

THE 1969 BUDGET—AN ANALYSIS

THE 1969 Budget proposals were due at a time when the industry all over the country was still licking its wounds suffered during the recession. The liquidity squeeze continued to be felt and marketing especially in the engineering industries was still a problem. Certain sectors i.e., the traditional industries, were finding it very hard to raise sufficient resources to modernise and replace their worn out plants and were facing extinction. The cost of living index had just staggered in its upward trend. The fourth five year plan targets had practically taken a final shape. The stock markets had got so fed up of their continuous sluggishness that only an excuse was needed to start their upward revival.

In these circumstances, the existence of a hope that the budget proposals would be significantly directed towards the growth of the economy and revival of the capital market was but inevitable. This hope was also accompanied by a need of a Government Economic policy which would be responsive to the needs of the Industry and stimulate the growth impulses in the economy. It was felt that atleast at this moment, the revenue collection criterion without caring for the distortions that may be caused by it in the economic system would be given up in favour of a tax system which has favourable effects on the key variables such as savings, income, investment, out-put etc. The country needed a growth-oriented budget which would also have the effect of reviving the capital market.

It was in this air of expectancy that the budget proposals were awaited but unfortunately the proposals belied all hopes. The budget proposals of the year 1969 can be singled out as the most insipid measures ever formulated since the independence of the country.

The proposals, however, indicated the awareness of the needs of the economy but no remedial steps have been proposed and the proposals as they are, are so half-hearted that their impact has failed to be felt.

INVESTMENT PROPS—INDIVIDUAL AND CORPORATE

Budget proposals include certain measures which are directed towards the revival of the economy as well as the capital market. The first in the line of such measures is the increase in the tax-free dividend income limit from Rs. 500/- to Rs. 1,000/-. This, undoubtedly will divert a certain part of the resources towards investment in shares. It must, however, be noted that even with this increase in tax free limit, taxation of income from dividends is still at a disadvantage as compared to tax on income from interest. The rate of deduction at source in case of Interest is only applicable in case of an individual receipt exceeding Rs. 400/- and is restricted to 10% of the Interest paid. As against this, there is no exemption limit in case of dividends in relation to deduction at source and the rate of deduction is 22% of the amount paid. Further, if a receiver of interest, whose total income is not assessable to tax makes declaration to that effect, the payer under the law is not required to make any tax deduction. In case of dividends however such a declaration, to absolve the payer of the liability to deduct tax, must be certified by the Incom-tax Officer concerned. The relief though marginal is welcome, but it must not be over-looked that the deduction at source of tax which in more cases than not are not refunded without considerable hardship to the shareholder continues to be a positive detriment to investment in shares.

Similar marginal relief has been provided by extension of the exemption of insurance premium paid to include the insurance of life of the dependent children of the assessee and male members of the Hindu Undivided Family. Such an extension to be useful should have been coupled with an increase in the exemption limit. It is common knowledge that full utilisation of this exemption has already been made by most of the tax-payers, and as such, this extension is not likely to provide any further benefits to them. Hence, though it cannot be denied that on paper it is a step in the right direction, yet, it is not likely to benefit assesseees in a significant manner.

Extension of tax-holiday for five years to newly established industrial undertakings upto the year ending 31-3-1976 though a substantial relief to the industry would in its absence have been viewed as benefit being taken away by the Government. Not only has this incentive been a great help in the industrial development of the country

but also the industry has got so used to it that its extension has all along been taken for granted.

The inclusion of Jute and Textile Industries in the fifth schedule to the Income-tax Act would provide them a development rebate at a higher rate. This is a relief which was very badly needed by the Jute and Textile Industries and would go a long way in the modernisation and replacement of the worn out units. Though these industries have indicated that the inclusion in the fifth schedule by itself is not enough and certain further relief should have been provided, it is felt that such expression of dis-satisfaction is motivated only by a desire to get more. The reliefs provided are positively adequate and were much needed and most welcome.

BUDGET AND SKILL DEVELOPMENT

Another welcome relief is the deduction to be allowed to an Indian company out of its income by way of royalty, commission etc. in consideration of provision of technical knowhow and services. This relief would provide a considerable impetus to the utilisation of indigenous knowhow and lead to its further development in the country. It is, however, felt that there seems to be no justification that such a relief should only be allowed to an Indian company and not to other non-corporate bodies who may have also developed technical knowhow, which can be utilised profitably in the country. Similar relief when provided last year to an Indian company who provides technical knowhow to foreign company has resulted in practical difficulties because of the restriction on the availability of the relief on a company to company basis. The allowance of this to non-corporate bodies like firms of consulting engineers etc. would positively be a healthy trend in the direction of utilisation of indigenous technical knowhow.

Another welcome feature in the budget is the relief to be provided to authors, playwrights, artists, musicians and actors on such income as is earned by them outside and is brought into the country. This relief will positively provide incentive to increase earnings in foreign exchange and their remittance into the country through proper banking channels. It is, however, felt that if the objective is to provide relief on such income as is earned by exercise of profession outside the country and brought into India through proper banking channels,

then there is no rationale why such relief should not be provided to other professionals like doctors, lawyers and accountants.

The definition of a company in which public is substantially interested has been extended to include such companies whose shares are listed on a recognised stock exchange in India. There has been in existence an opinion that such a company as is referred to above has all along been a company in which public is substantially interested and this issue has been the subject matter of protracted litigation without any final decision. Though the industry looks upon this extension as a clarification, the Ministry of Finance considers the same as relief provided to the industry. In any event, this modification would set a considerable amount of controversy at rest and also provide the industry with the much needed benefit.

IRKS AND IRRITANTS

The increase in the rate of tax on the income of individuals etc. in the intermediate slabs is likely to have a tremendous adverse effect. The total revenue to be collected by this increase is approximately Rs. 11 crores and there seems to be no reason as to why the burden of the middle income group had to be increased for such a small addition to the revenues. The maximum increase, due to this, to an individual would work out to Rs. 275 per year. Looking at it even as a loss to the tax-payer the amount may not seem to be substantial, but the impost stands like a fiscal irritant. And coupled with the increase in Excise Duty on consumer items like Petrol, Cigarettes, Sugar etc., the capacity to save of the middle income group has been badly damaged. It should not be lost sight of that it is this middle income group which has the desire to save and is selective in the investment of its savings. Proper channelisation of savings in our society can only be expected from this group of tax payers and elimination of saving potential of this group would adversely affect the investment climate in the country and as such the growth. It is felt the additional revenue of Rs. 11 crores does not justify this increase and if a collection of this sum was so important the burden should have been evenly distributed on all the tax payers. A wide sweep of opinion in the country had been clamouring for a reduction in the rate of tax in the case of middle income groups, and not only have they been denied the reduction but

on the contrary, additional tax has been levied. In this context, it cannot be overlooked that it is this class of people who will bear the major share of the burden of the increase in excise duty on consumer items and the total revenue expected from the middle income group would increase by approximately Rs. 70 crores due to these additional levies. The general feeling is that an employee drawing Rs. 1500/- per month would find that the house-hold expenses have been increased by approximately Rs. 100/- per month which not only completely wipes out his saving potential but also makes it difficult for him to maintain his standard of living.

The same can be said about the lowering of the tax free limit in case of Registered firms. The reduction of the exemption limit to Rs. 10,000 irrespective of the number of partners results in a lowering of this limit per partner below the individual-exempted-income of Rs. 4,500 in case of a firm with three or more partners. Industrial development depends on pooling of resources and the movement is normally from individual to a body corporate via a firm. A tax on registered firm as such obstructs this cycle and is a retrograde step. The same applies to any increase in such a tax.

In the context of indirect taxes, it may be pointed out that the budget contains a proposal to change the levy of excise duty on certain items from specific to advalorem basis. Levy of duty on an advalorem basis would lead to administrative difficulties and create uncertainties at every step. Such a basis is an indirect acceptance of the value added concept in the levy of excise duty. Mr. Boothalingam's recommendation of general excise duty based on the value added basis having been turned down by the Industry and the Government, there seems to be no justification for bringing this concept into operation through the back door.

ADVANCE TAX PAYMENT

The budget proposals make substantial changes in the time and mode of payment of advance tax. Although the rationale of asking the tax payer to file an estimate in case of an increase in his income of more than $33\frac{1}{3}\%$ over the income on the basis of which his advance tax has been demanded is understandable, yet, the concept of advance

tax as it is now being provided for suffers from the following drawbacks :

- (1) Profits in the concept of advance tax are equated to cash whereas, income in most of the cases accrues much before it is actually received. Even in cases of supplies to the Government 90% of the sale consideration is received on delivery and the balance 10% after a period of 3 to 6 months. It is the general practice in trade that the cash equivalent of profit generally remains outstanding for a considerable period of time after it has been earned. Under these circumstances, to expect the tax payer to meet his obligations even before the close of his fiscal year, is nothing short of creating further liquidity problems to him. The tax payer would, under these circumstances, have to raise additional capital merely to meet his tax obligations which has far reaching consequences including increase in the cost of production.*
- (2) In case the income of the tax payer does not exceed $33\frac{1}{3}\%$ of the income on which advance tax is demanded the tax payer has a margin of $33\frac{1}{3}\%$ to play with. But if income exceeds beyond the said $33\frac{1}{3}\%$, then the tax payer is liable to make an estimate which is accurate. The tax payer is liable to pay interest on any shortfall in his estimate and also may be penalised. The department's thinking seems to be based on the fact that if the tax payer is using the money which is due to the Government, he should be liable to pay interest. This thinking is fallacious as the tax payer might not have received this money at all. Besides to expect a tax payer specially in a country like India where most of the Commerce and Trade is in the hands of the un-organised sector to make an accurate estimate of his income before the close of its fiscal year is asking for the impossible.

* An announcement made by the Finance Minister in the Lok Sabha on 29th April, 1969 has authorised the Central Board of Direct Taxes to allow the last instalment of advance tax to be paid on March 15 instead of on December 15 by classes of assesses to be notified in the official gazette (especially the companies whose accounting year closes on 31st December). Ed.

- (3) In view of the provisions relating to the provisional assessment and self-assessment not much benefit can be expected out of the modifications suggested in the methods of payment of advance tax specially when the tax payers have now got accustomed to the existing system.

The levy of tax on agricultural wealth as well as of excise on agricultural input is a very welcome feature. It is a very bold step for which a strong case has already been made out on considerations of economic growth and farm development for a considerable period of time. It would result in broad-basing of the tax structure and more evenly distributing the tax burden. It may be mentioned here that both the levy of tax on agricultural wealth and of excise on agricultural input is not going to be a major drain on the resources of agriculturists. The outgoing of individual agriculturist would be very insignificant.

TOWARDS A CHANGE OF LAW

The Finance Minister in his speech has also indicated certain amendments to be made to the Income-tax law through a bill to be introduced later on. Such amendments would render some expenditure which is now considered as capital to be an allowable deduction for tax purposes over a period of time, e.g., preliminary expenditure relating to pre-operative expenses as well as expenses incurred in raising finance etc., and planning of projects. Expenses incurred in shifting an Industrial Organisation which hithertofore, had to be treated as capital expenditure, would also become allowable over a period of time. It is also contemplated to allow depreciation at rates higher than the present. These steps are positively welcome and are in the right direction. It may, however, be pointed out that the increase in depreciation rates as indicated is not sufficient to the growing needs of the industry. The provision relating to the taxing of income from self-acquired property transferred to a Hindu Undivided Family after 31st March 1965 in the hands of the transferor has met with a considerable amount of criticism. Only such income is to be taxed in the hands of the transferor as is the share of the transferor, his spouse and minor male children.

To conclude it may be mentioned that an important omission in

the budget speech of the Deputy Prime Minister has been the determination to bring about saving in non-developmental expenditure. Far from visualising any substantial cuts in unproductive expenditure the Budget speech indicates that the additional Rs. 125 crores to be raised through the various budget proposals would be utilised to meet the increase in administrative expenditure.

The budget speech also did not make any mention of any improvement in the utilisation of resources by the public sector undertakings. In view of the capital presently employed in public sector undertakings, the time has come when they have to meet the financial tests of solvency and profitability in abundant measure and it is hoped that the Deputy Prime Minister has neither surrendered unconditionally to increasing administrative expenditure nor has he given up in sheer despair.