoting one of my speeches. Another hon. Member opposite did the same thing. I can only take a philosophical view of this particular aspect of the matter. I am a Hindu, and I suppose I have naturally to believe in births and rebirths and expiation for sins. I have no doubt in my mind at all that I hold the present position in order to expiate my sins of the past. But it seems that the law of *karma* works in an even more peculiar way, namely that the sins that I have committed even during this birth come back to me and are being pointed out to me as some mistakes that I have done. It is true. I have been in this House before.

**Shrimati Parvathi Krishnan:** Why should other people be made to suffer while he has to suffer expiation?

**Shri T. T. Krishnamachari:** I have been in this House not only in one of those brief sojourns in between my business, but also as a person who was wholly a politician, which may not be a very good thing. I have been unfortunately a professional politician for more than seventeen years, which is certainly not a very creditable fact. It is true that I have spoken very often on this side of the House, and probably on the other side of the House also. If hon. Members would perhaps take the occasions when I had to be indiscreet, in 1943, 1944 and 1945, they might find something even more pungent. But I recognise it; I have not forgotten it. That is the advantage of having a Minister who has a background of having been a critic of Government. One cannot altogether forget it, though probably when one lands on this side of the atmosphere, on this side of the House one learns something about the atmosphere here. Maybe, I would be less critical of the bureaucracy than I have been before, because I find in many cases the bureaucracy refuse

to take the responsibility, perhaps for justifiable reasons. But I shall come to the point, now that I have mentioned this matter.

Many hon. Members have spoken about tobacco. They are interested in tobacco. They come from an area where tobacco is grown, and, therefore, it is perfectly right that they should raise this matter. But in this particular measure, all that we have attempted is to estimate the income that we get from tobacco by way of sales-tax and to transfer it on to a Central excise duty. I do not, for one moment, deny the fact that tobacco excise duty now operating in totality might be heavy.

I would like to tell my hon. friend Shri Barman, who is not here at the moment, that the matter is still under examination, though I have been told after some visits by my officers to Bengal that the position in Bengal is not such as requires a revision. Maybe, the position in U.P. is slightly worse. In fact, my hon. friend Shri Nanjappa, who will speak a little later when he moves his amendment, would say, 'What have you done about my area?', the area from which the hon. Member opposite also comes. The Chairman of the Central Board of Revenue who also happens to be the Secretary of the Revenue Department went to Coimbatore, and he tried to gather a few people who were interested, the associations concerned, and they said that they had no grievance.

But I would like to say that so far as this particular provision is concerned, regarding tobacco, it has a benefit as compared to the existing sales tax that is being levied. The hon. Member from Coimbatore will find that in the areas adjoining, where sales tax is being levied on tobacco grown in Coimbatore, the relief that they will get, when the sales tax is withdrawn, will be considerable, and the three naye paise that we have now imposed would be a question of a flea-bite.

Therefore, while I do welcome any criticism that hon. Members have made in regard to the operation of the excise duty, I would suggest to them that that is a matter that I can consider from the point of view of the excise duties themselves. In this particular instance, there is an arithmetic that has been evolved, namely that we are giving the States what they have been getting plus a little more for which we have subdivided the revenue from each particular sector. I would ask hon. Members to bear with me that I shall certainly have the points, that they have mentioned, examined and if it is necessary, and if there is a powerful case, we can certainly reduce the duties which go to the Central pool, not the particular duties mentioned in this particular chapter, if we have made a mistake.

Now, I come to the question of the utmost importance. My hon. friend Shri Somani is an expert in textiles. He has been president of the Bombay Mill-owners' Association. I have learnt a lot from him during the days that he occupied that high office. But it now happens that Shri Somani no longer does this work himself. He is now in a different position. The Bombay Mill-owners' Association are equating themselves to Government today, and they have engaged a very high-placed officer, who was formerly in the I.C.S. as their deputy chairman. I quite recognise that the capacity for arithmetic that this officer possesses must be a little more superior to the capacity that we have in the Central Board of Revenue, because the highest level that any officer of the Central Board of Revenue can reach is being a member of the Indian Audit and Accounts Service. We have no I.C.S. person in the Central Board of Revenue. Maybe, the I.C.S. man might have made some mistake, because accounts need not necessarily be the strong point.

I would like to tell my hon. friend that it is not a blind man's buff. What we did in order to find out the

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amount of money that would be needed for the purpose of compensating the States both in regard to the income which they were getting hitherto and in regard to the additional amount which had been suggested by them, was to go on the basis of clearances for 1956-57.

The clearances for 1956-57, in terms of square yards, were 4,217 million. The production, of course, has been very high, namely 5,813 million. Then, you will have to take away the exports; and you will have to take away the stocks in hand. It is a real matter of arithmetic. I went back to the days when I was at school, and I did it here, I multiplied it by the naye paise for each category, and I have found that the amount that we will get would be somewhere about Rs 20,70,94,000. Maybe my arithmetic is wrong or the clearances are wrong. The clearances are things on which we have to get the revenue before. We must, apparently, have let go some of the clearances in order to provide the figures to make Shri Somani's charge a substantial one. I think there is room for charging the Government for having allowed revenue to slip through their fingers. I hope that that is not the case. Can I make a claim from the hon. Member for a sum of Rs 3,30,00,000 on the basis of clearances for 1956-57? If that claim would be met, there is a case for examination. But so far as this is concerned, these are the figures I have. Also the hon. Member knows very well that in terms of square yards, a linear yard of superfine on an average works to 1.33, of fine 1.15, medium 1.11 and coarse 1.04. So roughly, if we add to the linear yard 12 per cent, we get the number of square yards.

Therefore, I do not know where I am wrong. If Shri Somani thinks that I am wrong and I should reduce the duty, he should give me some more convincing proofs than the results of working of the Bombay Mill-owners' Association's executive.

But I can tell the hon. Member and the House that if I had made a mistake—I cannot reduce the duties normally—but if I had made a mistake in calculation, I can bring it down. But I do not think I have made a mistake.

Then my hon. friend, Shri Dasappa, who is not here . . .

Shri Dasappa: I am very much here.

Shri T. T. Krishnamachari: He changes his place. He raised the question of powerlooms and asked whether they were exempt. Anything mentioned in regard to textiles includes mechanical powerlooms also, generally. The only thing exempt happens to be handlooms. Are you going to levy an additional charge on powerlooms? Yes, in so far as powerloom cloth has been paying sales tax. To that extent, a compensatory factor has to be introduced. If my hon. friend tells me that powerloom cloth has not been paying sales tax, I am quite prepared to look into it. There has to be a compensatory addition to the compounded levy on powerlooms to the extent that that levy will be justifiable. But if I am told that there is no sales tax on powerloom cloth and nothing has been levied, the matter can be remedied.

I can say this so far as this particular measure is concerned, that we might even be following a philosophy, that if it is not there, we will not put it on.

Shri Dasappa: The incidence also may kindly be considered.

Shri T. T. Krishnamachari: That is a question of approximation of it in terms of proportions. But that is a matter which is always capable of re-adjustment.

Then I come to the speech of my hon. friend Shri Naushir Bharucha. Really this question of levying sales tax or not levying sales tax during the interim period does not arise because we have indicated that the operative provisions of this particular

measure in respect of those States which do not co-operate with us will not take effect until the 31st March 1958. That is all that we have said. That means, that if they levy sales during the interim period—hiatus, as he mentioned—they would be entitled to still get the benefit. We had various discussions how to get over this hiatus and various States made various suggestions. Whether they could compound and whether that would be legal is not a matter for me. I have enough of worries with me not to consider it. I do not see why we should take the worries of State Governments. It is for the State Finance Ministries to deal with the problem, if there is an escape in regard to taxation. While we have thought of doing something in order to prevent this wholesale escape, sales tax has hitherto been collected by the States and I cannot enter into the shop of every dealer who sells. I have to leave it to the States. But I can tell the hon. Member one particular fact, that in regard to the inventories held by wholesalers and retailers of cloth, which happens to be the biggest item, the inventories are extremely low.

We had, in order to convince ourselves whether there has been a very great or steep fall in consumption of cloth, to satisfy ourselves about the stock position with the wholesalers and retailers. The information we have indicates that the stock position in regard to cloth is extremely low. The clearances in regard to sugar also seem to indicate that the sugar stocks cannot be very high. I cannot say anything with definiteness in regard to tobacco. So it may not be considerable even in States where they do not compound, and levy the sales tax, whether legal or illegal. I can say nothing more.

Dr. Krishnaswami went, more or less, into the question of the Report of the Finance Commission and *a fortiori* the basis of distribution of the proceeds covered by this particular Bill. He may be right.

Dr. Krishnaswami: He may be wrong.

Shri T. T. Krishnamachari: He may be. I do not join issue with him on that matter. Consumption statistics are not available, and once one Finance Commission has said that these are not available, another Finance Commission merely reiterates that particular defect. It is a defect in structure of the administration, in the structure of the economic statistics that we have. We are getting nearer to it, getting some kind of sample survey and estimate of consumption statistics. As the reports of the National Sample Survey and National Income Unit indicate, we have a fair measure of idea now of what these things are. But we are a long way off from perfection or even near-perfection. I am told we have to wait until that day when these auxiliary organisations dealing with statistics and national income can become more efficient than what they are today and can cover wider ground than what they could at the present moment, before we can blame the Finance Commission or the Government for not doing the best they could to apportion the taxes. I quite agree with that. That is also the point raised by Shri Dasappa. He questioned the legitimacy of dividing the excise duty on coffee on the basis of population, where consumption undoubtedly must be so different. But he could also be answered by another fact that has been indicated by the National Sample Survey and the National Income Unit figures, namely, the consumption of sugar in the north is very much higher than in the south, and oftentimes it, therefore, happens that the people who drink coffee consume less sugar. Probably the only time they consume sugar is when they use it in coffee because they do not have any sweets to eat. There may be some loss in one and probably some gain in the other. So the law of averages is certainly a great bulwark against bureaucratic ineptitude. Therefore, I think Dr. Krishnaswami has to be satisfied with the present deficiencies in the system of calculating the basis on which we can determine the apportionment.

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I think I have covered the major portion of the remarks. If I have not been in a position to deal with any particular aspect of any remark of any hon. Member, I ask for forgiveness.

**Mr. Deputy-Speaker:** The question is:

"That the Bill to provide for the levy and collection of additional duties of excise on certain goods and for the distribution of a part of the net proceeds thereof among the States and to declare those goods to be of special importance in inter-State trade or commerce be taken into consideration".

The motion was adopted.

**Mr. Deputy-Speaker:** There are no amendments to clauses 2 to 7.

The question is:

"That clauses 2 to 7 stand part of the Bill".

The motion was adopted.

Clauses 2 to 7 were added to the Bill.

The First Schedule.

**Shri Nanjappa:** I welcome the Bill..

**Mr. Deputy-Speaker:** We are on the Schedule now. He may move his amendment.

**Shri Nanjappa:** Sir, I beg to move:  
Page 4, line 8,—

omit "Three naya paise".

Sir, my amendment is only regarding a very small part of the Bill; it is regarding chewing tobacco. From the speech I heard from the hon. Minister, I feel that he is not in a mood to accept my amendment. He believes and believed also that no excise duty should be levied on chewing tobacco. Ever since I became a Member of this House I have been often going to him and making representations regarding this chewing tobacco. He has been promising me that he will consider the lessening of the excise duty on chewing tobacco. He said that he is a Hindu and believed in sin and that sin appeared smaller.

If he is not accepting my amendment in toto, I will suggest an alternative. In the same Bill there is an item 'stalks' on which one naya paise is levied. Under the name of 'stems' three naye paise are levied. I request that even on stem one naya paise may be levied. On other varieties, instead of three naye paise he can have two.

I think my alternative suggestion is very simple. I think the hon. Finance Minister will be consistent with his own view, former and the present also. He also believes that this excise duty on tobacco is excessive. The growers and the merchants are not able to bear this. The moment there was some slump in the medium cloth consumption, relief was given. But, these growers are scattered and they are all very small growers and so they are not well organised. Their condition is very bad for the past 3 years. The Finance Minister knows that very well. Even if he does not fully support my amendment I request him to agree with the alternative at least, that is one naya paise on stems and two naye paise on others.

**Mr. Deputy-Speaker:** Amendment moved:

page 4, line 8—  
omit "Three naye paise"

**Shri Sinhasan Singh:** There is one amendment in my name. The amendment relates to the rate of duty....

**Mr. Deputy-Speaker:** I have not got it.

**Shri Sinhasan Singh:** I sent it this morning. That is about coarse cloth, rayon and artificial silk.

**Mr. Deputy-Speaker:** That is too late. It is not acceptable to the Government and I cannot waive notice. He might speak for a couple of minutes but he need not mention his amendment.

**Shri Sinhasan Singh:** The hon. Minister might accept it. He has put

3 naye paise on coarse cloth as also for rayon and art silk. Coarse cloth is being clubbed with rayon and art silk. I think art silk and rayon must be taxed more than coarse cloth. My submission is that 3 naye paise be removed from coarse cloth and the artificial silk and rayon be taxed 5 naye paise so that it may compensate the loss. Rayon and silk cloth are used by middle and richer classes of people while coarse cloth is used by the poorer classes. Let the richer classes pay more and the poorer classes be taxed less.

Dr. Sushila Nayar (Jhansi): I wanted to take just half a minute to say this. The hon. Member here pleaded for a reduction of excise duty on chewing tobacco in the name of the middle class grower, and in the name of the common people who chew this tobacco. I plead in the name of all in India that if anything this duty should be increased because tobacco chewing is so injurious to health and the habit is so dirty and it is so bad for the country in general. Anything that the Finance Minister can do to discharge the habit of tobacco chewing and make it less accessible to the people will be very desirable.

Shri T. T. Krishnamachari: I have dealt with this point. But, I will assure my hon. friend that if this 3 naye paise is the last straw on the camel's back, I shall certainly have it removed, but not here. This has got to stay. If that is all what he wants I can promise him that I will see that 3 naye paise on chewing tobacco is taken back. He has moved an amendment and drawn the attention of Government to a grievance which is entertained by the people. I recognise that. But it is not a question of only 3 naye paise; it is a question of lakhs. Still, I do not want an additional impost on the peo-

ple. But, I do not think he wants that. We shall have the matter examined and see what can be done.

Shri Sinhasan Singh (Gorakhpur):  
What about coarse cloth?

Mr. Deputy-Speaker: The hon. Member has sent in an amendment which at least the office has not received. That is one thing. But even if the amendment had been received, it would have been inadmissible because the permission of the President would have been necessary because he wants to enhance the duty.

Shri Nanjappa: In view of the assurance given by the hon. Minister I beg leave of the House to withdraw my amendment.

Mr. Deputy-Speaker: Has the hon. Member the leave of the House to withdraw his amendment?

*The amendment was, by leave, withdrawn.*

Mr. Deputy-Speaker: The question is:

That Schedule I and Schedule II....

Shri Jhunjunwala (Bhagalpur):  
Sir, I want to speak on one item.

Mr. Deputy-Speaker: Certainly, when I took up the amendment, the Schedule was also open to discussion.

Shri Jhunjunwala: Sir, I stood up twice.

Mr. Deputy-Speaker: I might have missed him deliberately.

Shri Jhunjunwala: No, Sir.

Mr. Deputy-Speaker: I did it deliberately. I am telling that.

**Shri Jhunjhunwala:** Probably you missed me. I thought that the amendments are being discussed.

**Mr. Deputy-Speaker:** But, when the hon. Minister gets up to answer he would certainly answer certain discussions that have taken place. He should have the opportunity to speak on the discussion as a whole. So, should I call the hon. Minister as well?

**Shri Jhunjhunwala:** I would not like to speak very much in view of the remarks that you have made.

There is one item which has not been represented and that is the sweet item. I want to request the hon. Minister not to make it sour, the item of sugar. He has imposed an excise duty of Rs 3 and 31 n.P.

**Mr. Deputy-Speaker:** Tobacco liquitates that sweetness

**Shri Jhunjhunwala:** The excise duty which he has put is just double the sales tax. The sales tax on 80 per cent. of the sugar produced in India is not more than 6 pies while ..

**Shri T. T. Krishnamachari:** It is 3 naye paise. This 6 pies comes to 3 naye paise per lb.

**Shri Jhunjhunwala:** You have taxed Rs. 3/31 excise duty, per cwt. That is 6 pies.

**Shri T. T. Krishnamachari:** Single pie?

**Shri Jhunjhunwala:** That is half an anna.

**Some Hon. Members:** That is three naye paise.

**Shri Jhunjhunwala:** Now it comes to one anna according to this.

**Mr. Deputy-Speaker:** Perhaps some calculation is required. That may be done. Meanwhile, we will have a discussion and take it up in the third

reading. The question is:

"That Schedule I stand part of the Bill."

The motion was adopted.

Schedule I was added to the Bill.

Schedule II, Clause I and the Enacting Formula were added to the Bill

#### Long Title

**Shri T. T. Krishnamachari:** Sir, I beg to move:

Page 1—

for the long title, substitute:

"A Bill to provide for the levy and collection of additional duties of excise on certain goods and for the distribution of a part of the net proceeds thereof among the States in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its report dated the 30th day of September, 1957, and to declare those goods to be of Special importance in inter-State trade or commerce"

**Shri Sinhasan Singh:** May I shorten this long title formula by adding one word and taking out several words?

**Mr. Deputy-Speaker:** If it is acceptable to the Government he may do so.

**Shri Sinhasan Singh:** The addition of the words 'formulated hereunder' after the word 'distribution' would make all the other words redundant. The words 'and the recommendations made by the Finance Commission... trade or commerce' can be taken away.

**Shri T. T. Krishnamachari:** The hon. Member apparently was not here the other day when the whole discussion took place. It is in pursuance of the views expressed by a large number of Members that this amendment has been made.

**Mr. Deputy-Speaker:** I shall now put amendment No. 2 to the vote of

the House. The question is:

Page 1—

for the long title, substitute:

"A Bill to provide for the levy and collection of additional duties of excise on certain goods and for the distribution of a part of the net proceeds thereof among the States in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission in its report dated the 30th day of September, 1957, and to declare those goods to be of special importance in inter-State trade or commerce"

*The motion was adopted*

Mr Deputy-Speaker: The question is:

"That the Long Title, as amended, stand part of the Bill"

*The motion was adopted*

*The Long Title, as amended, was amended was added to the Bill*

Shri T T Krishnamachari: Sir, I beg to move—

"That the Bill, as amended, be passed"

Mr. Deputy-Speaker: Motion moved:

"That the Bill, as amended, be passed."

Shri Jhunjhunwala: Sir, I would request the hon Minister to consider this question. I have not got the figures as to how much is realised by way of sales tax but I know in U.P. and Bihar half an anna is charged as sales tax on sugar. According to the rate here, it comes to an anna. So, I would ask him to kindly consider this question whether really the excise duty has been doubled. If so, I would request him to the former level of sales tax.

Shri L. Achaw Singh (Inner Manipur): Sir, I will be brief during the third reading of this Bill. The Bill seeks to integrate the sales tax levied by the Union and the States in the proposed additional duty. This will

surely ensure free flow of goods from one State to another and from the production centres to consuming centres. The Government has declared the three commodities of sugar, tobacco and textile goods as of special importance for inter-State trade and commerce. There will also be little scope for evasion and there will be betterment of revenue raised from these duties. Lastly, I would like to say that the additional levy was made to replace sales-tax but it was never intended to be an additional source of revenue. The rates are very high in the case of the additional levy but in the case of sales-tax it was not so high. So the consumers are sure to be affected. They will find it very difficult to bear the burden. It will have a very restrictive effect upon consumption. The additional duty may affect production. Tobacco is a very good exchange earner but Government has not done much to step up production. It will be better if the Government encourages production so that we may export and thus earn more revenue. I am afraid the producer is very much perturbed in recent years; a number of taxes had been hurled at him and they have a bad effect. Otherwise, I support the Bill.

Shri Radha Raman (Chandni-Chowk): I just want to have clarification on two points from the hon. Finance Minister. There is no clarity in the Bill with regard to the goods manufactured at one place and re-manufactured at another place. I will just give an example. Textile goods are imported from Bombay to Delhi. Then, they are cut into pieces or made into cloths or sometimes made into some other commodity and sold to the various adjoining States. I want to know from the Finance Minister as to what will be the basis of such goods so far as this new additional excise duty is concerned.

There is another point. Two days ago there was a notification from the Central Government with regard to sales tax in the Union Territory of

[Shri Rajba Raman]

Delhi according to which local sales tax will continue to be charged from the consumer. In view of this Bill, I think such a provision will not be just or fair. I want to know what is the position of the Union Territories with regard to the local sales tax and how the Bill will affect that.

**Mr. Deputy-Speaker:** Sir Basappa may take a couple of minutes, though he remained absent when he was called earlier.

**Shri Basappa:** I am very sorry for my absence; I thank you for this opportunity. I want to say that in addition to these three articles, some more articles could have been added to it. But my amendment could not hold good because President's sanction is necessary. Some more items can also be brought in future if the State Governments agree.

15 hrs.

**Mr Deputy-Speaker:** On account of his absence he did not listen to the reply that the hon. Minister gave, otherwise he would not have raised this point.

**Shri Basappa:** Anyhow, Sir, it has come as a welcome measure, both to the sales tax payer as well as to the governments which collect these sales taxes. We know what kind of things are going on in the matter of collection of sales tax

Therefore, it would be a welcome feature.

[MR. SPEAKER in the Chair]

One objection has been raised, that the States are crippled in their revenue and, therefore, the elasticity of their revenue is cut down. But in this case I understand that the State Governments have been consulted in the matter and most of those Governments have given their consent. Therefore, because these are goods of special importance connected with

inter-State trade and commerce, these should be handled from the Centre. A lot of harassment that is going on in the matter of sales tax collection will be done away with. The machinery is already there in the Centre, and I do not think there will be much difficulty in collecting these taxes.

What I wanted to say was about coffee. There is already the Coffee Board, which has passed a resolution that this may be taken over by the Centre, because they say that they can give correct figures of the business in coffee to the Government, and the Government here can easily collect the tax without much expenditure caused in the matter of collection of these taxes.

Hence I say that this a welcome measure. All goods of special importance should be handled from the Centre and the revenue that is assured to the Government is already there. In addition to that the Minister has promised that another share will also be given proportionately. Therefore, I welcome this measure.

**Shri T T Krishnamachari:** Sir, in regard to the point raised by Shri Jhunjunwala, the taxation varies from State to State and we have to get at a weighted average. In West Bengal the tax is just exactly what we are now imposing, that is 3 per cent. With regard to Uttar Pradesh my hon. friend is not right, because the taxation has been raised and it is now 12 pies per rupee at the point of sales by the importer if the commodity is imported from outside, the manufacturer if the commodity is manufactured locally. With regard to Rajasthan and Punjab they levy six pies in the rupee. Orissa levies 9 pies in the rupee. Mysore levies 9 pies in the rupee.

**Shri Basappa:** May I point out, Sir, that if it is multi-point it will be much more?

**Shri T. T. Krishnamachari:** Madhya Pradesh levies 6 pies in the rupee. Madras has a multi-point tax of 6 per cent on the first sale. Malabar, an area in Kerala, has the same tax as Madras, but in other parts of Kerala it is a multi-point tax of two Naye paise in the rupee. Bombay levies two point levy (sales tax or purchase tax and general sales tax) of 6 pies in the rupee. In Bihar it is 6 pies in the rupee, Assam 6 pies in the rupee and Andhra levies one anna three pies for every rupee in the turn over, and it has now been made into 8 Naye-Paise in the rupee at the point of first sale in the State.

So, there are variations and when we bring everything together we have to give a weighted average, and we have come to this particular figure.

The hon Member from Delhi raised a point about ready-made clothing. That is processed clothing and that would be subject to some kind of sales tax. Even a tailor who stitches clothes will be charged sales tax, but on cloth, of course, there will be no sales tax.

So far as floating stocks are concerned, I appreciate his difficulty. I am told the matter is having examination and some kind of relief is under contemplation.

**Shri L. Achaw Singh:** I want to know one thing from the hon Minister regarding sales tax now being levied in the Union territories; whether the sales tax in the Union Territories will be removed or it will be continued.

**Shri T. T. Krishnamachari:** There is no chance of levying anything in the near future. Where is the staff even if we want to levy?

**Mr. Speaker:** The question is:

"That the Bill, as amended, be passed."

*The motion was adopted.*

**RE: LAYING OF REPORT OF COMMISSIONER FOR SCHEDULED CASTES AND SCHEDULED TRIBES ON RIOTS IN RAMANATHAPURAM**

**Mr. Speaker:** The House will now take up the next item.

**Shri B. C. Kamble (Kopergaon):** Sir, what about your ruling with regard to giving information about Ramanathapuram.

The Minister of State in the Ministry of Home Affairs (Shri Datar): Sir, may I point out the position? Yesterday a suggestion was made by Members opposite that the reports submitted by the Commissioner for Scheduled Castes and Scheduled Tribes should be placed on the Table of the House. May I point out here certain difficulties which would arise if all the reports that we receive from our officers are going to be placed on the Table of the House? They are naturally reports of a confidential character, and unless an officer knows that these reports have to be treated confidentially we might not get an independent assessment from our officers.

In this particular case the matter is further complicated by the fact that so far as this Ramnad affair is concerned it is a matter within the State jurisdiction. All that happened there, right or wrong, concerns the State Government, and we come into the picture only in a very remote or indirect manner. What we do is this. Even in respect of Scheduled Castes, Scheduled Tribes and other communities the responsibility is the responsibility of the State Governments. We only make certain grants for purposes of certain welfare and other schemes; beyond that the Centre does not come into the picture at all.

Therefore, may I make it clear to you that even though the question relates to Scheduled Castes or to criminal tribes or other communities in respect of whom grants are made by the Centre, the question does not necessarily come within the orbit of