CHAPTER 6

FISCAL POLICY AND THE GOVERNMENT BUDGET

During the past year fiscal policy strove to maintain the momentum of development in the face of difficult challenges posed by the severe drought. In September, 1987 the Government levied surcharges on personal income tax, corporate income tax, wealth tax and customs duty and also announced surcharges on domestic air fares and upper class railway fares. These measures were expected to raise about Rs. 500 crores in the current financial year. The Government also initiated economies in expenditure, which were expected to yield savings of around Rs. 650 crores in 1987-88. Furthermore, to help finance the substantial additional imports of essential commodities entailed by the drought, the Government undertook a number of external assistance initiatives to mobilise and accelerate the disbursement of external capital. On the other hand, the drought is likely to constrain the buoyancy of tax and non-tax revenues, especially in the later part of the current financial year. However, in view of the prompt, anticipatory measures noted above, the financial consequences of the drought on the overall Government budget deficit are likely to be contained within manageable limits.

6.2 Despite the secular and short-term pressures on Government finances, fiscal policy endeavoured to maintain the priority for development. The outlay on the Central Plan for 1987-88 was stepped up by 12.3 per cent, thus making it likely that for the first time, over three-fifths of the targeted Central Plan expenditure (in real terms) would be fulfilled in the first 3 years of a five-year plan period. Though the additional relief expenditure necessitated by drought and floods imposed substantial additional strain on the Government's fiscal position, every effort was made to ensure that there was no diversion from Plan expenditure commitments. In regard to revenue collections, the progress upto December, 1987 has been satisfactory. During April—December, 1987, provisional estimates of the Centre's collections from major taxes amounted to 71.5 per cent of the 1987-88 budget estimates. This compares with the figure of 70.4 per cent achieved during the corresponding period of the preceding year. While enhanced allocations for the Central Plan in the 1987-88 Budget underlined the Government's determination to strengthen public sector development, the need for making all out efforts at improving productivity and efficiency of public enterprises was also emphasized.

Budgetary Developments 1986-87

6.3 The combined budgetary transactions of the Central and State Governments and Union Territories registered a large deficit in 1986-87. The year's budgetary deficit at Rs. 9,283 crores, according to revised estimates, was more than twice the size (Rs. 4,030 crores) projected in the budget estimate and over two and a half times the actuals (Rs. 3,439 crores) in 1985-86. As a proportion of GDP, the budgetary deficit was 3.2 per cent, substantially higher than the average of 1.5 per cent in the preceding quinquennium of 1981-82 to 1985-86 (Table 6.1). There was, however, a marked step-up of about 22 per cent in both developmental and non-developmental expenditure. The increase in developmental expenditure was particularly notable against a smaller increase of 11.0 per cent in 1985-86.

6.4 The current revenues of the Centre, States and Union Territories recorded an increase of 16.0 per cent in 1986-87 (RE) which was lower than the rise of 20.5 per cent in 1985-86. Non-tax revenues, inclusive of the internal resources of the non-departmental undertakings, on the other hand, increased by 21.1 per cent, marginally higher than the increase of 19.7 per cent in 1985-86. The tax-GDP ratio improved somewhat to 16.9 per cent from 16.5 per cent in 1985-86.

6.5 The gap between total expenditure and current revenues of the Centre, States and Union Territories was estimated at Rs. 36,707 crores in 1986-87 (RE). As a proportion of GDP, the gap was 12.5 per cent, much higher than the average of 9.8 per cent in the preceding quinquennium of 1981-82 to 1985-86. This gap was financed to the extent of 68.3 per cent by domestic capital receipts and 6.4 per cent by external assistance. Under domestic capital receipts, market loans increased from 6,475 crores in 1985-86 to Rs. 7,097 crores in 1986-87 (RE) and small savings increased from Rs. 4,292 crores to Rs. 4,900 crores. The remaining gap of 25.3 per cent was met through budgetary deficit.

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6.6 The deterioration in the budgetary position during 1986-87 was noticeable in the case of both the Central and State Governments. The Centre's budgetary deficit which was estimated at Rs. 3,703 crores in the budget, turned out to be Rs. 8,285 crores in the revised estimates. This deterioration occurred despite higher collection of Rs. 39,595 crores of both tax and non-tax revenues (including internal resources of public sector enterprises) as against Rs. 36,294 crores anticipated in the budget estimates. The main factors responsible for this outcome were substantial increase in both current and capital expenditures. For example, defence expenditure was Rs. 1,472 crores more than the budget estimates. So was the case with interest payments and subsidies, which together increased by Rs. 1,734 crores over the budget estimates of Rs. 13,437 crores. Implementation of the Fourth Pay Commission's recommendations also added substantial additional annual burden. Net transfer of resources to State and Union Territory Governments exceeded the budget estimates by Rs. 522 crores. A loan of Rs. 1,200 crores advanced to Food Corporation of India to finance buffer stocks of foodgrains, for which no provision had been made in the budget estimates, also contributed to the sharp rise in Centre's expenditure during 1986-87(RE). Overall, the aggregate expenditure of the Centre, which had been placed at Rs. 66,168 crores in the budget estimates for 1986-87, moved up by as much as Rs. 6,902 crores to Rs. 73,070 crores in the revised estimates.

6.7 As indicated in the last year's Economic Survey, a disturbing feature of the Centre's budgetary developments has been the emergence and widening of the deficit in current account since 1979-80. This deficit as a proportion of GDP at current market prices, was only 0.6 per cent in 1979-80 and it reached a level of 2.1 per cent in 1985-86 and 2.5 per cent in 1986-87 (RE) (Table 6.2). This is symptomatic of the pressure which has been growing on the Centre's budget. Already, the Centre's balance from current revenues (BCR)*, which had reached a peak level of a little over 2 per cent of GDP at current market prices in 1978-79, has been eroded in recent years. In 1986-87, BCR actually turned negative and might worsen further in the current year.

TABLE 6.1

Budgetary Transactions of the Central and State Governments and Union Territories
(Including extra-budgetary resources of public sector undertakings for financing their plans)

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (B.E.)	1986-87 (R.E.)	1987-88 (B.E.)
I. Total Outlay	**36845** (27.1)	**43718** (27.4)	**52747** (29.7)	**60829** (29.3)	**72825** (31.7)	**83961** (32.1)	**93246** (31.8)	**102591** (35.0)	**109388** (n.a.)
(*a*) Developmental	22426	28654	33591	39274	48085	53397	59691	65201	67416
(*b*) Non-Developmental	12419	15085	19156	21555	24740	30564	33555	37390	41972
II. Current Revenue	**24563** (18.1)	**30425** (19.1)	**35795** (20.2)	**40989** (19.8)	**47098** (20.5)	**56773** (21.7)	**62729** (21.4)	**65824** (22.5)	**74650** (n.a.)
(*a*) Tax Revenue	19844 (14.6)	24142 (15.1)	27242 (15.3)	31525 (15.2)	35813 (15.6)	43267 (16.5)	47355 (16.2)	49522 (16.9)	56566 (n.a.)
(*i*) Direct Taxes	3268	4133	4492	4907	5329	6252	6436	6912	7298
(*ii*) Indirect Taxes	16576	20009	22750	26618	30484	37015	40919	42610	49268
(*b*) Non-Tax Revenue	4719	6283	8553	9464	11285	13506	15374	16302	18084
III. Gap (I — II)	**12282** (9.0)	**13313** (8.4)	**16952** (9.5)	**19840** (9.6)	**25727** (11.2)	**27188** (10.4)	**30517** (10.4)	**36707** (12.5)	**34738** (n.a.)
Financed by :—									
(*i*) Domestic Capital Receipts	7161	9493	13012	16094	18765	21879	23618	25062	25362
(*ii*) Net External Assistance	1670	1301	1591	1611	1857	1850	2859	2362	3129
(*iii*) Budgetary deficit	3451 (2.5)	2519 (1.6)	2349 (1.3)	2135 (1.0)	5105 (2.2)	3439 (1.3)	4030 (1.4)	9283 (3.2)	6247 (n.a.)

NOTES :—(1) For clarification regarding the scope of some items in this Table, *see* footnotes to Table 2.1 in the Statistical Appendix.

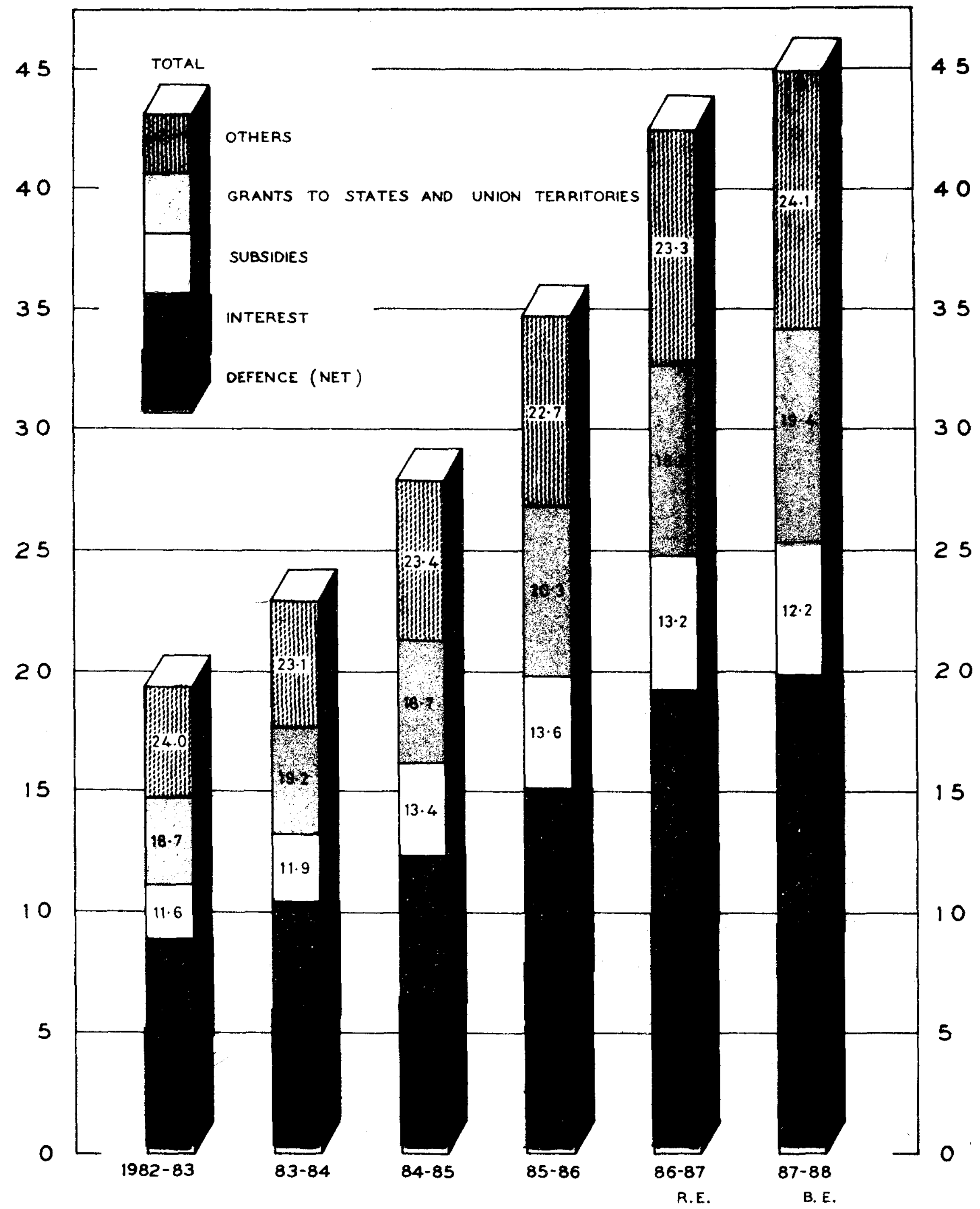
(2) Figures in brackets are percentages of new series of GDP at current market prices released by the C.S.O. and, therefore, will differ from the figures given in the earlier issues of Economic Survey.

*BCR as defined for the Centre in Plan documents is the balance of current receipts (excluding external grants) over non-plan revenue expenditure (including capital outlay on border roads and defence)

CENTRE'S REVENUE EXPENDITURE

PERCENTAGE DISTRIBUTION

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

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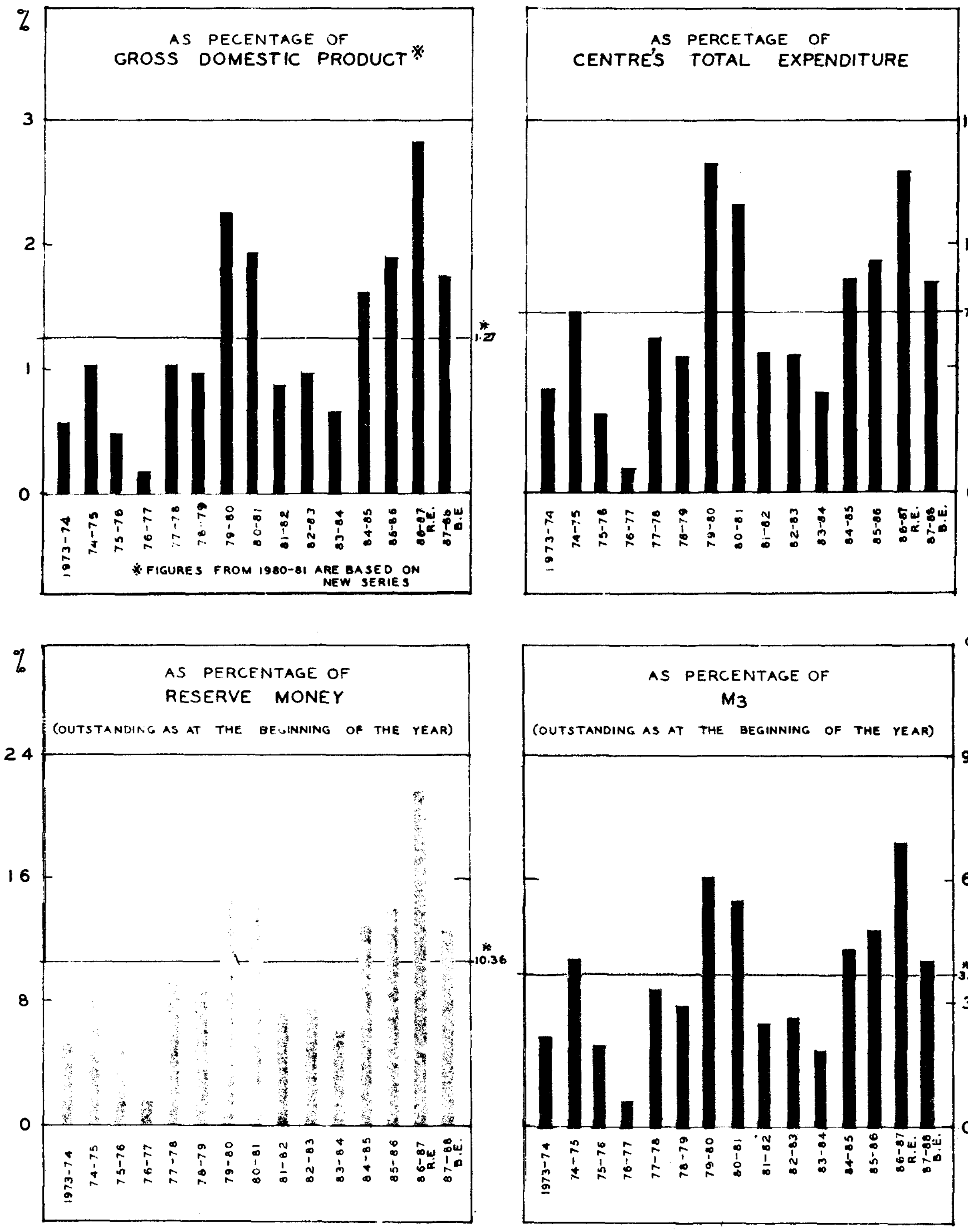
CENTRE'S BUDGETARY DEFICIT



*AVERAGE FOR THE PERIOD 1973-74—87-88

MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP(PLU)MFND-668/1/F/87-88

6.8 Although the current revenues, particularly tax revenues, have shown substantial improvement in recent years, from 10.6 per cent in 1984-85 and 11.2 per cent in 1985-86 to 12.0 per cent of GDP in 1986-87 (RE), current expenditures, too, rose sharply to 12.1 per cent, 13.3 per cent and 14.5 per cent of GDP during these years. Among the major items of expenditure, the growth in interest payments has been most pronounced, from about 2.2 per cent of GDP in mid-eighties to the current level of 3.3 per cent and should be a cause for concern. Subsidies, were around 1.8 per cent of GDP after having risen from a level of one per cent in mid-seventies. The amount of grants to States and UTs has in the last three years been around 2.7 per cent of GDP, whereas in the three preceding years the level was only 2.3 per cent. Defence expenditure, which had shown remarkable stability at about 2.8 per cent of GDP in the past decade rose to 3.3 per cent of GDP in 1986-87.

TABLE 6.2

Centre's Revenue Receipts & Revenue Expenditures

	As per cent of GDP (Old Series)						As per cent of GDP (New Series)							
	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (RE)	1987-88 (BE)[2]
1. Tax Revenue (Net of States' Share)	8.1	8.2	7.9	8.8	8.0	7.4	6.9	7.3	7.4	7.5	7.7	8.1	8.3	8.5
2. Non-Tax Revenue	2.8	2.7	3.0	2.7	2.6	2.7	2.5	2.5	2.8	2.4	2.9	3.1	3.7	3.2
3. Total Current Revenue (1+2)	**10.9**	**10.9**	**10.9**	**11.5**	**10.6**	**10.1**	**9.4**	**9.8**	**10.2**	**9.9**	**10.6**	**11.2**	**12.0**	**11.8**
4. Total Current Expenditure	9.7	**10.5**	**10.4**	**11.2**	**11.2**	**10.7**	**10.0**	**9.8**	**10.9**	**11.0**	**12.1**	**13.3**	**14.5**	**13.8**
(a) Interest Payments	1.7	1.7	1.7	1.9	2.1	2.1	2.0	2.0	2.2	2.3	2.6	2.9	3.3	3.3
(b) Subsidies[1]	0.6	1.2	1.3	1.3	1.4	1.2	1.2	1.2	1.3	1.3	1.6	1.8	1.9	1.7
(c) Defence Expenditure[3]	3.0	2.9	2.7	2.7	2.9	2.8	2.6	2.6	2.7	2.7	2.8	2.9	3.3	2.8
(d) Grants to States & UTs	1.7	2.0	2.2	2.7	2.2	2.2	2.1	1.7	2.0	2.1	2.3	2.7	2.6	2.7
(e) Others	2.6	2.7	2.6	2.6	2.6	2.4	2.2	2.4	2.6	2.5	2.8	3.0	3.4	3.3
5. Revenue Account Surplus (+)/ Deficit (—) (3—4)	1.2	0.4	0.5	0.3	(—)0.6	(—)0.6	(—)0.6	(—)0.1	(—)0.7	(—)1.2	(—)1.5	(—)2.1	(—)2.5	(—)2.1

[1] Excludes subsidies on imported fertiliser upto 1985-86.

[2] Estimated.

[3] Includes defence pension.

NOTE: The ratios in this table from 1980-81 onwards are based on the new series of GDP released by the C.S.O., and, therefore, these will differ from the figures given in last year's Economic Survey. To facilitate comparison, however, the ratios for 1980-81 have also been given on the basis of the old series of GDP.

6.9 The budgetary position of the States and UTs lso worsened in 1986-87. Whereas their budgets or 1986-87 had envisaged a deficit of Rs. 327 crores, he revised estimates showed a three times larger eficit of Rs. 999 crores. This order of deficit was in sharp contrast to the actual surplus of Rs. 1,498 crores in 1985-86. Further, the deficit emerged despite substantial increase in the receipt of grants from the Centre to Rs. 7,603 crores from Rs. 6,865 crores in the budget estimates. Their share in Income Tax was up by as much as 30 per cent in the revised estimates as compared with that in the budget estimates. Thus, the main factors responsible for the substantial deficit were rise in expenditures, both developmental and non-developmental, beyond the budgeted levels. Sizeable increases were noticeable on account of interest payments, administrative services and relief for natural calamities. On the developmental side, substantial increases were recorded under education, medical and public health and agriculture. At the same time, internal resource generation by States' commercial enterprises in 1986-87 (RE) was unsatisfactory, only Rs. 63 crores against the budgeted amount of Rs. 879 crores.

Central Government Budgetary and Fiscal Developments, 1987-88

The 1987-88 *Budget*

6.10 In line with the fundamental objectives of elimination of poverty and building of a strong modern and self-reliant economy, the thrust of the Budget for 1987-88 has been on mobilisation of additional resources for the public sector, promoting savings and investment and on strengthening the productive forces in the economy as well as direct measures for the removal of poverty. The Budget also carried out further reforms in the tax system. A number of provisions relating to direct tax laws were simplified and rationalised and a National Savings Scheme based on net savings was introduced. MODVAT was extended to all the remaining industries with a few exceptions. Excise and customs duties on a number of products were rationalised and a graded customs structure introduced in certain cases with the particular objective of accelerating growth, modernisation and indigenisation in selected industries.

6.11 The outlay for the Central Annual Plan for 1987-88 was stepped up by 12.3 per cent compared to the outlay in the preceding year. As a result, over 60 per cent of the Five Year Central Plan target expenditure in real terms would be financed in the first three years of the plan. Further, in the allocation of resources, high priority was accorded to programmes which have a direct bearing on alleviation of poverty and creation of additional opportunities of employment in the rural areas. In particular, special emphasis was laid on strengthening the anti-poverty programmes *viz.*, Integrated Rural Development Programme, National Rural Employment Programme, the Rural Landless Employment Guarantee Programme, and rural water supply and housing. There was a massive increase in the allocation for education. Substantial provisions were also made for agriculture and irrigation. Further, in view of the critical importance of infrastructure for rapid agricultural, industrial and overall development, an outlay representing more than half of the total Central Plan outlay was provided for energy, transport and communications.

6.12 The details of important fiscal measures adopted in the Budget for 1987-88 and the Finance Act 1987 are given in the following paragraphs.

Direct Taxes

6.13 In line with the Long Term Fiscal Policy, no changes were made in the rates of personal or corporate taxes. However, several of the provisions for direct tax laws were simplified and rationalised to promote savings, investment and growth, and certain provisions modified to check tax avoidance and evasion.

6.14 Following the recommendations of the Study Group on Taxation of Expenditure in its Interim Report, a new National Savings Scheme based on the principle of net savings was introduced. Under the scheme 50 per cent of deposits upto a maximum amount of Rs. 20,000 are eligible for deduction. However, in the year of withdrawal 50 per cent of the amount withdrawn together with the interest thereon will be added to the taxable income of the relevant year. Deposits will earn interest (presently at 9 per cent per annum). However, the net deposits or balances in the account would be fully exempt from income tax and wealth tax. The scheme has the merit of adoption of an expenditure tax principle in the Income Tax Act.

6.15 To encourage savings, as also to give stimulus to housing activity, Section 80-C was amended to provide that any payment, upto Rs. 10,000 per annum, made by the tax payer towards cost of purchase or construction of new residential property would also qualify for deduction under Section 80-C, within the overall monetary limit of Rs. 40,000. The deduction will be allowed in respect of any payment by way of instalment or part payment due under self-financing or other schemes of any development authority, Housing Boards, etc., as well as for repayment of loans borrowed by the tax payers from Government and other specified institutions.

6.16 With a view to mobilising savings from small savers (including those in rural areas), another Mutual Fund on the lines of the one earlier set up by the Unit Trust of India, has been established by the State Bank of India, as a follow-up of the proposal contained in the Budget.

6.17 The provisions relating to taxation of Capital gains were further simplified and rationalised. The statutory deductions and concessions earlier available under Section 80T to non-corporate tax payers and under Section 115 to corporate tax payers, were incorporated in Section 48 itself for computation of capital gains arising from transfer of a capital asset, and a uniform scheme of deduction from long term gains in respect of specified category of assets has been adopted in case of both corporate and non-corporate assessees. Further, to ensure uniform treatment of capital losses and capital gains, it has been provided that long term losses arising on transfer of long term capital assets (after these are scaled down by the same percentage of deduction as long term capital gains) would be treated as any other losses so that these can be set off against income under any head. The distinction between the carry forward of short-term and long-term capital losses was removed.

6.18 The benefit of exemption in respect of capital gains arising from the transfer of a residential house or other long term assets in case these are utilised for acquiring a residential house, earlier available to individuals only, was extended to Hindu Undivided Families. Further, to check tax avoidance and to simplify procedure, a new provision providing for the deposit of capital gains or the net consideration in a public sector bank or institution in accordance with a scheme to be notified has been introduced. Under this provision the amount of capital gains or net consideration, if not appropriated or utilised by the tax payer for acquisition of a new asset, shall be deposited on or before the furnishing of the return of income, in an account with a bank or institution and utilised in accordance with the scheme framed in this regard.

6.19 To promote decongestion of urban areas and to secure balanced regional development, the provisions relating to exemption of capital gains were liberalised in case of the capital gains, whether short or long term, arising from transfer of specified capital assets on shifting of industrial undertakings from an urban area to a non-urban area.

6.20 With a view to make capital markets more attractive to the ordinary investors, the eligibility period for availability of concessional treatment in respect of long-term capital gains arising on transfer of equity shares was reduced from 36 months to 12 months. The provision (section 80CC) relating to allowing of deduction in respect of investment in new equity shares offered for subscription by certain categories of new companies was extended by another 3 years, and the minimum holding period of such shares reduced from 5 years to 3 years. It was also provided that the interest income in case of tax-free bonds issued by specified public sector companies would not form part of total income of the bond holder.

6.21 To promote investment as well as facilitate replacement and modernisation of assets in the corporate sector, a simplified set of depreciation rules was brought into force effective from April 1, 1988. These allow for depreciation in respect of a block of assets, and provide for three rates of depreciation for plant and machinery viz., 33.33 per cent, 50 per cent and 100 per cent.

6.22 To extend fiscal support, manufacture of computers, office machines and apparatus used for transmission and reception of messages was excluded from the Eleventh Schedule of the Income Tax Act to make their manufacture also eligible for the concessions under the Act. Further, it was clarified that the benefit of tax holiday available to new undertakings established in Free Trade Zones would extend to units which develop soft-ware or assemble or process components for exports.

6.23 As a measure of simplification ,it was provided that the income of assessees engaged in activities connected with the exploration of mineral oils would be determined at 10 per cent of the aggregate of the amounts specified, and in the case of non-residents engaged in the business of operation of air-craft, the income from such business would be computed at a flat rate of 5 per cent of the amount received or receivable by or on behalf of the tax payer. A number of other tax provisions were simplified and rationalised including those relating to the Investment Deposit Scheme (Section 32AB).

6.24 On the other hand certain provisions were modified and rationalised to plug loopholes, and to check tax avoidance. Capital gains on transfer of goodwill of a concern or transfer of assets from a firm to a partner and vice-versa, were made taxable. The concessions available to Indian companies earning income from a foreign Government or enterprise for imparting technical knowhow, were made admissible only if foreign exchange earned is repatriated within the specified period. The provisions relating to deduction of tax at source were modified and tightened to ensure improved tax compliance. Similarly, the provisions relating to settlement of cases were modified so that the Settlement Commission is not used as an escape route by tax evaders.

6.25 In the interest of revenues and to make the tax system more progressive some new provisions were introduced. As certain companies making large profits and declaring substantial dividends were able to manage their affairs so as to avoid payment of income tax, a new Section 115J was introduced under which companies have been made liable to pay tax on a minimum of 30 per cent of their book profits. However, for determining the minimum taxable income, adjustment in respect of brought forward losses or unabsorbed depreciation, whichever is less, has been allowed.

6.26 Following the proposal in the Budget, an Expenditure Tax Act has been enacted which has come into force from November 1, 1987. It provides for levy of tax at the rate of 10 per cent of any expenditure incurred in a hotel where the room charges for any unit of residential accommodation are Rs. 400 or more per day per individual. The tax is to be levied on any expenditure for any accommodation, residential or otherwise, food or drinks either at the hotel or outside and any other services provided by the hotel. Where any other person provides food or drinks or other services at the hotel, expenditure incurred by customers will also be liable for expenditure tax. Foreign diplomats as well as payments made in foreign exchange have been exempted from the levy of expenditure tax. Further, in order to promote economy in the use of foreign exchange resources as also to raise revenues, the Budget proposed a 15 per cent tax on foreign exchange released for foreign travel, and this has been made applicable since October 15, 1987.

6.27 Certain measures in the Budget were directed to benefit workers and the common man. The Income Tax Act was amended to provide protection to the dues of workers such as provident fund, Employees State Insurance fund and gratuity. The benefit of exemption from tax was extended to payments made under voluntary retirement schemes for public sector employees. The expression 'owner of house property' was enlarged to make real owners, even if not legal owners of property, eligible for availing of tax concessions. Contributions to Regimental Funds or non-Public Funds also were made eligible for the tax concessions available to other funds of national importance like National Defence Funds. Special deduction available to the physically handicapped or totally blind was raised from Rs. 10,000 to Rs. 15,000. The limits upto which net tax is to be deducted at source were raised from Rs. 1,000 to Rs. 2,500 in respect of income from dividends and interest, and was fixed at Rs. 5,000 in respect of insurance commission, and the procedure was streamlined.

Indirect Taxes

6.28 In the area of indirect taxes also the structure of customs and excise duties was rationalised and several other changes effected to strengthen the industrial structure, to stimulate modernisation and upgradation of technology in key areas like capital goods; to quicken the pace of indigenisation and development in the dynamic sector of electronics and computers; and to promote export production. A package of measures was adopted to boost production in selected industries like cement, textiles, food processing, plastics and packaging. To mobilise additional resources, duties on certain items of affluent consumption were increased.

6.29 MODVAT was extended to cover all the remaining chapters of the Excise Tariff with a few exceptions like textiles, tobacco products, petroleum products, matches and cinematograph films. However, excise duty on final products was not raised, except in the case of a few items, with a view to reduce the effective incidence of duty and help expansion of the market and of production. This covered a large number of food products and would benefit farmers and horticulturists. However, duties were revised upwards for such items as electric motors, primary batteries and zinc oxide, wherein the duty set-off allowed in the previous year was found to be somewhat excessive. Certain procedural changes were also made to simplify the operation of the MODVAT scheme.

6.30 To accelerate the growth of capital goods industry and to promote greater self-reliance in this critical sector, a number of measures were adopted. Since the concessional rates of customs duty earlier prescribed in respect of project imports provided encouragement for excessive imports, and the differential rates *vis-a-vis* general machinery discriminated against modernisation of the existing units, the duty structure was rationalised and a uniform rate of 85 per cent was provided for both these categories of capital goods. Moreover, the concessional rate of import duty in case of project imports for fertilizers was increased from zero to 15 per cent, and in respect of power plants of 50 MW and below from 25 per cent to 35 per cent. For textile machinery and machine tools sector, concessional duty on components at the rate of 60 per cent was provided as against the rate of 70 per cent for components of general machinery. Further, to facilitate upgradation of technology, the rates of duty were reduced in respect of certain special quality steel used in machine building, stainless steel for textile machinery, capital goods for modernisation of foundries, and equipment required for conversion from mercury to membrane cell technology in case of caustic soda plants.

6.31 In order to give further stimulus to the expansion and growth of the computer and electronics industry, a mix of changes in customs and excise duties was effected. Import duties in respect of a number of specified equipment, sub-assemblies, components, parts and raw materials were rationalised. Import duty on electric sub-assemblies for computers was substantially reduced and the list of peripherals with a concessional duty of 60 per cent was enlarged. The import duty on specified data communication equipment as well as on mechanical parts of such equipment was lowered. A few more items were added to the list of computer peripherals for import of non-electronic parts for maintenance purpose at concessional rate of 75 per cent. Having regard to indigenous production, the customs duty on computer systems imported under OGL was reduced by 10 percentage points. However, import duty on certain specified electronics parts of computers was raised from 25 per cent to 75 per cent, and on non-electronic parts of computer peripherals from 5 to 45 per cent. Excise duty of 10 per cent was also levied on computers and peripherals.

6.32 In the case of electronics industry, to facilitate increased domestic production of capital goods required for this industry, the duty on mechanical components for capital goods was substantially reduced *i.e.* from 140 per cent to 45 per cent in case of a large number of machines. Further to strengthen the R&D base, customs duty on specified equipment required for R&D was also reduced considerably to 55 per cent. The coverage under the graded concessional duty structure for imports of raw-materials and piece parts was expanded. A graded structure of customs duty for silicon solar cells and photo voltaic systems at the rate of 30 per cent, 45 per cent and 75 per cent was introduced, and duty on silicon for electronics industry was fixed at 75 per cent. Excise duty was abolished on production of poly-silicon in all forms. As an anti-avoidance measure, excise duty or countervailing duty of Rs. 150 on black and white tubes for TV sets of size above 36 cms., and of Rs. 600 on all colour television tubes was imposed, without entailing additional duty burden on the consumer as the MODVAT facility is available for these inputs. Specific rates of excise duty were also fixed in respect of certain items of consumer electronics including VCRs, VCPs, combination sets of TVs with audio recorders, radios or clocks.

6.33 Customs duties were also rationalised in the case of parts of mechanical and quartz watches. Again, in the case of automobile industry, in order to give a push to the process of indigenisation, the list of sub-components required for manufacture of components for fuel efficient vehicles eligible for concessional duty was enlarged. On the other hand, the duty on import of spares for after-sales or warranty repairs for fuel efficient vehicles was increased. For the benefit of handicapped individuals, the customs duty was removed in respect of automatic transmission and other special equipment fitted to fuel efficient cars of engine capacity not exceeding 1000 cc. In the case of drug industry, a number of drug intermediates used exclusively or predominently in the manufacture of drugs were exempted from additional duty of customs, and customs duty on two specified drug intermediates required for manufacture of pyrazinamide, an anti-TB drug was removed.

6.34 Various concessions were given to promote production for exports. A concessional rate of customs duty was fixed for a number of additional items of tools, machinery, etc. used in processing gems and jewellery, marine products and leather. In addition, import duty was removed or reduced on polyurethane leather required for inflatable balls (including footballs) polyurethane film/foil used for improving finished leather, flax and ramie fibres, and on tyre moulds. Export duty was abolished on mica products except for mica waste and scrap.

6.35 Recognising the economics and wide ranging use of plastic materials for agricultural and industrial applications, as well as for various consumer goods and for packaging, the basic customs duty on imported inputs viz., PVC resins and LDPE was substantially reduced to bring down costs and prices. Moreover, excise duty was halved from 40 per cent to 20 per cent on products of regenerated cellulose as well as on certain varieties of industrial plastics. Excise duty was also reduced on cellulose acetate moulding granules. Import duty on specified items of machinery and aseptic packaging materials was substantially lowered.

6.36 In order to augment the production and availability of edible oils, the import duty on specified items of machinery required for use in solvent extraction industry was reduced. Moreover, the system of excise rebate for vanaspati and soaps linked to larger use of minor oils, was continued with some procedural changes. The ad valorem duty on vanaspati was changed to specific duty.

6.37 In order to stimulate production of cement, and to provide relief to new units with high capital costs, an excise rebate scheme was introduced and the levy obligation reduced in case of such units including mini-cement plants. An excise rebate at the rate of Rs. 50 per tonne was allowed in respect of portland cement manufactured by units commencing production of such cement on or after April 1, 1986, and at the rate of Rs. 20 per tonne to units which had commenced production between January 1, 1982 and March 31, 1986. The levy quota obligation was also reduced from 30 per cent to 15 and 20 per cent respectively.

The excise concession was made available for a period of 3 years from March 1, 1987 but only to units whose aggregate production is not less than 30 per cent of licenced capacity.

6.38 In the case of cotton textiles, the Small Scale Scheme for hand processed cotton fabrics was liberalised and the full exemption limit raised from 36 lakh sq. metres to 50 lakh sq. metres, and to 75 lakh sq. metres for screen printed fabrics. All hand processing units were made eligible for these exemptions irrespective of their turn-over. The duty rate on clearances in excess of the exemption limit was reduced to 25 per cent of the normal rate applicable to the mill sector. Excise duty structure in the case of power processing sector also, was rationalised by providing specific rates in respect of fabrics of value upto Rs. 25 per sq. metre. The excise duty on wool tops was removed and that on polyester wool blended yarn halved from Rs. 30 per kg. The customs duty on synthetic rags was slashed from 80 per cent to 30 per cent. On the other hand, the rates of excise duty in the case of viscose staple fibre and viscose filament yarn, which had remained unchanged for a number of years, were raised as a revenue measure. Specific rates of duty on processed synthetic and blended fabrics of value upto Rs. 25 per sq. metre were levied to raise AED, the yield of which goes to the States.

6.39 In order to provide relief to the common man, excise duties on a number of goods of common use were reduced or removed. The scheme of duty-free supply of raw-materials to NTC was extended for the manufacture of Soubhagya Sarees. The value limits were raised for duty exemption in case of footwear and shoddy woollen fabrics as well as for concessional rate of excise duty in case of Janta Soap. The excise duty on fluoroscent tubes and their fittings and parts was reduced, and certain common goods such as bio-gas appliances, note-books, letter pads, registers, etc., were exempted.

6.40 On the other hand, to mobilise additional resources, excise duties were increased in respect of costlier Colour TV sets, fuel efficient motor vehicles not exceeding 1000 cc., expensive soaps, aerated soft drinks and certain relatively expensive packaged foods. The excise duty on cigarettes was rationalised and fixed in terms of specific rates based on length of cigarettes and was expected to yield an additional revenue of Rs. 200 crores. Customs and excise duties were rationalised or adjusted in the case of a number of other goods.

6.41 Further, to bring the surplus accruing to Oil Pool Account into tax revenues, the customs duty on imported crude petroleum was raised and the statutory rate (as also the effective rate) of cess on crude oil and on natural gas was increased. These increases were, however, to be absorbed fully by the Oil Pool Account, thus having no effect on consumer prices.

Additional Resource Mobilisation (1987-88 *B.E.*).

6.42 The additional Resource Mobilisation Measures (ARM) undertaken in the 1987-88 Central Budget were expected to yield Rs. 1,109 crores. However, the budget also provided concessions in excise and customs duties amounting to Rs. 595 crores. Thus, the ARM measures (net of concessions) would yield Rs. 514 crores. Out of this, Rs. 85 crores would be raised through direct and Rs. 429 crores through indirect tax proposals. The States' share in ARM would be Rs. 192 crores, leaving Rs. 322 crores for the Centre. Details are shown in Table 6.3.

TABLE 6.3

Additional Resource Mobilisation through Central Budget for 1987-88

(Rs. crores)

	Centre's share	States' share	Total
I. Taxes[1]	321.40	192.32	513.72
(*a*) Direct Taxes. .	85.00	—	85.00
(*i*) Corporation Tax	85.00	—	85.00
(*ii*) Income Tax	—	—	—
(*b*) Indirect Taxes .	236.40	192.32	428.72
(*i*) Customs duties	66.92	—	66.92
(*ii*) Union excise duties .	109.48	192.32	301.80
(*iii*) Tax on foreign exchange released for foreign travel	60.00	—	60.00
II. Revision in the Postal & Telecommunication Tariffs and Railway Fares & Freights. .	—	—	—
(*a*) Railways. . .	—	—	—
(*b*) Posts and Telecommunications	—	—	—
III. Total (I+II) . .	321.40	192.32	513.72

1 After taking into account changes announced during the Budget debate.

6.43. The tax concessions announced during the budget debate would result in a revenue loss of Rs. 67 crores (centre's loss Rs. 55 crores); this has not been taken into account in framing the estimate as the loss was to be made good during the course of the year. The Railway Budget for 1987-88 did not contain any proposals for increase either in passenger fares or freight and parcel rates. Rather, some concessions were provided to the needy and deserving sections of society, such as the handicapped, the war widows, and the drought and flood affected (for fodder movement).

Revenue and Expenditure

6.44 The aggregate resources of the Central Government after taking into account the net receipts of Rs. 322 crores from additional resource mobilisation measures and including the internal and extra-budgetary resources of public sector undertakings, were expected to be Rs. 71,509 crores in 1987-88 (B.E.), about 14.5 per cent higher than Rs. 62,465 crores in 1986-87 (B.E.). While the tax revenues were estimated at Rs. 77,197 crores, 16.7 per cent higher than Rs. 66,168 crores in 1986-87 (B.E.). Thus, there was an uncovered deficit of Rs. 5,688 crores. Revenue receipts were estimated to grow by 21.6 per cent over 1986-87 (B.E.). While the tax revenues were estimated to grow by 22.4 per cent the non-tax revenues were expected to show a somewhat lower increase of 20.4 per cent. Domestic capital receipts were anticipated to grow by 4.0 per cent and external capital receipts by 9.1 per cent, so that total capital receipts were projected to rise by 4.6 per cent to Rs. 27,372 crores from the last year's budget estimates. On the disbursement side, allocation for non-developmental expenditures was 26.5 per cent higher than the level of last year's budget estimates. Developmental expenditures were budgeted at 10.1 per cent more than last year's budget estimates. Consequently, the proportion of developmental expenditures to aggregate expenditures declined from 60.1 per cent in 1986-87 (B.E) to 56.7 per cent in 1987-88 (B.E).

6.45 The Central Plan outlay for 1987-88 was stepped up by 12.3 per cent to Rs. 25,042 crores over the outlay of 1986-87 (B.E). in order to maintain the momentum of development and programmes aimed at alleviation of poverty The total outlay during the first three years of Seventh Five Year Plan would have thus fulfilled over 60 per cent of total Seventh Plan in real terms (at 1984-85 prices), compared to only 45 per cent achieved in the first three years of the Sixth Plan. In qualitative terms, emphasis was given to education, the NREP, the IRDP, the RLEGP, rural water supply and use of food stocks for creating additional employment opportunities in rural areas. The outlay on rural development was enhanced by about Rs. 150 crores to Rs. 1651 crores. Housing, particularly for weaker sections of the society was given priority. In addition to an allocation of Rs. 125 crores for the Indira Awas Yojna, a new financial structure was visualised for providing funds for housing. At the apex level, a new National Housing Bank was programmed under the Reserve Bank of India with an initial equity capital of Rs. 100 crores.

6.46 The sectoral distribution of outlays in the Central Plan for 1987-88 exhibited high priority to human resources development including education, sports and youth affairs, health, family welfare, ecology and environment, art and culture, and broadcasting. The outlay of Rs. 2201 crores provided for these programmes marked an increase of about 53.0 per cent over the allocation of Rs. 1,374 crores in 1986-87 (B.E.). Within these programmes, education was accorded top priority in line with the new education policy. Outlay on education was raised to Rs. 800 crores as against Rs. 352 crores in the last year's budget estimates. Operation Black Board was to be undertaken to improve primary schools all over the country. Facilities to impart technical education in all areas were to be strengthened and 150 Navodaya Vidyalayas were to be set up during the year. The infrastructure sector was also given high priority in keeping with the objective and strategy of Seventh Plan. The outlay on key sectors like coal, power, petroleum, road transport, civil aviation, railways and telecommunications was stepped up to Rs. 12,632 crores, about 12.0 per cent higher than Rs. 11,311 crores in 1986-87 (B.E.) and accounting for over 50.0 per cent of the Central Plan outlay for 1987-88.

6.47 It may be pointed out that due to the shortfall in the internal and extra-budgetary resources to be generated by the public enterprises, the step-up in Central Plan outlay for 1987-88 required larger budgetary support. As against 47 per cent of budgetary support envisaged in the Seventh Plan, the support was 61 per cent in 1987-88, 63 per cent in 1986-87, and 66 per cent in 1985-86.

Savings and Capital Formation

6.48 The pressure on Central budget which has been building up for some time, got accentuated in recent years, with the result that savings of the Central Government which used to be positive, turned negative for the first time in 1984-85. Since then, the deterioration has continued and savings touched a negative figure of Rs. 3,710 crores in 1987-88 compared with the negative figure of Rs. 2,099 crores in 1986-87 (B.E.). Gross capital formation out of budgetary resources of the Central Government which had shown, on an average, an increase of 18.9 per cent per year during 1981-82 to 1985-86, witnessed considerable deceleration in 1986-87, when the increase was only 13.8 per cent (Table 6.4). In the current year, too, the increase in gross capital formation is estimated to be a bare 1.3 per cent over 1986-87 (R.E). and 4.9 per cent over 1986-87 (B.E). The gap between gross capital formation and gross savings of Central Government widened further to Rs. 28,462 crores from Rs. 26,603 crores in 1986-87 (R.E.) and was to be financed to the extent of 69.0 per cent through draft on domestic capital receipts and 11.0 per cent through draft on foreign savings leaving the balance to be covered through budgetary deficit.

TABLE 6.4

Capital Formation by the Central Government and its Financing

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (R.E.)	1987-88 (B.E.)
I. Gross Capital Formation out of Budgetary Resources of Central Government	**9012** (24.7)	**10799** (19.8)	**12403** (14.9)	**14702** (18.5)	**17551** (19.4)	**21477** (22.4)	**24438** (13.8)	**24752** (1.3)
As per cent of gross domestic product at current market price (new series)@	6.6	6.8	7.0	7.1	7.6	8.2	8.3	(n.a.)
(*i*) Gross capital formation by the Central Government. . .	1907	2552	2884	3356	4123	4558	5905	6136
(*ii*) Financial assistance for capital formation to the rest of the economy	7105	8247	9519	11346	13428	16919	18533	18616
II. Gross Savings of the Central Government	3	1107	857	313	(—)963	(—)1441	(—)2165	(—)3710
III. Gap (I — II)	**9009**	**9692**	**11546**	**14389**	**18514**	**22918**	**26603**	**28462**
Financed by :								
IV. Draft on other sectors of domestic economy	**7339**	**8391**	**9955**	**12778**	**14657**	**21068**	**24241**	**25233**
(*i*) Domestic capital receipts . .	4762	6999	8300	11361	12912	16131	15956	19645
(*ii*) Budgetary deficit . . .	2577	1392	1655	1417	3745	4937	8285	5688
V. Draft on foreign savings . . .	**1670**	**1301**	**1591**	**1611**	**1857**	**1850**	**2362**	**3129**

NOTE : (*i*) Gross capital formation in this Table includes loans given for capital formation on a gross basis. Consequently, domestic capital receipts include loan repayments to the Central Government.

(*ii*) Figures in brackets are percentage increase over the preceding year.

@Because of the revision in the new series of GDP, the ratios given here will differ from those given in the earlier issues of Economic Survey.

Finances of States and Union Territories

6.49 The budgets of all the States and Union Territories for 1987-88 taken together put their aggregate expenditures at Rs. 53,239 crores, which was 16.8 per cent higher than the budget estimates of Rs. 45,563 crores and 10.4 per cent higher than the revised estimates of Rs. 48,228 crores in 1986-87. The current revenues were estimated at Rs. 41,489 crores, 16.7 per cent and 13.4 per cent higher than the budget estimates and revised estimates respectively in 1986-87. Their own tax revenues were projected to grow by 19.2 per cent, while their share in Central taxes was estimated to go up by 17.2 per cent over 1986-87 (B.E.). Non-tax revenues and grants from Centre were estimated to grow by 11.5 per cent and 13.5 per cent respectively. The overall budgetary deficit was placed at Rs. 559 crores as against Rs. 327 crores and Rs. 999 crores in the budget estimates and revised estimates of last year.

6.50 The break-up of aggregate expenditure of States and Union Territories show that development expenditure was to rise to Rs. 38,819 crores from the budget estimates of Rs. 33,261 crores last year; an increase of 16.7 per cent. On the other hand, non-development expenditure was to increase by 17.2 per cent to Rs. 14,420 crores from last year's budget estimates of Rs. 12,302 crores. The proportion of development expenditure to aggregate expenditure thus remained at about the level of 73 per cent in both the years.

6.51 The gap between current revenues and aggregate expenditures of the States and Union Territories was estimated at Rs. 11,750 crores, over 17.4 per cent higher than Rs. 10,011 crores in 1986-87 (B.E.). A little over 95 per cent of the gap was to be financed by capital receipts, about half of which were to be loans (net) from the Centre.

Centre and State Governments—Combined

6.52 Aggregate receipts of the Centre, the States, and the Union Territories taken together were budgeted to rise by 15.6 per cent to Rs. 1,03,141 crores in 1987-88 from Rs. 89,216 crores in 1986-87 (B.E.). Tax receipts were projected to increase by 19.5 per cent while non-tax revenues, including internal resources of public sector undertakings for their plans, were expected to move up by 17.6 per cent over 1986-87 (B.E.). Total expenditures were estimated to increase by 17.3 per cent from Rs. 93,246 crores in 1986-87 (B.E.) to Rs. 1,09,388 crores in 1987-88. Developmental expenditures were expected to rise by 12.9 per cent and non-developmental expenditures by a larger 25.1 per cent. As a consequence, the proportion of developmental expenditure to total expenditure slipped down to 61.6 per cent, from 64.0 per cent in 1986-87 (B.E.) and 63.6 per cent in 1986-87 (R.E.). The gap between total expenditure and current revenue estimated at Rs. 30,517 crores in 1986-87 (B.E.) was to widen by 13.8 per cent and was to be financed to the extent of 73.0 per cent from domestic capital receipts and 9.0 per cent from external receipts, leaving a balance of 18.0 per cent to be met through budgetary deficit.

Annual Plan 1987-88

6.53 The aggregate outlay for the Centre, the States and the Union Territories was stepped up by 14.5 per cent to Rs. 44,698 crores (Table 6.5) from the outlay of Rs. 39,052 crores for 1986-87 (B.E.). The allocation for the Central Plan was Rs. 25,042 crores and was 12.3 per cent higher than Rs. 22,300 crores in 1986-87 (B.E.). The allocation for the State and Union Territory Plans was Rs. 19,657 crores, which represented an increase of 17.3 per cent over that of Rs. 16,752 crores in 1986-87 (B.E.).

6.54 The pattern of financing indicated that domestic resources would finance 79.0 per cent of the plan outlay for 1987-88 and net inflow from abroad would contribute another 8.3 per cent. The remaining 12.7 per cent was expected to be met through budgetary deficit. The contribution of the balance from current revenues at 1984-85 rates of taxation was expected to be a negative figure (Rs. 1,599 crores), but the contribution of public enterprises was estimated at Rs. 5,242 crores at 1984-85 level of fares, freight rates, tariff and product prices. Additional resource mobilisation measures taken by the Central and State Governments and their enterprises in 1985-86 and 1986-87 and proposed to be taken in 1987-88 were to contribute Rs. 8,323 crores. The other sources of financing were to be : market borrowings (Rs. 8,371 crores), small savings (Rs. 5,400 crores), public sector bonds (Rs. 2,001 crores), provident funds (Rs. 1,689 crores), term loans from financial institutions (Rs. 952 crores), and miscellaneous capital receipts (Rs. 5,343 crores).

TABLE 6.5

Annual Plan Outlay : Centre, States and Union Territories

(Rs. crores)

Heads of Development	Annual Plan 1986-87*		Annual Plan 1987-88	
	Amount	Percentage to total	Amount	Percentage to total
1. Agriculture and Allied Activities.	2196	5.6	2378	5.3
2. Rural Development	2479	6.3	2714	6.1
3. Special Area Programme.	597	1.5	697	1.6
4. Irrigation and Flood control.	3192	8.2	3762	8.4
5. Energy	12006	30.7	12999	29.1
6. Industry and Minerals	5313	13.6	5635	12.6
7. Transport	5136	13.2	6243	14.0
8. Communications	899	2.3	1231	2.8
9. Science, Technology and Environment.	546	1.4	670	1.5
10. Social Services.	6113	15.7	7586	16.9
11. Others.	575	1.5	783	1.7
Total	39052	100.0	44698*	100.0

*Because of revision in the accounting classification from April 1, 1987, the figures for 1986-87 have been reworked to make them comparable with those for 1987-88.

Post-Budget Developments

Supplementary Demands for Grants

6.55 Two supplementary demands for grants have so far been presented to the Parliament in August and November, 1987. The first supplementary demand for grants involved a gross expenditure, plan and non-plan, of Rs. 688 crores and, although the whole of it was to be matched by corresponding savings/improvement in receipts by concerned Ministries and Departments, only Rs. 291 crores were identified by that time. The main items of expenditure on the Plan side included additional foodgrains for drought relief (Rs. 176 crores), loans to shipping companies in respect of past commitments of Shipping Development Fund Committee (Rs. 122 crores), assistance to Punjab on account of natural calamities (Rs. 92 crores), special equipment for Bombay Off-shore project (Rs. 53 crores) and provision of drinking water to drought-hit areas (Rs. 50 crores).

6.56 The second supplementary demand for grants involved a gross expenditure of Rs. 1,780 crores. However, taking matching savings/increased receipts into account, the net additional expenditure was estimated at Rs. 1,381 crores, out of which Rs. 815 crores was related to drought and flood relief to be financed from the resources raised by the economy and additional resource measures rece-·-· undertaken. The balance of Rs. 565 crores mainly comprised of Rs. 300 crores for fertiliser subsidy, Rs. 182 crores for assistance to Punjab and Rs. 50 crores for subsidy to new industrial units in selected backward areas.

6.57 The performance of tax revenues, as revealed by the Centre's collections from major taxes during the period April-December 1987 has been fairly satisfactory. Total collections from major taxes compared favourably with the projected levels on pro-rata basis. Although the excise revenue lagged somewhat, the deficiency has been more than made up by higher collections from Customs duties and Income and Corporation Taxes.

TABLE 6 6

Centre's collection from major taxes during the period April-December, 1987

(Rs. crores)

	April—December		Percentage Increase 1987-88/ 1986-87	As Percentage of 1987-88 B.E.
	1987-88	1986-87		
1	2	3	4	5
Income and Corporation Tax .	4305	3955	8.8	67.5 (65.6)
Excise .	11687	10386	12.5	69.8 (71.7)
Customs. .	9731	8189	18.8	75.6 (71.4)
Total . .	25723	22529	14.2	71.5 (70.4)

(Figures in brackets in Col. 5 indicate percentage of collections in 1986-87).

6.58 The experience of the Centre's tax collections in the drought years of 1972-73. 1979-80 and 1982-83 reveals that the Centre's total collections had been within 2 per cent (minus/plus) of budgeted levels in these years. This was owing to the relative insulation of industrial production from the effects of drought in the first half of the year, higher customs collections than the budgeted levels owing to larger imports, as well as special efforts made by the revenue administration. Although there has been a more severe and widespread drought this year, efforts have been stepped up to improve tax collections.

6.59 However, the total expenditure during the current year because of drought conditions, is anticipated to be substantially higher than the budgeted level. A package of measures aimed at economy in expenditure on one side, and mobilisation of additional resources through fiscal and other imposts on the other, has been taken during the course of the year. In September, the Government announced the following measures.

(i) A surcharge of 5 per cent for the assessment year 1988-89 on all income tax payers whose total income exceeds Rs. 50,000.

(ii) A similar surcharge on all corporate profits above Rs. 50,000 for a period of one year.

(iii) A surcharge of 10 per cent on wealth tax in regard to assessment year 1988-89.

(iv) A surcharge of 5 per cent ad valorem by way of increase in auxiliary duty of customs on all imports, except crude petroleum and items exempt from auxiliary duty, such as specified edible oils, fertilisers, life saving drugs, and some basic chemicals.

(v) A surcharge of 10 per cent on domestic air fares and on air-conditioned and first class railway fares.

The surcharge on railway fares was made effective from November 1, 1987. The surcharge on air fares has not yet been introduced because of certain procedural issues, which are under consideration.

6.60 During the current year, the additional yield from the above tax measures is estimated to be about Rs. 220 crores from direct taxes and Rs. 250 crores from indirect taxes. In designing these measures an attempt was made to ensure that the additional burden falls on the richer sections of society, which have the ability to pay, rather than on the poor or the middle income groups or on tiny and small scale units. No increase was made in case of excise or customs duties in respect of essential commodities so as to avoid any adverse impact on their prices.

6.61 To mobilize additional resources, a new 9% Relief Bond, 1987 was issued from December 1, 1987. Interest on these bonds would be exempt from income tax and these Bonds would be exempt from wealth tax provided these are owned from the date of subscription or for a period of at least six months ending with the relevant valuation date, whichever is shorter. Gift of the Bonds made by an initial subscriber will be exempt from Gift-Tax subject to a maximum of Rs. 5 lakhs in value in the aggregate in one or more years.

6.62 The information, intelligence, and enforcement measures have been pursued with vigour and were intensified to improve tax collections. To widen the coverage and to bring into the tax-net defaulter assessees as well as to detect tax evasion among those under-reporting their incomes, survey operations have been extended. The Directorate of Inspection, which was expanded, was put incharge of this function. During the period April-December 1987, 317,718 surveys were conducted bringing in 335,269 additional assessees compared to 99.456 surveys and 272,426 additional assessees in the corresponding period in the previous year. 6342 searches were conducted under the Income Tax Act during the period April—December, 1987. They were higher than the 5273 searches in the corresponding period of the previous year. The value of assets seized in those searches at Rs. 88.46 crores, also exceeded the value of assets seized in the last year, which were Rs. 73.05 crores. There has also been a substantial increase in the detection of the amount of excise duty evaded. This amounted to Rs. 1198 crores during January—December, 1987 against Rs. 540 crores in the corresponding period in the previous year. The drive against smuggling has also been continued with full vigour and the value of contraband goods seized was Rs. 205 crores during April—December, 1987, which compared favourably with Rs. 163 crores being the value of the seizures made in the corresponding period last year. 557 persons were detained under COFEPOSA between April—December, 1987 against 605 detained between April—December, 1986. The operation of Government's pre-emptive right to acquire immovable property has been extended to two more cities viz., Bangalore and Ahmedabad.

6.63 The structure of excise and customs duties has been reviewed during the post-Budget period in the light of emerging developments and the needs of the economy. Basic customs duty was reduced to 10 per cent on components for fuel-efficient two wheeled motor vehicles. Battery and electrically operated vehicles were provided relief on import duty (50 per cent reduced to 35 per cent) as well as on excise duty (10 per cent reduced to 5 per cent). To protect domestic production, the import duty on components for fork-lift trucks and earth-moving machinery was raised. Concessions in import duties were granted to aluminium ingots, copper items and plastic resins such as LDPE, HDPE, PVC and PP. In the interest of providing cheaper coking coal of low ash content to the steel industry, the concession of duty free import was extended for another year i.e. upto end June, 1988. To improve the supply of pulses, affected by the drought, the customs duty on pulses has been reduced from 25 per cent to 10 per cent. Export duty on coffee has been progressively reduced to Rs. 170 per quintal, in view of the fall in international prices.

6.64 As a follow up of the announcement made in the Budget Speech, a special programme for technological upgradation of selected capital goods industries has been launched by IDBI, and to provide fiscal support to the programme, a concessional customs duty of 35 per cent has been fixed for a large number of specified items of machinery and instruments imported under the scheme. To give further filip to the electronics and computer industry a uniform customs duty of 60 per cent has been fixed for all magnetic tapes, but to protect the interest of domestic industry the exemption from countervailing duty in case of magnetic tapes has been withdrawn. A concessional rate of duty has also been extended to a number of specified video soft-ware generation equipment. A few more items have also been added to the duty free list of life saving drugs and medicines.

6.65 The basic customs duty on DMT and PTA was reduced by Rs. 3 per kg. Further, excise duty has also been waived on Monoethylene Glycol (MEG) when used for the manufacture of polyester fibre or yarn. On the other hand, the excise duty has been increased by Rs. 2 per kg. in case of propylene staple fibre, tows and tops. In October, excise duty of 15 per cent on indigenously produced PTA has been withdrawn. Customs duty on import of N-paraffin, a raw material for manufacture of LAB has also been reduced. Excise duty has been substantially reduced in respect of nylon filament yarn used in the manufacture of nylon-cotton blended sarees under a programme approved by the Ministry of Textiles, to make sarees available at lower prices.

6.66 In order to increase the production of sugar, exemption from excise duty was allowed in respect of excess production of sugar during the period May 1, 1987 to June 30, 1987 and again for the period from October 1, 1987 to November 30, 1987 over the average level of production in the corresponding periods of the preceding three sugar years. Similarly, to augment the production of cement, new units (i.e. those having commenced production from January 1, 1982) whose production in the preceding month exceeded 2.5 per cent of the licensed capacity, have been allowed to avail a duty rebate in the particular month.

6.67 Certain modifications in the excise structure have been made as a measure of rationalisation. To promote the interest of small scale paper units, credit of excise duty on inputs e.g. paper and paper boards has been standardized at Rs. 800 per tonne or actual duty paid whichever is less. To avoid unintended benefit of the small scale excise concession scheme to certain manufacturers, the exemption available to small scale industries has, since October 1, 1987 been withdrawn for goods which are affixed with brand or trade name belonging to a company or person not otherwise eligible for small scale exemption. The benefit of MODVAT scheme in respect of aerated waters has been withdrawn from October 1, 1987.

6.68 Excise duty on molasses has been doubled to Rs. 60 per tonne and a scheme of grant of credit at the rate of Rs. 258 per kilo-litre for specified uses of ethyl alcohol under MODVAT has been introduced. Recently i.e. from October, 1987, the excise duty on black and white TV sets of size not exceeding 15 cms. has been prescribed at Rs. 200 per set, and effective rates have been fixed in respect of various combination sets of consumer electronic items which are generally used by the affluent sections.

Ninth Finance Commission

6.69 In pursuance of the provisions of article 280 of the Constitution of India and of the Finance Commission (Miscellaneous Provisions) Act, 1951, the Ninth Finance Commission was constituted on June 17, 1987 (Chairman : Shri N. K. P. Salve). The Commission has been charged with the duty of making recommendations as to :

— distribution between the Union and the States, and also the States inter se, of the net proceeds of Central taxes like income-tax (other than corporation tax) and Union excise duties, which are to be, or may be, divided between the Union and the States; and

— the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.

The Commission will also determine and recommend the sums to be paid to the States, which are in need of assistance, by way of grants-in-aid of their revenues in pursuance of the substantive provision of article 275(1) of the Constitution.

6.70 In making its recommendations, the Commission has been requested to :

— adopt a normative approach in assessing the receipts and expenditures on the revenue account of the States and the Centre, and, in doing so, keep in view the special problems of each State, if any, and the special requirements of the Centre such as defence, security, debt servicing and other committed expenditure or liabilities;

— have due regard to the need for providing adequate incentives for better resource mobilisation and financial discipline as well as closer linking of expenditure and revenue-raising decisions;

— take into account the need for speed, efficiency and effectiveness of Government functioning and of delivery systems for Government programmes; and

— keep in view the objective of not only balancing the receipts and expenditure on revenue account of both the States and the Centre, but also generating surpluses for capital investment.

6.71 The Commission has also been requested to suggest changes, if any, to be made in the principles governing the distribution, among the States of (i) the net proceeds in any financial year of the additional duties of excise leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, and (ii) the grants to be made available to the States in lieu of the tax under the repealed Railway Passenger Fares Tax Act, 1957.

6.72 The Commission while making its recommendations on the various matters aforesaid, has to adopt the population figures of 1971 in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.

6.73 The Order constituting the Commission also provides that :

— the Commission may examine the feasibility of the merger of additional duties of excise in lieu of sale tax with basic duties of excise and evolve a suitable formula for allocating a part of the duties of excise in respect of the goods described in column (3) of the First Schedule to the Additional Duties of Excise (Goods of Special Importance) Act, 1957, for distribution among the States, in lieu of sales tax;

— the Commission may make an assessment of the debt position of the States as on 31st March, 1989, and suggest corrective measures as deemed necessary keeping in view the financial requirements of the Centre; and the Commission may review the policy and arrangement in regard to the financing of relief expenditure by the States affected by natural calamities, and suggest modifications as it considers appropriate, in the existing arrangements, having regard, among other considerations, to the need for avoidance of wasteful expenditures. In this connection, the Commission is being asked to examine, inter alia, the feasibility of establishing a national insurance fund to which the State Governments may contribute a percentage of their revenue receipts.

6.74 With a view to making the recommendations of the Commission co-terminus with the five year plans, the Commission has been requested to make two reports, the first report covering a period of one year viz., 1989-90, by the end of June, 1988, and the second report covering a period of five years of the Eighth Plan, viz. 1990—95, by the end of June, 1989.

The Direct Tax Laws (Amendment) Act, 1987

6.75 In August, 1986, a Discussion Paper on simplification and rationalisation of direct tax laws was placed before parliament. Following the consideration of suggestions made in this paper, the Direct Tax Laws (Amendment) Bill, 1987 was introduced in parliament in December, 1987, and received the President's assent in January, 1988.

6.76 An important feature of the Act is to shift from the concept of assessment of income to the concept of determination of additional tax or refund, as the case may be. In view of the amendments, no assessment order will generally be required to be passed once acknowledgement of the return of income is issued. To ensure that income earned during the same period by the same category of tax payers is subjected to tax at the same rate, the concept of a uniform accounting year, corresponding to the financial year, has been introduced.

6.77 The Act, *inter alia,* does away with the large number of artificial deductions on the one hand, while providing for revisions in existing ceilings on allowances of various categories of business expenditure, such as remuneration paid to directors and employees of companies and bonus payments. To provide an effective deterrent to evasion and also to increase the cost of avoidance, it provides for the imposition of a mandatory additional tax upto 30 per cent of the concealed income. It also provides for distincentives against formation of trusts and associations of persons, for the purpose of tax avoidance. However, the interest of smaller associations of persons has been protected. The earlier provisions which gave the assessing authorities discretionary powers to levy penalties as well as interest for the same default, have been replaced by a system of mandatory interest. It also provides for the extension of tax concessions to mutual funds by exempting the income and the capital gains of such funds from income and wealth tax subject to certain conditions, and also allows the investors the benefit of deduction under Income Tax and Wealth Tax Acts within the existing limits.

6.78 As some provisions of the Act have generated considerable concern, suggestions for further amendment are being examined by Government.

Study Group on Taxation of Expenditure

6.79 The Study Group on Taxation of Expenditure was constituted in December, 1985 under the Chairmanship of Dr. Raja J. Chelliah, Member, Planning Commission. The Study Group submitted its final report to the Government in April, 1987. The report concluded that, while restructuring the direct tax system on the basis of the expenditure tax principle could be advantageous in several ways, an expenditure tax proper would face insurmountable administrative problems and cause great hardships to the average taxpayer. According to the report, the next best alternative would be to retain formally the income tax structure and introduce into it the expenditure tax principle to the extent possible, subject to requirements of revenue. From this vantage point, the report examines the existing scheme of incentives to savings in the Income Tax Act.

6.80 The Study Group has observed that a basic guiding principle for the scheme of savings incentives should be to encourage and reward only net savings as far as possible, that is, if an investment or deposit (saving) is exempt, the disinvestment or withdrawal (dissaving) must be made subject to tax. Another principle guilding the Group's recommendations is that if tax deduction is allowed for making an investment, then the income from the same investment should not also be exempt. More broadly, the Group also recommended that variations in the net rates of return on the saving instruments covered by tax incentive schemes should be reduced to the minimum, having regard to such relevant factors as maturity period and the riskiness of the investment. The Study Group report was discussed in the Parliamentary Consultative Committee of the Ministry of Finance. Consistent with the paramount need to maintain the tempo of small savings, the Study Group's report is being kept in view in formulating policy.

Central Government Departmental Enterprises

Railways

6.81 The year 1986-87 witnessed an intensification of the 'traffic effort' on the part of railways to improve their financial performance. Due largely to this effort, as well as increases in freight and parcel rates with effect from December 1, 1986, it was possible for the railways to end up with a small net surplus of Rs. 11 crores, despite a substantial increase in wage bill (Rs. 563 crores) arising from the implementation of the recommendation of the Fourth Pay Commission. It was notable that the railways, without any appreciable increase in the coaching fleet, managed to introduce additional train facilities through improved utilisation by adopting various measures, like rationalising the rake links, minimising the lie-over period, decreasing the vehicle ineffectives, increasing the periodic overhaul output and establishing computerised coaching cabinets. The Net Tonne Kilometres per wagon per day (B.G.), which is the general efficiency indicator, touched an all time high of 1,321 during April—December, 1986 compared to 1,255 recorded in the same period of 1985.

6.82 The Budget Estimates for Railways for 1987-88, envisaged a net surplus of Rs. 69 crores, after discharging the full dividend obligation of Rs. 652 crores. A target of total freight transport output of 223 billion net tonne kilometres was set for the year. This target would mean an originating tonnage of 313 million tonnes of which 287 million tonnes would be revenue earning. Other traffic, including coaching traffic in terms of passengers, luggage and parcels, was projected to go up by about 3 per cent over the 1986-87 level. On these assumptions and at the existing fare and freight rates, gross traffic receipts were estimated to rise by 9 0 per cent over the revised estimates for 1986-87. The ordinary working expenses were estimated to increase by 6.6 per cent, owing to enhancement in amount required for staff increments, payment of dearness allowance and for fuel and maintenance related to proposed increase in activity. The contribution for Depreciation Reserve Fund was augmented by Rs. 100 crores to Rs. 1350 crores. The contribution to Pension Fund was, likewise, raised by Rs. 100 crores to Rs. 450 crores to meet the increasing quantum of withdrawals from the Fund due to liberalisation in pensionary benefits and the increase in number of pensioners.

6.83 It was noteworthy that the entire increase in gross traffic receipts during 1987-88 was projected to flow from intensification of traffic effort. The railways did not propose any increase in passenger fares and freight and parcel rates. On the other hand, concessions were allowed to the deserving sections of society such as the handicapped, the war widows, and the drought and flood affected (for fodder movements).

6.84 The Railways Plan for 1987-88 envisaged an outlay of Rs. 2,980 crores compared with Rs. 2,675 crores in 1986-87. The Plan outlay was to be financed to the extent of 41.3 per cent from the general budget. Another 48.6 per cent would come from railway's own internal resources and the remaining 10.1 per cent (Rs. 300 crores) from market borrowings. The railway's own contribution to their plan has shown continuous improvement from 25.0 per cent in Fifth Plan to 42.0 per cent in Sixth Plan and 50.0 per cent, on an average, in the first three years of the Seventh Plan. Railways continued to accord priority to rehabilitation and modernisation programme, keeping in view the need for a quantum jump in technology upgradation.

6.85 It may be noted that subsequent to the presentation of railway budget, the Planning Commission revised upwards the 1987-88 Plan outlay of railways by Rs. 420 crores to Rs. 3,400 crores. The plan outlay was, however, pruned by Rs. 100 crores to Rs. 3,300 crores as a part of effecting savings for drought relief.

Posts and Telecommunications

6.86 The gross receipts of Posts and Telecommunications amounted to Rs. 1,850 crores in the revised estimates of 1986-87, Rs. 70 crores less than in the budget estimates. At the same time, their net working expenses registered an increase of Rs. 223 crores to Rs. 1,901 crores, largely on account of the impact of the Fourth Pay Commission's recommendations. The dividend liability to General Revenues also moved upto Rs. 213 crores as against the budget estimates of Rs. 192 crores. The net outcome of these transactions was that there emerged a deficit of Rs. 264 crores as against a surplus of Rs. 50 crores in the budget estimates of 1986-87. The deficit arose on account of the widening of postal losses to Rs. 335 crores from Rs. 224 crores in the budget estimates, and the shrinking of surplus of telecommunications to Rs. 71 crores from Rs. 274 crores in the budget estimates.

Central Government Public Enterprises

6.87 The financial performance of Centre's public enterprises, as a whole, showed substantial improvement during 1986-87. The overall net profits of these enterprises touched an all time high figure of

Rs. 1,769 crores, showing an increase of about 51 per cent over the net profit of Rs. 1,172 crores during 1985-86 (Table 6.6). It was gratifying to note that while pre-tax profits earned by the profit-making enterprises had shown marked improvement from Rs. 3,857 crores to Rs. 4,804 crores, the total loss incurred by loss-making enterprises increased only marginally to Rs. 1,710 crores from Rs. 1,684 crores in 1985-86. During 1985-86, the losses of the loss-making units had widened by as much as 49 per cent from Rs. 1,112 crores in 1984-85. The ratio of gross profit to capital employed increased marginally from 12.3 per cent to 12.5 per cent. As in the past, the petroleum group of companies provided the bulk of the increase in net profits of Centre's public enterprises in 1986-87.

TABLE 6.7

Profile of Centre's Public Enterprises

	Unit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (Provisional)
1	2	3	4	5	6	7	8	9
1. Number of running public enterprises	Number	163	188	193	201	207	211	214
2. Capital employed	Rs. crores	18207	21935	26526	29851	36382	42965	51931
3. Turnover	Rs. crores	28635	36482	51989	47272	54784	62360	69016
4. Gross Margin (Profit before depreciation, interest and tax) . . .	Rs. crores	2401	4012	5184	5771	7386	8230	9894
5. Depreciation*	Rs. crores	983	1358	1719	2205	2758	2983	3382
6. Gross profit before interest and tax	Rs. crores	1418	2654	3465	3565	4628	5287	6512
7. Interest	Rs. crores	1399	1630	1923	2086	2529	3115	3417
8. Net profit before tax . . .	Rs. crores	19	1024	1542	1480	2079	2172	3095
9. Tax	Rs. crores	222	579	928	1239	1190	1000	1326
10. Net profit after tax . . .	Rs. crores	—203	445	614	240	909	1172	1769
11. Internal resources generated (Gross)	Rs. crores	1225	2261	2753	3695	4251	5068	6097
12. Gross profit to capital employed .	per cent	7.8	12.1	13.1	11.9	12.7	12.3	12.5

*Includes deferred revenue expenditure.

6.88 Along with the improvement in overall net profits of Centre's public enterprises in 1986-87, there was an increase of 19.6 per cent in gross margin (that is, profit before depreciation, interest and tax). In absolute terms, gross margin increased to Rs. 9,894 crores from Rs. 8,270 crores in 1985-86. Net internal resource generation also improved to Rs. 5,213 crores from Rs. 4,259 crores. Investment at the same time recorded an increase of Rs. 11,923 crores over the level of Rs. 45,479 crores in 1985-86.

6.89 At the sectoral level, out of 21 groups, as many as 11 had shown improvement by either increasing their profits or reducing their losses. As in the previous years, the petroleum sector provided the bulk of the net profits. The profits of this sector rose to Rs. 2,142 crores from Rs. 1,651 crores in 1985-86. Among the other sectors showing improved performance during 1986-87, the notable ones were minerals and metals, coal, power and telecommunication services. The top ten profit making enterprises included Oil and Natural Gas Commission, Indian Oil Corporation, National Thermal Power Corpn. Ltd., Bharat Heavy Electricals Ltd., Mahanagar Telephone Nigam Ltd. and Videsh Sanchar Nigam Ltd. In all, 10 sectors had shown deterioration in their financial performance during the period. The major ones were steel, textiles and contract and construction services. The top ten loss-making enterprises included Delhi Transport Corporation, Eastern Coalfields Ltd., The Fertilizer Corporation of India Ltd., Bharat Coking Coal Ltd., Hindustan Fertiliser Corporation Ltd. and the Indian Iron & Steel Co. Ltd.

6.90 The provisional data for the first half of the current financial year show net profits of Rs. 60 crores against net profits of Rs. 233 crores in the first half of the previous year. The disaggregated analysis of performance reveals a drop in the number of profit-making enterprises to 78 from 84 in the comparable period of the previous year. The net profits of profit-making enterprises show a marked improvement from Rs. 1,260 crores to Rs. 1,475 crores. The improved profits have, however, been more than offset by the increase in net losses of loss-making units from Rs. 1,027 crores to Rs. 1,415 crores.

State Governments' Commercial Undertakings

6.91 Among the departmentally run undertakings of States and Union Territories, only forests and mines and minerals have been showing net surplus while all the others have been incurring losses for quite sometime. These losses were to widen further during 1987-88. The largest amount of loss was anticipated in the case of commercial irrigation and multipurpose river proejcts—Rs. 1,272 crores as against Rs. 1,054 crores in 1986-87 (RE). The losses in respect of departmentally run power projects were estimated to be Rs. 51 crores as against Rs. 60 crores in the revised estimates of 1986-87. The combined losses of road and water transport services and dairy development were anticipated at Rs. 43 crores, somewhat lower than Rs. 50 crores in the revised estimates of the previous year. The losses in respect of industry were to be slightly higher (Rs. 13.7 crores) than in last year (Rs. 12.7 crores). Among the major surplus generating sectors, forest was expected to contribute Rs. 522 crores, about 9.0 per cent more than Rs. 480 crores in 1986-87 (RE). The net contribution of mines and minerals was, however, estimated to be Rs. 29 crores, lower than Rs. 36 crores in the previous year.

6.92 The dividends and profits from non-departmental undertakings of the States and Union Territories worked out at only Rs. 22.0 crores, on an average in the five years, 1981-82 to 1985-86. The revised estimates of 1986-87 showed improvement in dividends and profits to Rs. 76 crores and further improvemnt to Rs. 87 crores was expected in 1987-88. However, the two major non-departmental undertakings viz., the State Electricity Boards (SEBs) and the State Road Transport Corporations (SRTCs) continued to incur substantial losses in their operations. Contrary to expectations, the losses of the EEBs at current rates mounted to Rs. 1,546 crores in the revised estimates in 1986-87 as against Rs. 1,260 crores in the Annual Plan estimates of that year. The position was assumed to remain unchanged in 1987-88 and the losses were estimated at Rs. 1,583 crores (Annual Plan estimates). It may be recalled that as per the Seventh Plan document, the commercial losses of SEBs were projected at Rs. 4,757 crores including Rs. 7,000 crores of additional resource mobilisation for the entire Plan period. However, the actual and anticipated losses of SEBs in the first-three years of the Seventh Plan at Rs. 4,708 crores have almost touched the amount provided for the five year period of the Plan. However, in terms of the rate of return on capital (after depreciation and interest), which is also negative, there has been some improvement in that this negative ratio has declined from (—) 11.1 per per cent in 1985-86 to (—) 9.3 per cent in 1986-87 (R.E) and further to (—) 8.1 per cent in 1987-88. In this context, it may be recalled that the Electricity (Supply) Act, 1948, as amended in 1985, enjoins the SEBs to earn a return of not less than 3.0 per cent by way of net surplus after providing for depreciation and interest. An important factor contributing to the high level of commercial losses is the requirement for the Boards to supply electricity to rural/agricultural sector at low average tariff rates. The performance of SRTCs, the other major non-departmental undertakings, was no better. Their commercial losses turned out to be Rs. 198 crores in 1986-87 (latest estimates), a marginal improvement against the loss of Rs. 226 crores in 1985-86. The losses were expected to be somewhat lower at Rs.144 crores in 1987-88. Their rate of return on block capital was a negative 12.0 per cent in 1985-86 and a negative 9.1 per cent in 1986-87. It may be noted that during the Seventh Plan period as a whole, it was estimated that the SRTCs would incur a loss of Rs. 1,434 crores at 1984-85 rates of fares. At the same time, they were expected to raise additional revenue of about Rs. 2,200 crores, after allowing for cost over-runs. On the whole the SRTCs were required not only to wipe out their losses but also to make a positive contribution of Rs. 766 crores.