THE FINANCE BILL, 1959

MR. DEPUTY CHAIRMAN: Yes, Mr. Gopala Reddi.

DR. R. B. GOUR (Andhra Pradesh): Sir, I rise on a point of order.

SHRI BHUPESH GUPTA (West Bengal): Sir, on a point of submission. This Bill was laid on the Table of the House only today. We got it only this morning and it is rather difficult because we all felt that the other Bill will continue for today and we shall take up the Finance Bill the next day. At this point of time if you want to take up this Bill, it becomes a little difficult. If the hon. Minister wants to make his speech, he can and then we can adjourn.

THE MINISTER OF REVENUE AND CIVIL EXPENDITURE (DR. B. GOPALA REDDI): Sir, I suggest that I may make the speech and then we can adjourn so that the speech will be available to the Members. We can adjourn even if it is not five:

SHRI BHUPESH GUPTA: Yes, Sir.

DR. B. GOPALA REDDI: We sat through the lunch hour.

MR. DEPUTY CHAIRMAN: There are speakers willing to speak. They can go on.

DR. R. B. GOUR: Why, Sir?

SHRI BHUPESH GUPTA: It will be better if we did not . . .

MR. DEPUTY CHAIRMAN: There are speakers. You may not be ready.

SHRI BHUPESH GUPTA: I am ready to speak at every time but today I will not speak.

DR. R. B. GOUR: Is it correct, Sir? The Bill was circulated only today and we are taking it up just now. I just want to know whether it is correct and is according to the Rules because it was circulated only this morning and we are taking it up today itself. That people are ready to speak is a different matter.

SHRI BHUPESH GUPTA: I understand, Sir. You are trying to accommodate everybody but it will not be a right precedent. We got it only this morning and we could not even prepare any amendments. If you are hard pressed for time, I can understand it. Otherwise, why. . .

MR. DEPUTY CHAIRMAN: Let him make his speech and then we shall adjourn. We shall take up the discussion the next day.

SHRI BHUPESH GUPTA: Yes, Sir, Let him make a long speech.

DR. B. GOPALA REDDI: Sir, I beg to move:

> "That the Bill to give effect to the financial proposals of the Central Government for the financial year 1959-60, as passed by the Lok Sabha, be taken into consideration."

Sir, I do not think it is necessary for me to take the House through the various provisions in the Bill. These provisions have been explained in some detail, and I believe, with sufficient clarity, in the memorandum circulated to the hon. Members along with the Budget papers.

Sir, there has been considerable discussion on the various proposals contained in the Bill in both the Houses, and a large number of representations have also been received from various Trade Associations and individual members of the public. After giving careful consideration to the views expressed by the hon. Members in the course of these discussions, and the suggestions made from outside, in the course of the passage of the Bill in the other House, Government have announced certain reliefs in regard to indirect taxes. I shall refer to these now.

A basic excise duty of Rs. 5·60 per cwt. with an additional duty of 70 nP. in lieu of sales tax had been originally proposed on khandsari sugar in the Finance Bill. This impost was criti-

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cised on the ground that the khandsari industry in general could not bear this burden. This criticism was largely based on inadequate appreciation of facts. It could not be seriously contended having regard to the necessity for raising resources for financing our developmental Plans, that no tax should be levied on the so-called small-scale industries. Actually, there are other small-scale industries such as match and vegetable oil industries which already bear the burden of duty. The real test should be whether the industry can bear the burden, and not so much whether the industry was small or big. Applying this test, Government felt satisfied that the khandsari industry in general was in a position to bear the duty. The only question to be decided was whether khandsari sugar could bear the quantum of the impost provided for in the Finance Bill. A thorough investigation was made and some concessions were granted. It was decided to make a distinction between khandsari sugar produced with the aid of sulphitation plant and khandsari sugar produced without such aid. The basic duty on Khandsari sugar produced with the aid of sulphitation plant was reduced to Rs. 5·04 per cwt. and on khandsari sugar produced without such aid to Rs. 3·92 per cwt. Similarly the additional excise duty on khandsari sugar produced with the aid of sulphitation plant was reduced to Rs. 0·63 per cwt. and on khandsari sugar produced without such aid to Rs. 0·49 per cwt. This concession would cost the exchequer inclusive of additional excise duty Rs. 61 lakhs during the year 1959-60 and Rs. 81 lakhs in a full year. These concessions were given effect to from 21st April 1959 by executive notifications. It was decided that khandsari sugar should be deemed to be assessable only when power-driven centrifugals were used in manufacture In other words, it was of no consequence if 'rab' was made from out of juice extracted with the aid of power-driven crushers; khandsari sugar produced from such 'rab' with the aid of hand driven centrifugals or any other non-power contrivance would not be assessable. By way of simplification of procedure, we have also in mind prescription of compounded levy rates of duty in respect of the smaller units in lieu of standard rates. The details are being worked out and an announcement will be made in the near future. We do hope that the industry will have no further cause for complaint.

In so far as the vegetable non-essential oils are concerned the position is this. As the House is aware, the Finance Bill as introduced on the 28th February, brought under excise control, for the first time, the smaller units. Some anxiety was expressed regarding the ability of these units to maintain a large number of registers and strictly follow the standard procedure provided in the excise rules. Orders have accordingly been issued very much simplifying the standard procedure and dispensing with certain registers and returns. In the matter of clearance also the formalities have been reduced to the barest minimum and in fact clearances have been permitted under Gate Passes signed by the manufacturers themselves, without waiting for the excise officer. By way of further simplification orders have been issued prescribing compounded rates of duty for smaller units producing oils without the aid of expellers. This latter simplification will cost the exchequer Rs. 11 lakhs during the year 1959-60 and Rs. 12 lakhs in a full year.

So far as art silk fabrics are concerned, consequent on the increase in the basic excise duty from Rs. 0-0-6 to 6 nP. per sq. yd. the rates of compounded levy in lieu of basic duty for powerlooms were increased to Rs. 50 for the first shift, Rs. 35 for the second shift and Rs. 20 for the third shift, the first 4 looms being exempt from duty. The exemption in respect of the first 4 looms was however, later reviewed. This exemption was really intended to benefit the owner-weavers, the truly cottage type who normally work only one shift. But it was our experience that bigger units derived an unintended benefit. It was decided, therefore, that the concession should be restricted to the truly cottage type employing not more than 4 looms and working not more than one shift. However, it was decided that units employing not more than 9 looms should continue to enjoy the concession in respect of the first 4 looms provided they did not work the first four looms for more than one shift. This concession was not to be extended to units employing more than 9 looms. In order to ensure that the medium size and bigger units would not have to bear a greater burden of duty on account of this rationalisation, the rates payable by them were suitably reduced and re-adjusted. Suitable changes were also made in the compounded rates in lieu of additional excise duty also. These changes which were brought into effect from 21st April, 1959 by executive notifications would cost the exchequer in basic excise duty Rs. 23 lakhs during 1959-60 and Rs 25 lakhs in a full year and an additional excise duty Rs. 14 lakhs during 1959-60 and Rs. 15 lakhs in a full year.

In regard to direct taxes, some modifications have been made by the Lok Sabha to the original provisions, mostly at the instance of the Government. These modifications are of verbal nature intended to clarify the provisions. They are self-explanatory. I do not, therefore, propose to take the time of the House by explaining these modifications which leave the basic proposals in the Bill unaffected.

Sir, the most important feature of the Bill, so far as the direct taxes are concerned, is the scheme for the simplification of the existing tax structure for company profits and dividends declared therefrom. The need for simplification has been fully appreciated in this House and elsewhere, and the broad features of the scheme proposed in the Bill have generally been commented upon favourably. There have been, however, criticisms in regard to some of its details.

Sir, fears have been expressed that on the basis of rates of 20 per cent income-tax and 25 per cent. super-tax, proposed for advance payment of tax in the current financial year, the Government will get more revenue from companies than at present, and that this will cause an additional burden on the corporate sector, and discourage capital formation. This criticism appears to have been made on the basis of certain theoretical sample studies with reference to the book results of a number of companies pertaining to past years. Such studies cannot obviously give a complete picture of the whole corporate sector. Further based as they are mostly on book results only, which are generally different from the actual assessment figures, these studies also ignore various adjustments and other factors which are necessary for determining their ultimate taxable income of the company and its tax liability. The very premises for the criticisms cannot therefore, be generally relied upon.

So far as the Government are concerned, their objective is to devise a uniform and standard rate for all companies, but at the same time to ensure that there will not be any diminution in the overall net tax revenue from the corporate sector The proposed rates have accordingly been devised on the basis of the net tax revenues actually realised by Government from companies in the latest year for which the particulars are available, after making allowance for the tax credit actually passed on to the shareholders in respect of dividends received by them. It is difficult to see what valid objection can there be either to the method adopted, or to the rationale of the principle of levy of the same rate of tax for all companies.

It has also been stated that the new scheme will adversely affect many individual companies and their shareholders. The Government do not foresee that this will be the general result. It is our belief that, by and large, at the proposed rates, the net incidence of tax in a large majority of companies following a prudent dividend policy will not be higher than its present level. Similarly

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there is no likelihood of any loss to the shareholders in their dividend receipts from such companies and where there is some loss, it is likely to be only marginal and should not give room for any concern. It is, however, conceivable that due to peculiar circumstances in particular cases of companies, there may be some hardship or there may be some benefit. Such a result cannot be avoided in any scheme of averaging, as Government can only go by the general overall picture and not by considerations of isolated cases or extreme situations.

Apart from these general misgivings, the scheme has also been criticised on, the ground that it will involve double taxation of dividends declared out of past taxed profits of the company. In actual practice, the problem is not likely to be of any large magnitude nor is it likely to involve any serious hardship in many cases. However, this point will be carefully examined along with any other points requiring consideration which have already been raised or may be raised in the course of the present discussion. There is sufficient time to do this, because the scheme will come into full operation only from 1960-61.

Sir I move.

MR. DEPUTY CHAIRMAN: Motion moved:

"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1959-60, as passed by the Lok Sabha, be taken into consideration."

The discussion will be continued on Monday. The House stands adjourned till 11 A.M. on Monday.

The House then adjourned at twenty-seven minutes past four of the clock till eleven of the clock on Monday, the 27th April, 1959.