2

PUBLIC FINANCE

Further consolidation of fiscal balance, tax reform, social equity and poverty alleviation were some of the major considerations for the 1995-96 budget of the Central Government. The fiscal setback of 1993-94 is likely to be fully recovered in 1995-96. Over the five year period 1990-91 to 1995-96 (BE) the fiscal deficit is estimated to decline by 2.8 per cent of GDP. The contribution of the decline in Plan expenditure (0.7 per cent of GDP) is less than 2/7th the contribution of the decline in non-Plan expenditure (2.6 per cent of GDP). The primary deficit, which is a better measure of the effort made, declined by 3.8 per cent of GDP over the period.

2. Gross dissaving by the Central Government, which rose sharply in 1993-94 and then declined in 1994-95 (RE), is estimated to decline still further to 1.7 per cent of GDP in 1995-96 (BE). Total outstanding liabilities of the Central Government, after reaching a peak of 69.7 per cent of GDP in 1993-94 are on the decline. A substantial proportion of these liabilities are on behalf of the States, Union Territories and Public Sector Enterprises. Loans given to them constituted over 31 per cent of the total marketable outstanding liabilities, arrived after excluding borrowings from RBI, in 1994-95 (RE). The book value of the economic assets aggregate to another 26 per cent of these liabilities. Thus, only 43 per cent of the marketable outstanding liabilities are on account of social and administrative assets and expenditure.

3. The outlay for the Annual Plan 1995-96 for the Centre, States and Union Territories is estimated to increase by 21.1 per cent compared to the outlay in 1994-95 (RE). Financial performance of the Departmental Commercial Undertakings is estimated to improve in 1995-96 (BE). Postal deficit is estimated to decline from Rs.352 crore in 1994-95 (RE) to Rs.304 crore in 1995-96 (BE).

4. Reforms in the tax system has been one of the key elements of the structural reforms initiated since July 1991. These reforms have encompassed both direct and indirect taxes and have moved towards a tax structure which is simple, relies on moderate tax rates with a wider base and better enforcement and serves the objectives of equity and efficiency. Substantial progress has been made in the last five years. The maximum marginal rate of personal income tax was reduced from 56 per cent to 40 per cent and exemption limit raised from Rs.22,000 in 1991 to Rs.40,000 in 1995. The rates of corporate income tax, (inclusive of 15 per cent surcharge) which were 51.75 per cent for publicly held company and 57.5 per cent for closely held company were unified and reduced to 46 per cent. In the case of foreign companies the tax rate was brought down from 65 to 55 per cent. Peak import duty rates, which were in excess of 300 per cent prior to reforms were brought down in a phased manner to 50 per cent. Excise duty regime has been greatly improved with a significant switchover from specific to advalorem duties to ensure built in revenue elasticity and a far reaching rationalisation of the rate structure. The ambit of MODVAT i.e., credit for taxes paid on inputs, was extended to cover capital goods, R & D equipment, POL etc. The number of advalorem excise duty rates were brought down to 10 (including nil rate) and a large number of end use exemptions eliminated. The budget for 1995-96 continued the emphasis on strengthening the incentives for investment, simplification, lower rates and greater buoyancy. To facilitate expansion of quality infrastructure a five year tax holiday was provided to enterprises which provide certain facilities in the area of highways, bridges, etc.

5. Overall, tax reforms since July 1991 have helped in correcting the imbalance in the structure of revenue sources. Direct taxation is generally regarded a more equitable way of raising revenue. It is noteworthy that the share of direct taxes in GDP rose from 2.1 per cent in 1990-91 to an estimated 2.9 per cent in 1995-96. The latter could be even higher when revised estimates for 1995-96 become available. Besides, the share of direct taxes

in the gross tax revenue of the centre rose from about 19 per cent in 1990-91 to an estimated 29 per cent in 1995-96. Another noteworthy dimension is the drop in the share of customs revenue in GDP from 3.9 per cent in 1990-91 to 2.8 per cent in 1995-96. Over the same period contribution of customs to the gross tax revenue of the Centre declined from almost 36 per cent to 28.4 per cent. These are healthy portents from the point of view of equity and efficiency.

6. Prior to reforms high tax rates in the realm of direct taxation did not yield high collections. The reduction in personal and corporate tax rates over the past years have brought a substantial increase in tax collections. Average buoyancy as measured by the ratio of change in tax revenue to the change in the GDP at current prices, has shown significant improvement. The buoyancy of personal income tax revenues rose from an average of 1.1 during 1986-87 to 1990-91 to around 1.5 during 1991-92 to 1995-96 (BE). Similarly the buoyancy of corporate income tax revenues has risen from an average of 0.8 during

TABLE 2.1

Receipts and Expenditure of the Central Government

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95 (RE)	1995-96 (BE)
			(Rs. crore)				
1. Revenue Receipts (2+3)	12419	54954	66031	74128	75453	88770	100787
2. Tax Revenue (Net of States share)	9358	42978	50069	54044	53449	64987	74374
3. Non-Tax Revenue	3061	11976	15962	20084	22004	23783	26413
4. Revenue Expenditure of which	14455	73516	82292	92702	108169	122902	136328
(a) Interest payments	2604	21498	26596	31075	36741	44000	52000
(b) Subsidies	1851	12158	12253	11995	12864	12810	12401
(c) Defence expenditure	3604	10874	11442	12109	14978	16611	18146
5. Revenue Deficit	2037	18562	16261	18574	32716	34132	35541
6. Capital Receipts of which	7261	38997	38528	36178	55440	67502	66364
(a) Recovery of loans	2104	5712	6021	6356	6191	6700	6730
(b) Other receipts (mainly PSUs disinvestment)			3038	1961	-48	5767	7000
7. Capital Expenditure	7801	31782	29121	29916	33684	39370	35823
8. Total Expenditure of which	22256	105298	111413	122618	141853	162272	172151
(a) Plan expenditure	8994	28365	30961	36660	42855	48761	48500
(b) Non-plan expenditure	13262	76933	80452	85958	98998	113511	123651
9. Fiscal Deficit	7733	44632	36323	40173	60257	61035	57634
			(As per cent of GDP)				
1. Revenue Receipts (2+3)	9.1	10.3	10.7	10.5	9.4	9.4	9.6
2. Tax Revenue (Net of States share)	6.9	8.0	8.1	7.7	6.7	6.9	7.1
3. Non-Tax Revenue	2.3	2.2	2.6	2.8	2.7	2.5	2.5
4. Revenue Expenditure of which	10.6	13.7	13.3	13.1	13.5	13.0	13.0
(a) Interest payments	1.9	4.0	4.3	4.4	4.6	4.7	5.0
(b) Subsidies	1.4	2.3	2.0	1.7	1.6	1.4	1.2
(c) Defence expenditure	2.6	2.0	1.9	1.7	1.9	1.8	1.7
5. Revenue Deficit	1.5	3.5	2.6	2.6	4.1	3.6	3.4
6. Capital Receipts of which	5.3	7.3	6.2	5.1	6.9	7.1	6.3
(a) Recovery of loans	1.5	1.1	1.0	0.9	0.8	0.7	0.6
(b) Other receipts (mainly PSUs disinvestment)	0.0	0.0	0.5	0.3	-0.0	0.6	0.7
7. Capital Expenditure	5.7	5.9	4.7	4.2	4.2	4.2	3.4
8. Total Expenditure of which	16.4	19.7	18.1	17.4	17.7	17.2	16.5
(a) Plan expenditure	6.6	5.3	5.0	5.2	5.3	5.2	4.6
(b) Non-plan expenditure	9.8	14.4	13.0	12.2	12.4	12.0	11.8
9. Fiscal Deficit	5.7	8.3	5.9	5.7	7.5	6.5	5.5

Note: The figures may not add up to the total because of rounding approximations.

1986-87 to 1990-91 to 1.7 in 1991-92 to 1995-96 (BE). The collection rate, defined as the ratio of realised import revenue to the value of imports, has fallen from 47 per cent in 1990-91 to 29 per cent in 1994-95.

Fiscal Deficit: 1990-91 to 1995-96

7. Between 1990-91 and the budget estimates of 1995-96, the fiscal deficit would have declined by 2.8 per cent of GDP. Reduction in the fiscal deficit is due to a 3.2 per cent decline in total expenditure, from 19.7 per cent of GDP in 1990-91 to 16.5 per cent in 1995-96 (BE). The decline in the fiscal deficit is lower than the decline in the total expenditure because revenue receipts including non-debt capital receipts have declined by approximateiy 0.5 per cent of GDP over the same period. However, a better measure of success achieved in fiscal consolidation is the primary deficit which is the fiscal deficit net of interest payments, which are a committed liability for the past borrowings. The primary deficit declined from 4.3 per cent of GDP in 1990-91 to 0.5 per cent of GDP in 1995-96 (BE), a decline of 3.8 per cent of GDP (Table 2.2).

8. The finances of the Central Government, which had reached a critical stage in 1990-91, have registered a substantial improvement since then. Total expenditure of the Central Government which was 19.7 per cent of GDP in 1990-91 declined to 17.2 per cent in 1994-95 (RE) and is estimated to decline further to 16.5 per cent in 1995-96 (BE). Thus, between 1990-91 and 1995-96 (BE), the expenditure would have declined by 3.2 per cent of GDP. Most of this, 2.6 per cent of GDP, decline is due to a decline in the non-plan expenditure which declined from 14.4 per cent of GDP in 1990-91 to 11.8 per cent in 1995-96 (BE). The decline in the Plan expenditure is much lower, only 0.7 per cent of GDP, from 5.3 per cent in 1990-91 to 4.6 per cent in 1995-96 (BE). Revenue receipts have declined from 10.3 per cent to 9.6 per cent over this period. However, the decline has been offset to some extent by increase in the non-debt capital receipts by 0.2 per cent of GDP. Non-tax revenue has also improved from 2.2 per cent of GDP in 1990-91 to 2.5 per cent in 1995-96 (BE).

9. In line with the policy of the Government to reduce the subsidies by targeting them in favour of the poor and needy, total subsidies have declined from 2.3 per cent of GDP in 1990-91 to 1.2 per cent in 1995-96 (BE). There is some decline in the defence expenditure as well.

10. Central Public Sector Enterprises are now increasingly less dependent on the Government for financing their Plan outlays. Budget support declined from 24.4 of their Plan outlay in 1990-91 to 16.9

TABLE 2.2

Components of Gross Fiscal Deficit of the Central Government

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95 (R.E.)	1995-96 (B.E.)
		(Rs. crore)					
1. Fiscal Deficit	7733	44632	36323	40173	60257	61035	57634
1.1. Interest Payments	2604	21498	26596	31075	36741	44000	52000
1.2. Primary Deficit	5129	23134	9727	9098	23516	17035	5634
1.21 Primary Deficit Consumption	1310	6358	1306	979	11985	7588	3407
1.22 Primary Deficit Investment	3819	16776	8421	8119	11531	9447	2227
		(As per cent of GDP)					
1. Fiscal Deficit	5.7	8.3	5.9	5.7	7.5	6.5	5.5
1.1. Interest Payments	1.9	4.0	4.3	4.4	4.6	4.7	5.0
1.2. Primary Deficit	3.8	4.3	1.6	1.3	2.9	1.8	0.5
1.21 Primary Deficit Consumption	1.0	1.2	0.2	0.1	1.5	0.8	0.3
1.22 Primary Deficit Investment	2.8	3.1	1.4	1.2	1.4	1.0	0.2
Memorandum items							
(a) Interest Receipts	1795	8730	10933	12487	15062	16235	18420
(b) Dividend and Profit	82	564	708	993	948	1221	1446

Note: 1. Primary deficit consumption= Revenue deficit-interest payments+interest receipts+dividend & profits
2. Primary deficit investment = Capital expenditure-interest receipts -dividend & profit - recovery of loans-other receipts

per cent in 1994-95 (RE) and is estimated to decline further to 12.3 per cent in 1995-96 (BE).

11. Internal liabilities of the Central Government are estimated to decline marginally from 52.9 per cent of GDP in 1990-91 to 52.1 per cent in 1995-96 (BE). External debt which was 12.4 per cent of GDP in 1990-91 and rose sharply in 1991-92 to 17.8 per cent, mainly due to the devaluation of rupee, has since then declined continuously. It was 14.1 per cent of GDP at the end of September, 1995, a decline of 3.7 per cent since 1991-92. However, compared to 1990-91, there is an increase of 1.7 per cent of GDP. Total liabilities which increased from 65.2 per cent of GDP in 1990-91 to 69.7 per cent in 1993-94 seem to have stabilized. There was a reduction to 67.0 per cent in 1994-95 (RE) and to 66.2 per cent in 1995-96 (BE).

Fiscal and Budgetary Developments in 1994-95

12. The declining trend of fiscal deficit which suffered a temporary reversal in 1993-94 has been again restored and strengthened further. From 7.5 per cent of GDP in 1993-94, the fiscal deficit declined to 6.5 per cent in 1994-95 (RE) (Table 2.1). The fiscal deficit would have been still lower but for sudden surge in the collection from Small Savings and resultant increase in the loans to States and Union Territories. These loans are treated as expenditure of the Central Government and add to the fiscal deficit. If this expenditure, over which the Central Government has no control, is excluded, the fiscal deficit declines to 5.4 per cent of GDP.

Central Government

13. Revenue receipts of the Central Government which had registered a sharp decline in the year 1993-94, remained stable at 9.4 per cent of GDP as per the revised estimates of 1994-95 (Table 2.1). Non-tax revenue declined to 2.5 per cent of GDP from 2.7 per cent in 1993-94. However, the increase in the tax revenue offset the decline in the non-tax revenue. Tax revenue increased from 6.7 per cent of GDP in 1993-94 to 6.9 per cent of GDP in 1994-95 (RE).

14. Total expenditure declined from 17.7 per cent of GDP in 1993-94 to 17.2 per cent of GDP in 1994-95 (RE) (Table 2.1). There was no reduction in the capital expenditure which remained at 4.2 per cent of GDP. The entire decline was in the revenue expenditure which came down to 13.0 per cent of GDP from 13.5 per cent in 1993-94. This was despite the fact that interest payments continue to increase. There was further success in checking the growth of subsidies which declined from 1.6 per cent of GDP in 1993-94 to 1.4 per cent of GDP in 1994-95 (RE). Defence expenditure declined marginally but remained above its level in 1992-93. Non-plan expenditure declined from 12.4 per cent of GDP in 1993-94 to 12.0 per cent of GDP in 1994-95 (RE). Plan expenditure declined marginally to 5.2 per cent of GDP.

Savings and Capital Formation

15. Gross dissavings of the Central Government, which had shot up from 1.2 per cent of GDP in 1992-93 to 2.5 per cent of GDP in 1993-94 improved to 1.9 per cent of GDP in 1994-95 (RE) (Table 2.4). Further, as per the Economic and Functional Classification of the Central Government's Budget, consumption expenditure declined from 4.0 per cent of GDP in 1993-94 to 3.8 per cent in 1994-95 (RE) (Table 2.3). Transfer payments also declined by 0.2 per cent of GDP during this period. Gross capital formation out of budgetary resources consisting of physical and financial assets as a per cent of GDP increased by 0.2 points from 5.6 per cent in 1993-94 to 5.8 per cent in 1994-95 (RE).

Government Debt

16. Government debt, consisting of internal and external liabilities, fell from 69.7 per cent of GDP in 1993-94 to 67.0 per cent in 1994-95 (RE) (Table 2.5). Internal liabilities declined from the 53.8 per cent of GDP in 1993-94 to 51.9 per cent of GDP in 1994-95 (RE). The decline in internal liabilities was mainly because of the decrease in internal debt from 30.7 per cent of GDP in 1993-94 to 29.0 per cent in 1994-95 (RE). 'Other internal liabilities' consisting of Small Savings and Provident Funds etc. registered a smaller decrease from 23.1 per cent of GDP in 1993-94 to 22.9 per cent in 1994-95 (RE). The share of market borrowings in total internal liabilities, which was 32.4 per cent in 1980-81 and has been declining over the years because of a reduction in the Statutory Liquidity Ratio, reached 25.7 per cent in 1993-94. However, the share increased to 26.8 per cent during 1994-95 (RE) because of the incentive provided by market based interest rates on government securities.

17. The external liabilities shown in the budget are at the historical rates of exchange. Since the value of the rupee has depreciated considerably over the years, the external liabilities expressed at the current year-end rate of exchange are much higher. External liabilities which, at the end of the year 1994-95 (RE), were Rs.50628 crore at historical rates, are actually Rs.142499 crore at the current year-end exchange rates. External outstanding liabilities have shown a declining trend since 1991-92. At 15.1 per cent of GDP in 1994-95 (RE), there was a decline of 2.7 per cent of GDP since 1991-92.

TABLE 2.3

Economic Classification of Total Expenditure of Central Government

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95 (RE)	1995-96 (BE)
			(Rs. crore)				
1. Consumption expenditure	5174	22359	24466	26865	31815	35465	38356
2. Transfer payments(Current)	6912	45134	51378	58518	66750	76561	86622
3. Gross capital formation out of budgetary resources	9012	35058	35165	37649	45051	55272	53263
a) Physical assets	1907	8602	9259	11875	12765	15304	16633
b) Financial assets	7105	26456	25906	25774	32286	39968	36630
4. Others	1397	2422	1722	2895	2172	2141	1917
5. Total expenditure	22495	104973	112731	125927	145788	169439	180158
			(As per cent of GDP)				
1. Consumption expenditure	3.8	4.2	4.0	3.8	4.0	3.8	3.7
2. Transfer payments(Current)	5.1	8.4	8.3	8.3	8.3	8.1	8.3
3. Gross capital formation out of budgetary resources	6.6	6.5	5.7	5.3	5.6	5.8	5.1
a) Physical assets	1.4	1.6	1.5	1.7	1.6	1.6	1.6
b) Financial assets	5.2	4.9	4.2	3.7	4.0	4.2	3.5
4. Others	1.0	0.5	0.3	0.4	0.3	0.2	0.2
5. Total expenditure	16.5	19.6	18.3	17.9	18.2	17.9	17.2
			(As per cent of total expenditure)				
1. Consumption expenditure	23.0	21.3	21.7	21.3	21.8	20.9	21.3
2. Transfer payments(Current)	30.7	43.0	45.6	46.5	45.8	45.2	48.1
3. Gross capital formation out of budgetary resources	40.1	33.4	31.2	29.9	30.9	32.6	29.6
a) Physical assets	8.5	8.2	8.2	9.4	8.8	9.0	9.2
b) Financial assets	31.6	25.2	23.0	20.5	22.1	23.6	20.3
4. Others	6.2	2.3	1.5	2.3	1.5	1.3	1.1

Interest Rates

18. The rate of interest on the outstanding liabilities of the Central Government is on the rise. The average rate of interest on internal liabilities which had increased by 0.5 per cent in 1993-94, increased marginally by 0.1 per cent to 9.3 per cent in 1994-95 (RE) (Table 2.6). On external liabilities also, the average rate of interest increased marginally from 3.1 per cent in 1993-94 to 3.2 per cent in 1994-95 (RE).

Assets

19. Substantial assets, both physical and financial, have been created by the Government over the years. As per the revised estimates of 1994-95, these assets amounted to Rs.360914 crore or 38.2 per cent of GDP, down marginally from 41.2 per cent of GDP in 1993-94 (Table 2.7). Against this, the outstanding liabilities amounted to Rs.541329 crore or 57.2 per cent of GDP. External debt in these liabilities is included at historical rates of exchange. Conversion of external debt at the current year-end rates of exchange raises the value of total outstanding liabilities to Rs.633500 crore or 67.0 per cent of GDP at the end of 1994-95 (RE). However, since the assets are shown at book value, these need to be converted into current value, which should be much higher, in order to make the comparison economically valid.

20. Distribution of the assets, at book value, across major economic classes shows that over 70 per cent of the assets were in economic services and about 27 per cent in general services in 1994-95 (RE). Since the social services are under the State Governments their share was naturally low at 3 per cent. Economic assets constituted 26 per cent of the total marketable outstanding liabilities arrived at after excluding the borrowings from the RBI. Borrowings from RBI need to be excluded since, due to their monetisation, the general public has already born the cost in the form of higher inflation. So, in principle, it may be said that atleast 26 per cent of the outstanding marketable debt could be retired by selling these assets. In practice, however, sale of these assets could retire more of the total liabilities depending upon the mode and timings of such sale. A transfer of controlling interests in a public sector enterprise is likely to fetch a higher price of equity then selling only a small proportion

TABLE 2.4

Capital Formation by the Central Government and its Financing

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95 (RE)	1995-96 (BE)
			(Rs. crore)				
I. Gross capital formation out of budgetary resources of Central Government	9012	35058	35165	37649	45051	55272	53263
(i) Gross capital formation by the Central Government	1907	8602	9259	11875	12765	15304	16633
(ii) Financial assistance for capital formation in the rest of the economy	7105	26456	25906	25774	32285	39968	36630
II. Gross Saving of the Central Government	3	-10502	-7802	-8401	-20335	-17771	-17773
III. Gap(I-II)	9009	45560	42967	46050	65386	73043	71036
Financed by							
a. Draft on other sectors of domestic economy	7339	41794	36599	39812	59319	67921	65426
(i) Domestic capital receipts	4762	30447	29744	27500	48359	61921	60426
(ii) Budgetary deficit	2577	11347	6855	12312	10960	6000	5000
b. Draft on foreign savings	1670	3766	6368	6238	6067	5122	5610
			(As per cent of GDP)				
I. Gross capital formation out of budgetary resources of Central Government	6.6	6.5	5.7	5.3	5.6	5.8	5.1
(i) Gross capital formation by the Central Government	1.4	1.6	1.5	1.7	1.6	1.6	1.6
(ii) Financial assistance for capital formation in the rest of the economy	5.2	4.9	4.2	3.7	4.0	4.2	3.5
II. Gross Saving of the Central Government	0.0	-2.0	-1.3	-1.2	-2.5	-1.9	-1.7
III. Gap(I-II)	6.6	8.5	7.0	6.5	8.2	7.7	6.8
Financed by							
a. Draft on other sectors of domestic economy	5.4	7.8	5.9	5.6	7.4	7.2	6.3
(i) Domestic capital receipts	3.5	5.7	4.8	3.9	6.0	6.5	5.8
(ii) Budgetary deficit	1.9	2.1	1.1	1.7	1.4	0.6	0.5
b. Draft on foreign savings	1.2	0.7	1.0	0.9	0.8	0.5	0.5
I. Gross Capital Formation out of Budgetary Resources of Central Govt;increase over previous year	24.7	6.2	0.3	7.1	19.7	22.7	-3.6

Notes: (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) Because of the revision in the series of GDP ,the ratios given here may differ from those given in the earlier issues of Economic Survey.

of the total equity, with control remaining firmly within the existing bureaucratic set up.

21. Capital outlay constituted 54.3 per cent of the total assets in 1994-95(RE). Remaining 45.7 per cent of the assets consisted of loans given to States and Union Territories, Foreign Governments and Government Servants. Over 70 per cent of the total loans have been advanced to States and Union Territory Governments. Public Sector Enterprises accounted for another 28.7 per cent of the loans outstanding at the end of 1994-95 (RE). Their share has shown a declining trend against the share of States and Union Territories Governments which shown an increasing trend. Loans advanced to Government servants and foreign governments constituted less than one per cent of the total loans.

Interest Payments

22. Interest payments, as a proportion of GDP, increased marginally from 4.6 per cent in 1993-94

TABLE 2.5

Outstanding Liabilities of the Central Government

At the end of :

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95 (RE)	1995-96 (BE)
			(Rs. crore)				
1. Internal liabilities	48451	283033	317714	359654	430623	491001	545482
a) Internal Debt	30864	154004	172750	199100	245712	274569	307368
i) Market borrowings	15676	70565	78075	81751	110680	131380	154080
ii) Others	15188	83439	94675	117349	135032	143189	153288
b) Other internal liabilities	17587	129029	144964	160554	184911	216432	238114
2. External debt(outstanding)[a]	11298	31525	36948	42269	47345	50628	54847
3. Total outstanding liabilities (1+2)	59749	314558	354662	401923	477968	541629	600329
4. Amount due from Pakistan on account of share of pre-partition debt	300	300	300	300	300	300	300
5. Net liabilities (3-4)	59449	314258	354362	401623	477668	541329	600029
6.. Total assets	58999	236740	261479	290963	329876	360914	384276
7. Excess of liabilities over assets (5-6)	450	77518	92883	110660	147792	180415	215753
			(As per cent of GDP)				
1. Internal liabilities	35.6	52.9	51.5	51.0	53.8	51.9	52.1
a) Internal Debt	22.7	28.8	28.0	28.2	30.7	29.0	29.4
b) Other internal liabilities	12.9	24.1	23.5	22.8	23.1	22.9	22.8
2. External debt(outstanding)[a]	8.3	5.9	6.0	6.0	5.9	5.4	5.2
3. Total outstanding liabilities	43.9	58.7	57.5	57.0	59.7	57.3	57.4
6. Total assets	43.4	44.2	42.4	41.3	41.2	38.2	36.7
7. Excess of liabilities over assets (5-6)	0.3	14.5	15.1	15.7	18.5	19.1	20.8
Memorandum Items							
External Debt (Rs.crore)[b]	13479	66314	109677	120979	127798	142499	147366
(as per cent of GDP)	9.9	12.4	17.8	17.2	16.0	15.1	14.1
Total outstanding liabilities(adjusted)	61930	349347	427391	480633	558421	633500	692848
(as per cent of GDP)	45.5	65.2	69.3	68.1	69.7	67.0	66.2
Outstanding liabilities (Non-RBI)[c] (Rs.crore)	48495	275292	346504	387973	453780	525209	579557
Outstanding liabilities (Non-RBI) (as per cent of GDP)	35.7	51.4	56.2	55.0	56.6	55.5	55.4

[a] External debt figures represent borrowings by Central Government from external resources and are based upon historical rates of exchange

[b] Converted at current year end exchange rates. For 1980-81,the rates prevailing at the end of March,1981. For 1993-94, the rates prevailing at the end of March,1994 and so on. However, for 1995-96(BE), the rates pertain to end-September, 1995.

[c] This includes marketable dated securities held by the RBI.

TABLE 2.6

Interest on the Outstanding Liabilities of Central Government

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95 (RE)	1995-96 (BE)
			(Rs. crore)				
1. Interest on internal liabilities	2373	19664	23892	27546	33017	39890	47691
a) Internal debt	1369	9814	11317	13542	15587	19391	23282
i) Market borrowings	808	6366	7355	8147	9258	11877	14838
ii) Others	561	3448	3962	5395	6329	7514	8444
b) Other internal liabilities	1004	9850	12575	14004	17430	20499	24409
2. Interest on external debt	231	1834	2704	3529	3724	4110	4309
3. Gross interest payments	2604	21498	26596	31075	36741	44000	52000
4. Net interest payments	809	12768	15674	18587	21679	27765	33580
			(Average rate of interest in per cent)				
1. Internal liabilities	N.A.	8.2	8.4	8.7	9.2	9.3	9.7
a) Internal debt	N.A.	7.4	7.3	7.8	7.8	7.9	8.5
i) Market borrowings	N.A.	10.2	10.4	10.4	11.3	10.7	11.3
ii) Others	N.A.	4.9	4.7	5.7	5.4	5.6	5.9
b) Other internal liabilities	N.A.	9.2	9.7	9.7	10.9	11.1	11.3
2. External debt	N.A.	6.5	8.6	9.6	8.8	8.7	8.5
3. Total liabilities	N.A.	8.0	8.5	8.8	9.1	9.2	9.6
Memorandum Items							
1. Interest on external debt	231	1863	2763	3578	3794	4110	4309
2. Average rate of interest (%)	N.A.	3.4	4.2	3.3	3.1	3.2	3.0

Note The interest liabilities indicated above are on cash basis and not on accrual basis.

TABLE 2.7

Assets of the Central Government

At the end of *

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95 (RE)	1995-96 (BE)
	(Rs. crore)						
1. Capital outlay	29162	122016	135076	155291	182410	196155	205025
(a) General services	5951	31023	31686	37607	45024	52614	60726
(b) Social services	1062	3749	4088	4484	4881	5605	6227
(c) Economic services	22149	87244	99302	113200	132505	137936	138072
2. Loans advanced by the Central Government	29837	114724	126403	135672	147466	164759	179251
(a) *States and Union Territory* Governments	17335	74111	83529	91554	101627	115928	127453
(b) Foreign Governments	261	2103	1546	687	471	526	590
(c) Public Sector Enterprises	12040	37877	40615	42639	44517	47293	50034
(d) Government Servants	201	633	713	792	851	1012	1174
3. Total Assets	58999	236740	261479	290963	329876	360914	384276
4. Outstanding liabilitits	59449	314258	354362	401623	477668	541329	600029
5. Excess of liabilities over Capital Outlay and Loans advanced	450	77518	92883	110660	147792	180415	215753
	(As per cent of GDP)						
1. Capital outlay	21.4	22.8	21.9	22.0	22.8	20.7	19.6
(a) General services	4.4	5.8	5.1	5.3	5.6	5.6	5.8
(b) Social services	0.8	0.7	0.7	0.6	0.6	0.6	0.6
(c) Economic services	16.3	16.3	16.1	16.0	16.5	14.6	13.2
2. Loans advanced by the Central Government	21.9	21.4	20.5	19.2	18.4	17.4	17.1
(a) States and Union Territory Governments	12.7	13.8	13.5	13.0	12.7	12.3	12.2
(b) Foreign Governments	0.2	0.4	0.3	0.1	0.1	0.1	0.1
(c) Public Sector Enterprises	8.9	7.1	6.6	6.0	5.6	5.0	4.8
(d) Government Servants	0.1	0.1	0.1	0.1	0.1	0.1	0.1
3. Total Assets	43.4	44.2	42.4	41.3	41.2	38.2	36.7
4. Outstanding liabilitits	43.7	58.7	57.5	56.9	59.6	57.2	57.4
5. Excess of liabilities over Capital Outlay and Loans advanced	0.3	14.5	15.1	15.7	18.5	19.1	20.6
	(Per cent of total)						
1. Capital outlay	100.00	100.00	100.00	100.00	100.00	100.00	100.00
(a) General services	20.41	25.43	23.46	24.22	24.68	26.82	29.62
(b) Social services	3.64	3.07	3.03	2.89	2.68	2.86	3.04
(c) Economic services	75.95	71.50	73.52	72.90	72.64	70.32	67.34
2. Loans advanced by the Central Government	100.00	100.00	100.00	100.00	100.00	100.00	100.00
(a) States and Union Territory Governments	58.10	64.60	66.08	67.48	68.92	70.36	71.10
(b) Foreign Governments	0.87	1.83	1.22	0.51	0.32	0.32	0.33
(c) Public Sector Enterprises	40.35	33.02	32.13	31.43	30.19	28.70	27.91
(d) Government Servants	0.67	0.55	0.56	0.58	0.58	0.61	0.65

to 4.7 per cent in 1994-95(RE) (Table 2.1). Between 1990-91 and 1994-95(RE) interest payments increased by 0.7 per cent of GDP. This has resulted in a significant part of the revenue expenditure being used for interest payments. Interest payments in 1994-95(RE) constituted over 35.8 per cent of total revenue expenditure. This is higher than the expenditure of 33.9 per cent in 1993-94 and 29.2 per cent in 1990-91. The proportion of total revenue used to make interest payments has also increased continuously, from 40.3 per cent in 1991-92 to 41.9 per cent in 1992-93 and 49.6 per cent in 1994-95 (RE).

States and Union Territories: 1994-95

23. Current revenue of the States and Union Territories, consisting of tax revenue (including their share in the Central taxes), non-tax revenue and grants from the Centre decreased from 12.5 per cent of GDP in 1993-94 to 12.4 per cent in 1994-95 (RE). Tax revenue declined from 8.6 percent of GDP in 1993-94 to 8.4 per cent in 1994-95 (RE) Non-tax revenues increased from 1.3 per cent of GDP in 1993-94 to 1.6 per cent in 1994-95 (RE). This is despite doubling of negative internal resources of State Public Sector enterprises from

0.1 per cent of GDP to 0.2 per cent of GDP during this period. There was a decline in the grants from the Centre to 2.4 per cent of GDP in 1994-95 (RE) against 2.6 per cent in 1993-94. Total expenditure increased from 15.6 per cent in 1993-94 to 16.0 per cent in 1994-95 (RE). The entire increase is due to the increase in the non-developmental expenditure. Developmental expenditure registered a slight decline. As a result, the gap between current revenue and total expenditure increased from 3.1 per cent of GDP in 1993-94 to 3.6 per cent in 1994-95 (RE). The gap is still lower than that of 4.1 per cent in 1990-91 and 3.9 per cent in 1991-92.

Centre, States and Union Territories: 1994-95

24. The combined budgetary transactions of the Centre, States and Union Territories including Public Sector Enterprises are shown in Table 2.8. The total outlay declined marginally from 32.3 per cent of GDP in 1993-94 to 32.2 per cent in 1994-95 (RE). The developmental outlay declined from 18.7 per cent of GDP in 1993-94 to 18.3 per cent in 1994-95 (RE). Non-developmental outlay, on the other hand, increased from 13.5 per cent to 13.9 per cent of GDP during this period. On the receipt side, there is decline of 0.1 per cent of GDP in the current revenue. The gap between the current revenue and total outlay declined marginally to 11.0 per cent of GDP against 11.1 per cent in 1993-94. The gap was 10.1 per cent of GDP in 1992-93. The financing pattern of this gap shows that the contribution of domestic capital receipts increased from 79.2 per cent in 1993-94 to 89.3 per cent in 1994-95 (RE). External assistance declined from 6.7 per cent in 1993-94 to 4.9 per cent in 1994-95 (RE). Reliance on budgetary deficit also declined.

Central Government Budget: 1995-96

25. Consolidation of fiscal balance, tax reform, social equity and poverty alleviation were the main considerations in the 1995-96 budget. The fiscal deficit was budgeted to decline to 5.5 per cent of GDP mainly through reduction in the total expenditure. A number of new schemes/programmes

TABLE 2.8

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

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95 (RE)	1994-95 (BE)	1995-96 (BE)
				(Rs. crore)				
I. Total Outlay	36845	176548	199370	224688	258459	304335	294960	339485
(a) Developmental	24426	105922	118715	134020	150162	172827	168233	190398
(b) Non-developmental	12419	70626	80655	90668	108297	131508	126727	149087
II. Current revenue	24563	110607	133834	153195	169832	199901	191932	231017
(a) Tax revenue	19844	87723	103198	114165	121960	144372	140945	165434
(i) Direct taxes	3268	12259	16656	19386	21712	27278	26682	32170
(ii) Indirect taxes	16576	75464	86542	94779	100248	117094	114263	133264
(b) Non-tax revenue	4719	22884	30636	39030	47872	55529	50987	65583
III. GAP(I-II)	12282	65941	65536	71493	88627	104434	103028	108468
Financed by:								
(i) Domestic capital receipts	7161	50192	52284	52969	70216	93247	88917	96239
(ii) Net external assistance	1670	4263	6171	5984	5934	5122	5644	5610
(iii) Budgetary deficit	3451	11486	7081	12540	12477	6065	8467	6619
				(As per cent of GDP)				
I. Total Outlay	27.1	33.0	32.3	31.9	32.3	32.2	31.2	32.5
(a) Developmental	18.0	19.8	19.2	19.0	18.7	18.3	17.8	18.2
(b) Non-developmental	9.1	13.2	13.1	12.9	13.5	13.9	13.4	14.3
II. Current revenue	18.1	20.7	21.7	21.7	21.2	21.1	20.3	22.1
(a) Tax revenue	14.6	16.4	16.7	16.2	15.2	15.3	14.9	15.8
(i) Direct taxes	2.4	2.3	2.7	2.7	2.7	2.9	2.8	3.1
(ii) Indirect taxes	12.2	14.1	14.0	13.4	12.5	12.4	12.1	12.7
(b) Non-tax revenue	3.5	4.3	5.0	5.5	6.0	5.9	5.4	6.3
III. GAP(I-II)	9.0	12.3	10.6	10.1	11.1	11.0	10.9	10.4
Financed by:								
(i) Domestic capital receipts	5.3	9.4	8.5	7.5	8.8	9.9	9.4	9.2
(ii) Net external assistance	1.2	0.8	1.0	0.8	0.7	0.5	0.6	0.5
(iii) Budgetary deficit	2.5	2.1	1.1	1.8	1.6	0.6	0.9	0.6

Note: For clarification regarding the scope of some items in this table,see foot-note to Table 2.2 in the Statistical Appendix.

were introduced in the budget for the welfare of poor, especially for those in rural areas. The Central Government also decided to participate in the phased expansion of the schemes for providing mid-day meals for school children. National Social Assistance Scheme was introduced for providing old age pension, lump-sum survivor benefits to poor household on the death of primary bread winner and sustenance for pre-natal and post-natal maternity care to women belonging to poor households below the poverty line. Establishment of a new Rural Infrastructure Development Fund, a Technology Development and Moderanization Fund for the Small Scale Industries and exclusive line of credit to Cooperatives and Regional Rural Banks in predominately tribal districts for meeting the credit needs of Scheduled Tribes were some of the other schemes introduced in the budget for 1995-96.

Budget Deficit

26. The budget deficit, defined as receipts minus total expenditure, both revenue and capital, is estimated to decline from Rs.6000 crore as per the revised estimates of 1994-95 to Rs.5000 crore in 1995-96 (BE). The weekly movements of the budget deficit during 1995-96 are shown in Fig.2.3. The deficit which crossed the budget estimates in April, 1995 itself kept on rising and touched the peak of Rs.21786 crore in the first week of August, 1995. Thereafter, it started declining till the end of September, 1995 when it was Rs.12156 crore. After that the budget deficit started rising once again. At the end of December, 1995 the budget deficit was again low at Rs. 7064 crore. But within a week, it again increased to Rs. 14319 crore. The movement of budget deficit in 1995-96 is in contrast with its movement in 1994-95, when except for the three months period of May to July, the budget was in surplus. This is due to less borrowing from the market in 1995-96 compared to 1994-95. The budget was, however, again in deficit at the end of 1994-95.

27. The fiscal deficit, defined as the difference between the revenue receipts plus non-debt capital receipts and the total expenditure including loans, net of repayments has also been at higher levels during 1995-96. At the end of June, 1995, the fiscal deficit was Rs.21156 crore against Rs.16792 crore at the end of June, 1994. It increased further to Rs.28297 crore at the end of September, 1995 against Rs.23003 crore at the end of September, 1994.

Savings and Capital Formation

28. Gross dissavings of the Central Government which declined to 1.9 per cent of GDP in 1994-95 (RE) are estimated to improve to 1.7 per cent of GDP in 1995-96 (BE) (Table 2.4). Consumption expenditure is also, as per the Economic and

Fig. 2.3 **Budgetary Deficit**

Figure 2.1

CENTRE'S BUDGETARY DEFICIT

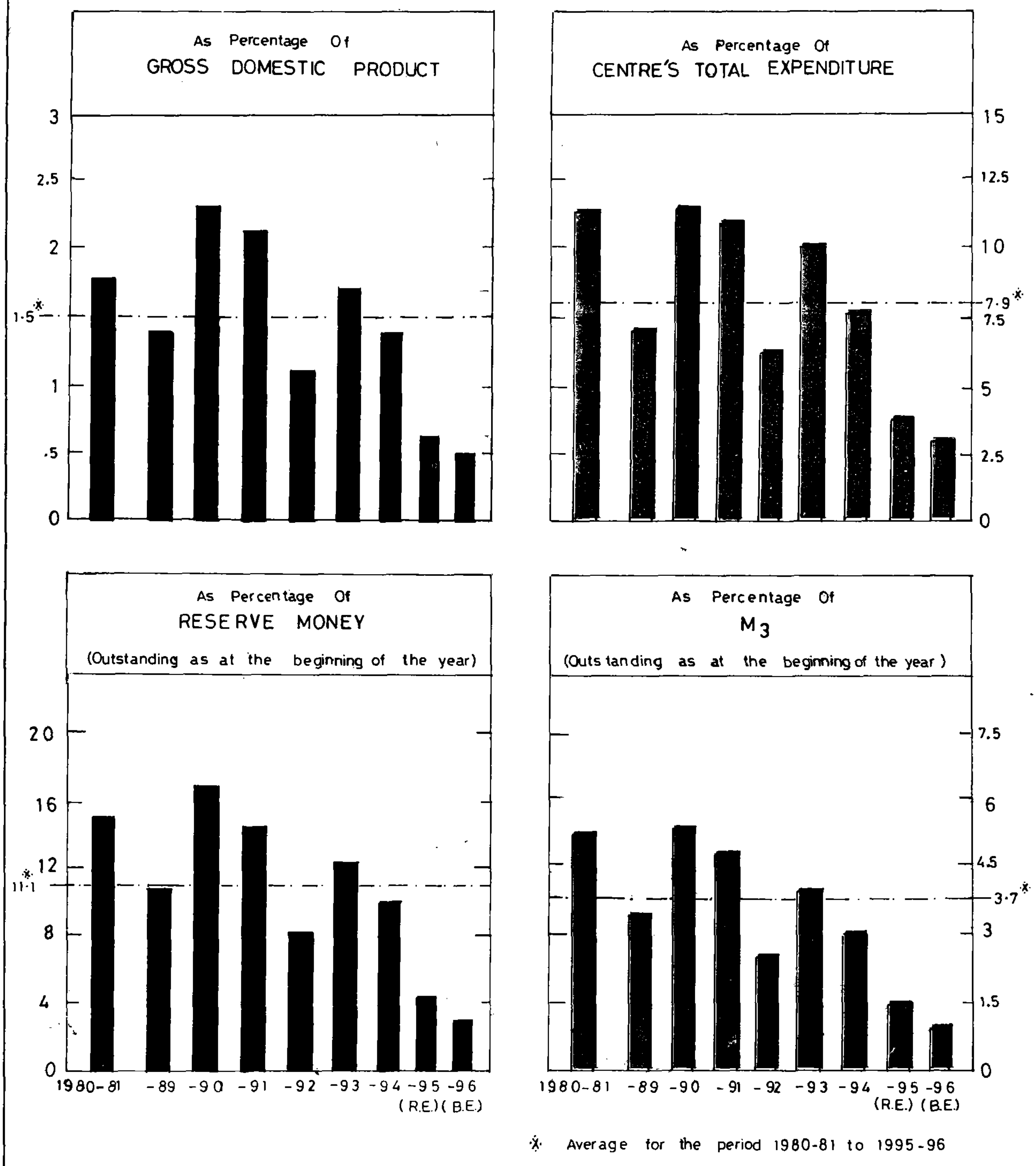
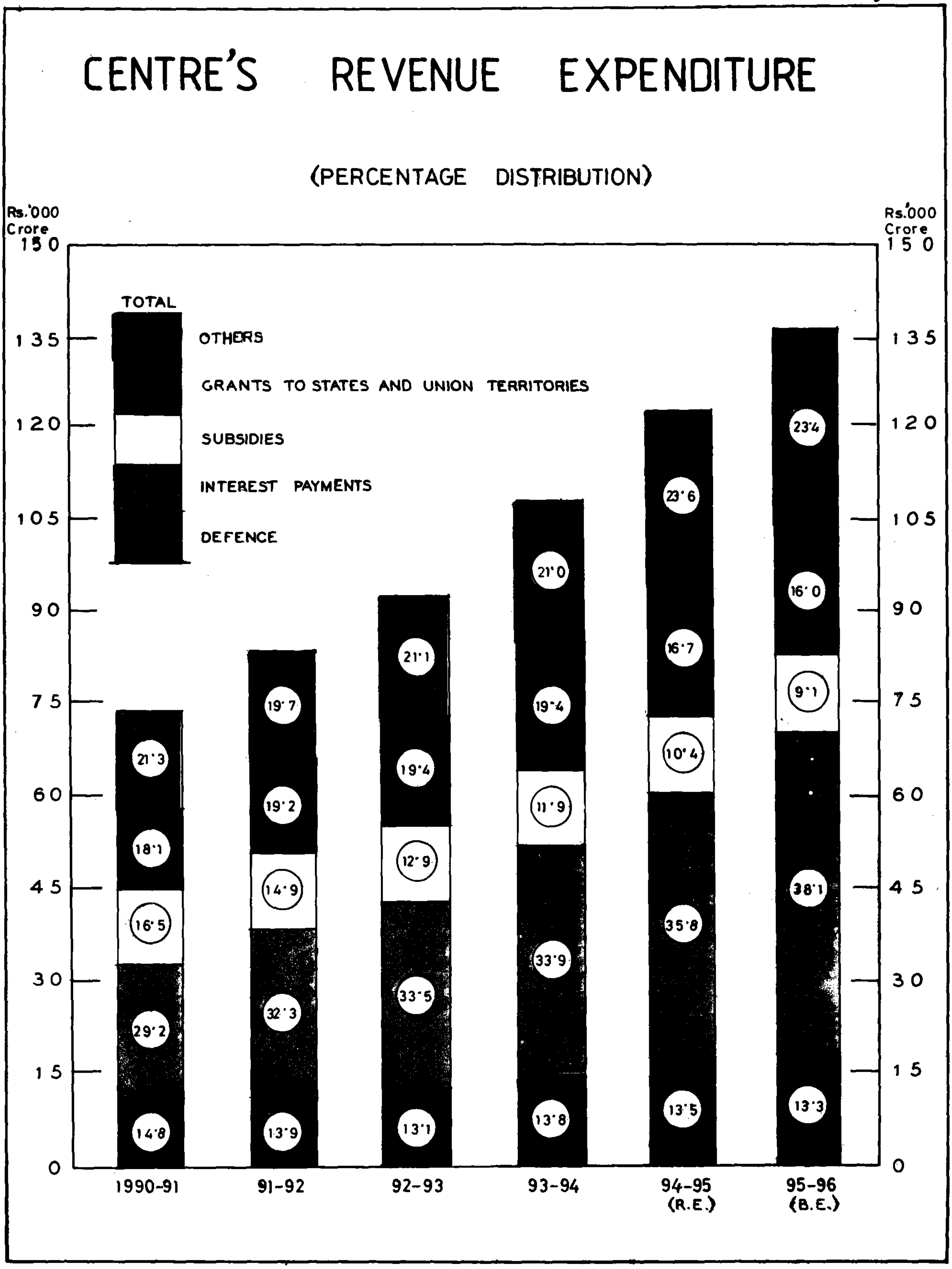


Figure 2.2


CENTRE'S REVENUE EXPENDITURE
(PERCENTAGE DISTRIBUTION)
Rs.'000 Crore
150
135
120
105
90
75
60
45
30
15
0
TOTAL
OTHERS
GRANTS TO STATES AND UNION TERRITORIES
SUBSIDIES
INTEREST PAYMENTS
DEFENCE
21·3
18·1
16·5
29·2
14·8
19·7
19·2
14·9
32·3
13·9
21·1
19·4
12·9
33·5
13·1
21·0
19·4
11·9
33·9
13·8
23·6
16·7
10·4
35·8
13·5
23·4
16·0
9·1
38·1
13·3
1990-91
91-92
92-93
93-94
94-95 (R.E.)
95-96 (B.E.)

Functional Classification, estimated to decline further to 3.7 per cent of GDP in 1995-96 from 3.8 per cent in 1994-95 (RE) (Table 2.3). However, gross capital formation which had increased by 0.2 per cent of GDP in 1994-95 (RE), over and above an increase of 0.3 per cent of GDP in 1993-94, is estimated to decline by 0.7 per cent of GDP in 1995-96 (BE). The entire decline is due to a decline in financial assets. There is no decline in physical assets.

Government Debt

29. Whereas the total liabilities of the Central Government are estimated to decline still further, the internal liabilities are estimated to increase marginally in 1995-96 (BE) (Table 2.5). Internal debt is estimated to increase marginally from 29.0 per cent of GDP in 1994-95 (RE) to 29.4 per cent of GDP. The estimated increase of 0.4 per cent of GDP is in the background of a decline of 1.7 per cent of GDP in 1994-95 (RE). The second component of the internal liabilities, consisting of Small Savings and Provident Funds etc., which recorded a decline in 1994-95 (RE) over 1993-94, is estimated to decline further to 22.8 per cent in 1995-96 (BE).

30. External liabilities at historical rates of exchange are also estimated to decline from 5.4 per cent of GDP in 1994-95 (RE) to 5.2 per cent in 1995-96 (BE). Converted at end-September 1995 rates, external liabilities amounting to Rs.147366 crore, constitute 14.1 per cent of GDP compared to 15.1 per cent of GDP in 1994-95 (RE).

Supplementary Demands for Grants

31. Two batches of supplementary demands for grants were presented. First batch was presented in August, 1995 involving an expenditure of Rs.4421 crore. The net cash outgo was Rs.1673 crore. The remaining expenditure was matched by corresponding savings or additional receipts. Adjustment on revaluation of rupee holdings of International Monetary Fund and International Bank for Reconstruction and Development involved an expenditure, matched by issue of securities, of Rs.2193 crore. Other major demands included Nutritional Support to Primary Education (Rs.612 crore), National Social Assistance Scheme (Rs.550 crore) and non-Plan loans to some of the Public Sector Undertakings (Rs.346 crore).

32. The second batch of supplementary demands for grants involving an expenditure of Rs.3332 crore was presented in November, 1995. The net cash outgo was lower at Rs.1136 crore. The demand for additional loans to States and Union Territory Governments against Small Savings collections amounted to Rs.1800 crore. Special Central assistance to Government of Jammu and Kashmir for financing its Plan (Rs.300 crore), Medium-Term loan to Government of Haryana for flood relief (Rs.300 crore), additional grant assistance to Kendriya Vidyalaya Sangathan (Rs.100 crore) and University Grants Commission (Rs.109 crore) were some of the other major demands. The additional expenditure of Rs.2803 crore will increase the expenditure of the Central Government by about 0.3 per cent of GDP. The final impact depends on other revisions, both saving in BE and other supplementary increase over the rest of the year.

Tax Measures and Reforms: 1995-96

33. Over the past five years, a number of structural changes covering both direct and indirect taxes were undertaken. Unlike earlier isolated attempts to modify the tax system, these changes were part of a medium term programme of tax reform. They were geared to move towards a tax structure which is simple, relies on moderate tax rates with a wider base and better enforcement, serves the objective of equity and provides the incentives and signals consistent with developing an internationally competitive and dynamic economy. The budget for 1995-96 continued the emphasis on simplification, lower rates and greater buoyancy.

34. Overall tax reforms since July 1991 have helped in correcting the imbalance in the structure of revenue sources. Direct taxation is the most equitable and efficient form of raising revenue. Prior to reforms high tax rates in the realm of direct taxation did not yield high collections. It is noteworthy that the share of direct taxes in GDP rose from 2.1 per cent in 1990-91 to an estimated 2.9 per cent in 1995-96. The latter could be even higher when revised estimates for 1995-96 become available. Also the share of direct taxes in the gross tax revenue of the Centre rose from about 19 per cent in 1990-91 to an estimated 29 per cent in 1995-96. The other dimension as is evident from the Table 2.9 is the drop in the share of customs revenue in GDP and their contribution to the gross tax revenue of the Centre. This is a healthy trend from the point of view of equity and efficiency.

Direct Taxes

Personal income tax

35. Personal income tax rates were not altered in the budget for 1995-96 so that the full effect of earlier rate reductions translates into higher revenue realisations. The exemption limit was, however,

TABLE 2.9
Sources of Tax Revenue

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
	Tax Revenue as Percentage of Gross Tax Revenue					
Direct Taxes(a)	19.1	22.6	24.3	26.8	28.4	29.2
Personal tax	9.3	10.0	10.6	12.0	12.2	13.0
Corporation tax	9.3	11.7	11.9	13.3	14.7	14.9
Indirect Taxes(b)	78.9	75.5	73.7	71.6	71.4	70.6
Customs	35.9	33.0	31.9	29.3	29.4	28.4
Excise	42.6	41.7	41.3	41.8	41.1	41.2
	*Tax Revenue as Percentage of Gross Domestic Product**					
Direct Taxes(a)	2.1	2.5	2.6	2.5	2.7	2.9
Personal tax	1.0	1.1	1.1	1.1	1.2	1.3
Corporation tax	1.0	1.3	1.3	1.3	1.4	1.5
Indirect Taxes(b)	8.5	8.3	7.8	6.8	6.8	7.0
Customs	3.9	3.6	3.4	2.8	2.8	2.8
Excise	4.6	4.6	4.4	4.0	3.9	4.1
Gross tax revenue#	10.8	10.9	10.6	9.5	9.5	9.9

*: Refers to Gross Domestic Product at current market prices.For the year 1995-96 the ratios have been arrived at by estimating GDP figure. Tax revenue figures for the years 1994-95 & 1995-96 are revised and budget estimates respectively and for earlier years these are accounts.
(a): Includes expenditure,interest,wealth,gift taxes & estate duty
(b): Includes other taxes and duties and service tax; #: Includes taxes referred in (a) & (b) and taxes of Union Territories.

raised from Rs.35,000 to Rs.40,000. The new slabs and rates are as indicated below:

Tax rate in percent	Income range in Rupees Old slab	New slab
Nil	0 - 35,000	0 - 40,000
20	35,001 - 60,000	40,001 - 60,000
30	60,001 - 1,20,000	60,001 - 1,20,000
40	Above 1,20,000	Above 1,20,000

36. The raising of the exemption limit for income tax in conjunction with other benefits and deduction may actually raise tax exempt income to a maximum of Rs.68,000 generally and Rs. 71,000 for working women. It is only beyond these threshold levels that such individuals may have to pay tax and that too only at modest rates.

Deductions

37. To provide relief to the handicapped and their guardians/parents further relief were provided. Section 80 U of the Income Tax Act provides tax relief in the form of deduction in computing the total income of a resident individual who is suffering from permanent physical disability, blindness or mental retardation. Keeping in view the cost escalation of medicines and living aids the level of deduction for handicapped persons was raised from Rs. 20,000 to Rs.40,000. A new section 80 DDA was introduced to allow a new deduction of upto Rs.20,000 from the taxable income of parents or guardians of handicapped children. This amount is to be deposited in any approved scheme of LIC, UTI etc. for providing recurring or lump sum payment for the maintenance and upkeep of a handicapped dependent after the death of parents or the guardian.

38. With a view to strengthen incentives for savings, the value of exemptions allowed under section 80 L of the Income Tax Act in respect of income from dividend and interest from certain specified savings instruments to individuals and HUFs was enhanced. This limit was raised from Rs.10,000 to Rs.13,000.

Base broadening

39. An effective method of widening the tax base is to enlarge the scope of deduction of income tax at source. This helps in the reporting of correct incomes, brings in more persons into the tax net and assists the transition to lower rates of taxation. The budget for 1995-96 contained a number of provisions aimed at enlarging the scope of deduction of tax at source for the following categories of income/payments; (a) payments by way of fees for professional/technical services; (b) interest on time deposits with banks; and (c) income in respect of units of the Mutual Funds or The Unit Trust of India. In addition, it has strengthened the scope of deduction of tax at source relating to payments made to contractors and sub contractors.

40. A new provision (section 194 J in the Income Tax Act), makes fees paid for professional or technical services, subject to deduction of income tax at source, at the rate of 5 per cent. This would

not, however, apply in cases where the aggregate of payments or credit during the financial year is less than Rs.20,000 or where payments are made by individuals and HUFs.

41. The exemption earlier given on deduction of income tax at source from interest on time deposits with banks has been removed. They will now be subject to TDS at the rate of 20 per cent plus surcharge in the case of domestic companies and 10 per cent in the case of individuals and other non-corporate entities. The new provision will be applicable only to the deposits made on or after July 1, 1995. No tax shall be deducted if the amount of interest credited or paid during a financial year is Rs.10,000 or less branch-wise or the recipient of interest has no taxable income. Interest on time deposits with primary agricultural credit socieities, primary credit societies, co-operative land mortgage banks and co-operative land development banks will remain outside the scope of this provision.

42. Deduction at source from income was extended to income in respect of units of a specified Mutual Fund or of the Unit Trust of India. The deduction of tax at source from such incomes would be at the rate of 20 per cent plus surcharge in the case of companies and at the rate of 15 per cent for all others including individuals and HUFs. There is no change in the present tax treatment of non-residents or offshore funds. In the case of resident unit-holders, deduction at source is to be made only if the aggregate amount of income payable under each scheme during a financial year exceeds Rs.10,000. No deduction of tax at source is required where units have been issued under an existing scheme which provides for payment of a fixed amount after a certain period of time or where post-dated cheques have already been issued towards payment of income.

43. The scope of section 194C relating to tax deduction at source from payments to contractors and sub-contractors has been enlarged. Now, deduction of income-tax at source is required to be made if the sums payable for carrying out any work in pursuance of a contract or sub-contract exceed Rs. 20,000/- as against the earlier limit of Rs. 10,000. Scope of tax deduction at source has also been enlarged so as to apply the provisions of section 194C to the payments made in pursuance of contract between the contractor and any firm. Furthermore, advertising contracts, broadcasting contracts, telecasting contracts, transport contracts and catering contracts have also been brought within the ambit of tax deduction at source.

Incentives for human and social development

44. There is urgent need for mobilisation of additional resources for elementary and adult eduction, especially in rural and semi urban areas where facilities for such education are deficient. With a view to encourage private contribution for this purpose the benefit of 100 per cent deduction from taxable income for donations to universities and educational institutions of eminence was extended for donations to Zila Saksharta Samitis for the promotion of elementary education.

45. Under the Integrated Urban Poverty Eradication Programme, the Ministry of Urban Development has set up National Urban Poverty Eradication Fund (NUPEF). The budget for 1995-96 has made amendments in section 80 GGA to allow 100 per cent deduction from income in respect of contribution made to the NUPEF.

46. A number of funds have been established by trade unions for the welfare of the employees and their dependants. These funds are used to provide cash benefits in the event of superannuation, illness or death or to meet the cost of education of the employees' children. Since these funds are in the nature of mutual benefit funds, their income did not qualify for exemption. The Finance Bill, 1995, made a new provision (23 AAA) in section 10 which allows exemption from income tax on any income received by any person on behalf of a fund established, for such purposes. In addition, income tax exemption was provided on the income of Employees' State Insurance Fund.

47. The National Minorities Development Finance Corporation was set up some time ago with the object to promote economic and developmental activities for the benefit of the members of the minority communities. The budget for 1995-96 has exempted from income tax the income of this corporation as well as of similar corporations established by any State Government. Also deduction at the rate of fifty per cent in respect of donations made to these corporations was permitted under section 80 G of the Income Tax Act. The deduction in respect of donations to these corporations would be subject to the overall limit of ten per cent of the gross total income of the assessee.

Incentives

48. Economic development requires a massive expansion of, and qualitative improvement in, infrastructure. Applying commercial principles in the operation of infrastructure facilities can spur both managerial and financial efficiency. To facilitate expansion of quality infrastructure a five year tax holiday has been allowed for any enterprise which builds, maintains and operates infrastructure facilities in the areas of highways, expressways and new bridges, airports, ports and rapid mass transport systems. These facilities are to be provided on a

BOT (build-operate-transfer) or the BOOT (build-own-operate-transfer) or similar other basis (where there is an ultimate transfer of the facility to a government or public authority). The tax holiday will be in respect of income derived from the use of the infrastructure facilities developed by them. This tax holiday is available to enterprises which have commenced operation on or after 1.4.1995. Furthermore, as an incentive to financial institutions to provide long term finance for development, a deduction of upto 40 per cent of their taxable income derived from financing of these investments was allowed. However, this is subject to the condition that this amount of deduction be credited to a special reserve.

49. Under section 80-IA of the Income Tax Act, new industrial undertakings, hotels and shipping commencing operation before March 31, 1995 were entitled to a deduction of 30 per cent of their income if they were companies or 25 per cent of their income if they were non corporate entities. This incentive is available to cooperative socieities for 12 years, and to others for the first 10 years. This across the board incentive to large scale industrial units in areas which are not backward was discontinued. However, as a special measure of support to small scale industries, this existing concession was extended to the small scale sector units for a period of five years *i.e.* small scale units commencing production between 1.4.1995 and 31.3.2000.

50. Exports of software have grown rapidly and represent a potentially dynamic segment of export earnings. Under the provisions of section 80 HHE, 100 per cent deduction is allowed on profit derived from export of software. This benefit was extended from year to year unlike benefit under section 80 HHC for export of goods which is open ended. The budget for 1995-96 has placed section 80 HHE on the same basis as section 80 HHC.

51. Venture capital funds can be an important instrument for promoting growth of new firms and technologies which often involve high risk. In order to encourage venture capital financing, the budget for 1995-96 has introduced a novel provision which provides income tax exemption on any income by way of dividends and long term capital gains from equity investments made by approved venture capital funds or venture capital companies. However, income in the hands of the shareholders would be fully taxable. Venture capital funds would be required to invest only in unlisted companies engaged in manufacturing.

Rationalisation measures

52. The earlier provision of allowing 100 per cent deduction for depreciation in the year of purchase for individual items of machinery or plant the value of which does not exceed Rs.5000 was withdrawn. This was replaced by the provision whereby even items of machinery or plant costing less than Rs.5000 would be treated as a part of a "block of assets" and depreciation allowed on the same at the rate specified in the income tax rules. However, "books and periodicals" used by professionals continue to enjoy 100 per cent depreciation under the income tax rules.

53. Bonus shares are received by an existing shareholder without making any further payment. The Finance Act, 1995 amended the method of computation of capital gains in case of bonus shares. Now, for the purposes of computing the capital gains arising on the transfer of bonus shares, its cost of acquisition would be treated as nil.

Simplification of assessment and search procedures

54. Past experience shows that completion of assessment of search cases took inordinately long time. The assessments were also subjected to multiple litigations. These factors diluted the efficacy of search provisions in detection and assessment of concealed income. In order to make such assessments meaningful and cost effective, the procedure has been substantially simplified. Under a new scheme announced in the budget for 1995-96, undisclosed income detected as a result of search would be assessed separately at a flat rate of 60 per cent. An appeal against the order can be filed directly before the Income-Tax Appellate Tribunal. This will substantially reduce the time taken in making the assessment and disposal of such cases.

55. The provisions relating to pre-emptive purchase of immovable properties, as they existed, prescribed a single monetary limit applicable all over India, above which the property could be purchased by the appropriate authority. This limit was fixed at Rupees ten lakh. The rates of immovable properties, however, varied from city to city, being very high in metropolitan towns such as Bombay, Delhi, Calcutta, etc. The law has been amended to prescribe different limits for different cities. These limits now are as under: Bombay Rs. 75 lakh; Delhi Rs. 50 lakh; Calcutta, Madras, Bangalore, Pune and Ahemdabad Rs.25 lakh and; others Rs. 20 lakh.

Revenue impact of reforms

56. The recent trends in direct tax collections in particular reflect that the decision to reduce rates and simplify and rationalise tax procedures and thereby encourage compliance has yielded good results. The reduction in personal and corporate tax rates over the past years have brought a substantial increase in tax collections. Average buoyancy as measured by the ratio of change in

Box 2.1

Tax Reforms 1991-92 to 1995-96

Direct Taxes

- Initial exemption limit for levy of income tax was raised from Rs. 22,000 in 1991 to Rs.40,000 in 1995. The number of slabs were reduced from 4 to 3. The maximum marginal rate of personal income tax was reduced from 56 per cent, inclusive of surcharge, to 40 per cent.
- Introduction of presumptive tax (lump-sum) for small traders, retailers and small road transport operators.
- A number of provisions were introduced to widen the tax base. These include presumptive taxation for small business, estimated income scheme for persons engaged in the business of civil construction, plying, leasing or hiring of trucks; tax deduction at source introduced on interest income on term deposits, income in respect of units of mutual funds, professional fees and host of contracts.
- The incentive structure for savings in the form of financial asset has been strengthened. The wealth tax, which was earlier applicable to all personal assets, has been modified to exempt all productive assets including financial assets such as bank deposits, shares and other securities. The threshold limit for levy of wealth tax was raised to Rs. 15 lakhs.
- The rates of corporate income tax, which were 51.75 per cent for a widely held company and 57.5 per cent for a closely held company have been unified and reduced to 46 per cent. All these rates are inclusive of a 15 per cent surcharge. Surcharge is leviable only in case of companies having income above Rs 75000. Without the 15 per cent surcharge, the rate of corporate tax would be 40 per cent which is the same as the maximum marginal rate on personal taxation. Long term capital gains tax on domestic companies was reduced from 40 to 30 per cent.
- Tax rate on foreign companies (branches) was reduced from 65 to 55 per cent. There is no surcharge on foreign companies.
- Five year tax holiday for investments in infrastructure facilities (highways, bridges, airports, ports and mass rapid transport), power generation and distribution, in backward States and electronics hardware and software parks.

Indirect Taxes

Customs duties

- Import duties were inordinately high and, in several cases more than 300 per cent prior to reform. A phased reduction in the peak rate of customs duty was undertaken in each of the five budgets since 1991, 110 per cent in 1992, 85 per cent in 1993, 65 per cent in 1994 and to 50 per cent in 1995 with the exception of passenger baggage, alcoholic beverages,dried grapes, almonds and ball and roller bearings.
- The import duty on capital goods for general projects and machinery which was 85 per cent prior to reforms was brought down and unified for nearly 80 per cent of machinery, at 25 per cent in 1995. Reduction in customs duty on power projects and related machinery to 20 per cent and for fertiliser projects to nil. This was accompanied by lowering of duties on ferrous and non ferrous metals to 35/40 per cent in 1995.
- The number of duty rates have been brought down to 12 (Including nil rate) at present.

Excise taxes

- Switchover from a system where excise duties were specific and numerous and varying in nature with a large number of exemptions to one largely based on advalorem basis with fewer duty rates and exemptions.
- Ambit of MODVAT (tax credit for taxes paid on inputs) extended to capital goods, specified quality control, testing, pollution control and R & D equipment, POL and spun yarn made from fibres.
- Switchover from specific to uniform advalorem rates of 10 per cent on all petroleum products with the exception of motor spirit.
- The number of duty rates have been brought down to 10 (including nil rate) at present.

Service tax

- Introduction of service tax by imposition of a 5 per cent tax on amount of telephone bills, premium payments for non life insurance and on commission/brokerage charged by the stock brokers.

tax revenue to the change in the GDP at current prices, has shown substantial improvement. The reduction in personal income tax rates over the assessment years 1991-92 to 1995-96, from the maximum marginal tax rate of 56 percent on income above Rs. 1 lakh, to 40 per cent on income above Rs.1.2 lakh, has not resulted in a reduction in revenue collections. The buoyancy of personal income tax revenues rose from an average of about 1.1 during 1986-87 to 1990-91 to around 1.5 during 1991-92 to 1995-96(BE). Effective corporate tax rates have similarly been reduced, during the past five years, from a peak of 57.5 per cent for certain domestic companies to 46 per cent for all domestic companies having income above Rs. 75,000. Surcharge at the rate of 15 per cent of tax is not leviable in the case of companies having income below Rs. 75,000 and these are thus taxed at the rate of 40 per cent only. Despite this, the buoyancy has risen from an average of 0.8 during 1986-87 to 1990-91 to 1.7 in 1991-92 to 1995-96(BE).

Import Duties

57. In the area of customs duty the objective was to reduce the high rates of import duty gradually, so as to lower costs of production and improve competitiveness of user industries while allowing domestic producers facing competition from imported goods reasonable time to adjust. The acceleration in the industrial growth in 1995-96 on the top of robust trends in 1994-95, demonstrates conclusively that customs duty reforms have succeeded in imparting the necessary dynamism to industrial production. In addition, the acceleration in exports reflects enhanced competitive strength of our industry. However, customs duties, though lowered in the past five budgets, still remain much above the levels of our competitor countries.

58. The thrust of import tariff reforms in the budget for 1995-96 was to further reduce the cost of inputs to domestic producers, promote competition and efficiency and lower prices paid by Indian consumers and thereby check the potential for inflation. Towards this end, the peak rate of customs duty was further brought down from 65 to 50 per cent accompanied with significant decreases in duty rates on key intermediates and capital goods to promote investment. In addition, attempt was made to reduce dispersion in tariff rates and minimize anomalies.

Capital goods

59. The machinery and capital goods have responded extremely well to the new policies. The fears of domestic capital goods being swamped by imports have proved unfounded. With a view to impart competitive strength to this sector and improve its technological capabilities, a major restructuring of tariff rates covering machinery and capital goods was undertaken. This involved reduction in import duty rates and simplification of tariff schedules in this sector. The multiplicity of duty rates varying from 25 per cent for machinery items, 35 or 45 per cent on machine tools and 40 to 60 per cent on testing, quality control and other instruments was dispensed with. The duty rates for nearly 80 per cent of general machinery, machine tools, instruments and projects were to reduced and unified at a single rate of 25 per cent. This step is significant as it would greatly avoid anomalies relating to parts and components, reduce classification disputes and promote investment by reducing its cost.

60. Import duty structure on ball or roller bearings was characterised by multiple rates depending on size, weight and description. This was replaced by a uniform duty of 25 per cent plus specific duty of Rs.120 per kilogram. This novel structure which embodies advalorem and specific duty characteristics, it is hoped, will weaken the incentive for underinvoicing and smuggling.

61. Import duty regime for medical equipment over the last few years has been greatly simplified. It provides for low duty and many duty exemptions for a wide array of life saving equipment. This has been done to provide easy and better access to imported equipment and inputs required by the domestic health care industry at competitive prices. These measures are expected to keep user charges at affordable levels. In order to help manufacture and maintenance of medical equipment, the budget for 1995-96 extended the benefit of full exemption from import duty to all parts of exempted life saving and sight saving equipment. Besides, linear accelerators vital for cancer treatment were also fully exempted from import duty. In addition, some crucial spare parts of other dutiable medical equipment were subjected to an import duty of 15 per cent.

Metals

62. Metals, ferrous and non-ferrous are key inputs into capital goods. In recent years, reduction in import duty on capital goods has been accompanied by duty reduction on metals. However, metals have enjoyed higher tariff protection vis-a-vis capital goods. Ideally, metals should not attract rates of duty higher than those on capital goods. The magnitude of import duty reductions in metals have been staggered to provide domestic producers of metals a reasonable transition period to adjust. Keeping in view these considerations, import duty rates on ferrous and non -ferrous metals were further lowered to 35/40 per cent. For unwrought non-ferrous metals (copper, zinc and lead) the import duty was reduced to 35 per cent; import duty on hot rolled coils of iron and steel for rerolling was

brought down from 40 to 30 per cent and; import duty on stainless steel scrap and sponge iron from 30 to 20 per cent. In addition, there was a drastic reduction in import duty on number of non metallic minerals from 65 to 30 per cent.

Electronics

63. Electronics is a fast growing industry with immense potential for exports, employment and development in the small scale sector. With a view to promote its growth, a major restructuring of import duties was undertaken. To this end, import duty on specified raw materials and piece parts was reduced from 20 and 30 per cent to a uniform level of 15 per cent, on electronic components including printed circuit boards and colour monitor tubes from 40 to 25 per cent, on populated printed circuit boards from 50 per cent and 65 per cent to 35 per cent and on computers from 65 per cent to 40 per cent. In addition, import duty on integrated circuits and hard disc drives was reduced to 25 per cent. Import duty on picture tubes for colour TVs was also reduced from 65 to 40 per cent. Besides, import duty on optical fibres was brought down from 40 to 35 per cent. Import duty levels on both systems and application software were reduced to a uniform level of 10 per cent. These wide ranging changes in duty structure for electronics are expected to impart more dynamism to this industry in future.

Chemicals and fibres

64. Import duties on certain chemicals widely used in industry were scaled down. Import duties on basic feedstocks (ethylene and benzene) and LPG was reduced from 15 to 10 per cent respectively. With a view to help alcohol based chemical industries, customs duty on molasses was slashed from 65 to 10 per cent. Besides, import duty on certain inorganic chemicals (soda ash and caustic soda) , linear alkyl benzene and on a large number of drug intermediates was brought down to 40 per cent. On certain other chemical intermediates like acrylonitrite, it was reduced from 30 to 20 per cent. To help printing industry tap world markets the import duty on paper was reduced from 65 to 40 per cent. This was further reduced to 20 per cent after the budget 1995.

65. Raw materials and inputs used in the manufacture of synthetic yarns, fibres and fabrics have suffered from high incidence of import duties. With a view to provide relief to the final consumers from high duty incidence a major restructuring of import duties was effected. Import duty on essential raw materials like DMT, PTA and MEG used in the manufacture of polyester fibre and polyester filament yarn was reduced from 60 to 35 per cent. This was supplemented by reduction in import duty on xylenes from 30 to 10 per cent to lower the cost of manufacturing DMT/PTA. Also import duty on caprolactum a basic ingredient for nylon, was reduced from 60 to 45 per cent. Furthermore, import duty on. synthetic fibres and filament yarns was brought down to 45 per cent advalorem. These duty changes for fibre intermediates will improve the competitiveness of domestic fibre and yarn industry. Import duty on bulk plastics which varied between 45 and 65 per cent were reduced to a uniform rate of 40 per cent.

Agriculture

66. In the past few years concerted efforts were made to reduce trade protection to the manufacturing sector and enhance relative profitability of agriculture. This has been attempted through reduction in peak duty rates and general reduction in import duties on a large number of items which go as inputs into agricultural sector as well. To reinforce this trend, import duties on a number of inputs used exclusively in agriculture and allied sectors were reduced in the budget for 1995-96. Import duty on grand parent poultry stock was reduced from 30 to 20 per cent and; on certain drugs used as feed mix for poultry from 65 to 15 per cent. To augment the supply capabilities and competitive strength of export oriented marine products sector, the import duty on certain vaccines, prawn feed mix and preparation for prawn processing were drastically reduced from 65 to 15 per cent. However, some upward adjustments in tarrifs were made to accord necessary protection for a few items. Import duty on oleopine resins was raised from 10 to 20 per cent; malt and starch from 10 to 30 per cent and; on silk cocoon from 30 to 40 per cent.

67. With a view to improve price competitiveness of finished leather for exports, the export duty on finished leather was abolished.

Baggage

68. The free baggage allowance for passengers coming to India was enhanced from Rs.4000 to Rs.6000. The import duty rate on baggage beyond threshold limit of Rs.6000 was reduced from 100 to 80 per cent. The import of certain specified goods like life saving medicines, sight saving equipment were allowed at merit rate even if imported as baggage. Goods imported through courier were kept outside the purview of baggage and would attract import duty rates relevant for the item being imported.

Post budget changes

69. Some import duty changes were effected after the presentation of the budget. Concessional rates of basic customs duty were announced for specified goods imported from Srilanka. The list of life saving items exempted from duty was enlarged by adding

31 items. Also 28 specified items for speech and hearing therapy were exempted from customs duty and concessional customs duty rate of 15 per cent was prescribed for specified items used in dentistry. Potassium sulphate (containing not more than 52 per cent by weight of potassium oxide) was exempted from customs duty. Customs duty reductions were effected in a number of items which included pulses from 10 to 5 per cent; CD-ROMS, floppy disks from 50 to 25 per cent; naphthalene and carbon black feed stock from 40 to 30 per cent; specified types of paper and paperboard from 40 to 20 per cent; iodine, wrought aluminium products including aluminium circles, button cells and agricultural silos to 25 per cent and; specified inputs used for the manufacture of silicone from 50 to 40 per cent. The additional duty rates of customs were restructured at 5, 15, 20 and 25 per cent for woven fabrics of cotton, woven fabrics not containing any filament yarn, other woven fabrics and woven fabrics of PFY not containing any textile material respectively.

Collection rates

70. Collection rates are better indicators of nominal tariff protection than the declared tariff rates. The collection rate is defined as the ratio of realised import revenue (including additional customs duty) to the value of imports of a commodity. Because of numerous exemptions, the declared tariff rates do not fully reflect the nominal level of protection. The actual incidence of duty is lower than that notified in the tariff schedule.

71. Table 2.10 shows customs duty collection rates during the period 1990-91 through 1994-95. The average collection rate has fallen by about 18 percentage points consequent to the reforms in the tariff regime, from 47 per cent in 1990-91 to 29 per cent in 1994-95, although the average collection rate did not record any significant drop in 1994-95. This has occurred despite a reduction in the peak import tariff from 85 per cent to 65 per cent over the same period. This is a significant gain and reflects widening of the process of tariff reforms due to significant reductions in end use exemptions which resulted in erosion of the valuation base. The drop in collection rates has encompassed all major product groups between the years 1990-91 and 1994-95. However, the dispersion of rates, as measured by the range between the maximum and the minimum collection rates, though reduced considerably, is still too wide. This distorts incentives and leads to misallocation of resources. The difference between the lowest and highest collection rates, after rising initially from about 75 per centage points in 1990-91 to about 96 percentage points in 1991-92 has fallen to 44 percentage points in 1994-95.

72. All major product groups barring capital goods showed decline in their collection rates during 1994-95

TABLE 2.10
Collection Rates for Selected Import Groups

(In per cent)

Commodity Groups	1990-91	1991-92	1992-93	1993-94	1994-95
1. Food Products	47	27	12	19	22
2. POL	34	31	31	36	31
3. Chemicals	92	82	71	52	44
4. Man-made fibres	83	63	45	18	18
5. Paper & newsprint	24	23	18	13	11
6. Natural fibres	20	21	20	14	9
7. Metals	95	110	97	69	53
8. Capital goods	60	64	53	31	38
9. Others	20	14	13	10	11
10. Non POL	51	49	39	28	29
11. Total	47	44	37	30	29

S.No.1 Includes cereals, pulses, milk and cream, fruits, vegetable and animal fats.
S.No.3 Includes chemical elements, compounds, pharmaceuticals dyeing and colouring materials, plastics and rubber.
S.No.5 Includes pulp and waste paper, newsprint, paperboards and manufactures and printed books, newspaper, journals etc.
S.No.6 Includes raw wool and silk.
S.No.7 Includes iron and steel and non-ferrous metals.
S.No.8 Includes non-electrical machinery and project imports, electrical machinery and transport equipment.

compared with levels prevailing in 1993-94. The collection rate for capital goods rose from 31 per cent in 1993-94 to 38 per cent in 1994-95. This is mainly explained by the imposition of a 10 per cent countervailing duty on the capital goods in the budget for 1994-95. Paper and newsprint, natural fibres and the "others" category had the lowest collection rates, ranging between 9 to 11 percent. The low collection rate for the "other" category was due to the inclusion of items like fertilisers, precious stones etc. which attract low or nil duty. Metals and chemicals continue to have high collection rates of the order of 53 per cent and 44 per cent respectively. The collection rate for metals at 53 per cent is the highest and 15 percentage points higher than that for the capital goods. This puts capital goods sector at a disadvantage and possibly bestows negative protection as well. Although over the past five years peak duty rates have been brought down and a large number of end use exemptions removed with considerable rationalisation in the tariffs structure there is still a need to compress tariff rates further. This would greatly reduce the chances of certain product groups/ sectors suffering from negative protection.

Excise

MODVAT scheme

73. The MODVAT scheme was introduced in 1986 mainly for reducing industrial costs and prices by relieving tax on inputs, thereby mitigating the cascading effect on final products. Since 1986, the MODVAT scheme has undergone many changes, especially in the budgets of 1994-95 and 1995-96. The scheme was extended to two important sectors viz. capital goods and petroleum products in the

Box 2.2

Progress in Import Duty Restructuring

Import Duty (excluding CVD) in per cent ad-valorem

	Industry	TRC@ Recommendation	Existing todate
1.	Essential agricultural goods like wheat and rice	0	0
2.	Other agricultural like		
	oilseeds	10	50
	pulses	10	5
3.	Non-essential agricultural goods like almond and cashewnut	50	50*
4.	Petrochemical building blocks	15	10 to 20
5.	Organic and inorganic chemicals	20	15 to 50
6.	Polymers	25	25 to 50
7.	Textile fibres & yarn	25	25 to 50
8.	Iron and Steel		
	a. Pig iron	15	20
	b. Semi & finished steel including stainless steel & other alloy steel	20	30 to 40
9.	Copper	20	35
10.	Aluminium	15	10
11.	Nickel	15	20
12.	Lead & Zinc	20	35
13.	Tin	15	30
14.	Wastes & Scrap & concentrates of ferrous & non-ferrous metals	10	5 to 40
15.	Articles of iron & steel	30	40
16.	Articles of non-ferrous metals:		
	a. of copper, lead and zinc	30	40
	b. of aluminium, nickel & tin	25	25 to 40
17.	Machinery including machine tools	20	25 to 50
18.	Electronics:		
	a. Raw materials	20	15
	b. Piece parts, components, sub-assembly & equipment	30	15 to 50
19.	Instruments	30	25
20.	Medical equipment	20	0 to 40

Note: Example of petrochemical building blocks are ethylene, propylene, butadiene, benzene, ethyl-benzene and styrene. Polymers include LDPE/LLDPE, HDPE, PP, PVC, PS, polyesters, synthetic and natural rubber and the whole range of plastics and synthetic resins.

* Subject to specific duty as well in case of almonds

@ Import duty structure recommended for 1997-98.

budget 1994-95. MODVAT rules were relaxed in the budget 1995-96 and important changes made are:

(a) allowing MODVAT credit for specified quality control, testing, pollution control and R & D equipment;

(b) utilization of MODVAT credit for payment of duty on any goods notified under the MODVAT scheme; and

(c) allowing MODVAT credit for furnace oil and low sulphur heavy stock used for generation of power in a factory manufacturing exciseable goods.

74. As a result of simplifications and relaxations introduced in the MODVAT scheme, availment of MODVAT credit for payment of duty has gone up appreciably over the years. The government have requested the National Institute of Public Finance and Policy, New Delhi to examine the effect of MODVAT scheme on the revenue collection.

Rate reductions and rationalisations

75. The budget for 1995-96 undertook a major exercise to reduce the dispersion in excise duty rates. The items where duty reduction were effected included : air conditioning machinery from 60 to 40 per cent; cosmetics and aerated water from 50 to 40 per cent; glazed tiles from 40 to 30 per cent; coated fabrics from 35 to 25 per cent; asbestos cement articles, insulated wires and cables and plastics from 30 to 25 per cent; perfumed antiseptic cream, polymer based paints, glass containers, ceramic laboratory ware and audio and video magnetic tapes from 30 to 20 per cent; china and porcelain from 30 to 15 per cent; cocoa and cocoa preparations, malt based food preparations and dry cell batteries from 25 to 20 per cent; fire works, parts of motor vehicles and two wheelers from 20 to 15 per cent and; asbestos fibres from 20 to 10 per cent. These wide ranging reductions have been carried out to provide relief to the consumers and bring down higher end duty rates in particular.

76. The heavy incidence of excise duty on yarn intermediates was brought down to provide relief to the consumers. The excise duty on polyester filament yarn was reduced from 69 to 57.5 per cent. In the budget for 1995-96 suitable adjustments were made in the tariff value of textured yarn so as to reduce the total burden at the texturising stage from Rs.10.35 per Kg. to Rs.4.60 per Kg. However, tariff values fixed in the budget for 1995-96 for PFY were subsequently withdrawn. The excise duty on sewing threads (other than 100% cotton) was simplified and a uniform excise duty of 23 per cent prescribed as against excise duty rates varying from 23 to 69 per cent earlier.

77. Significant rationalisation of duty rates for capital goods and metals was undertaken. The duty structure for parts of capital goods was unified at 15 per cent from levels which varied from 10 to 25 per cent. This would remove areas of dispute in classification. The excise duty on aluminium was scaled down from 20 to 15 per cent. With this step, excise duty on all metals was unified at 15 per cent.

Duty exemptions and concessions

78. The benefit of complete exemption from the excise duty was further extended to certain sectors of the industry which were highly labour intensive and in the unorganised sector. These were HDPE and polypropylene monofilaments which are mainly used for making fishing nets and mosquito nets; metal containers made without the aid of power; non-elastic narrow woven fabrics of cotton; unbranded surgical bandages; and tarpaulin cloth made without the aid of power.

79. The concessional rate of excise duty was reduced from 20 to 10 per cent on glassware produced by the labour intensive mouth blown process.

Other rate adjustments

80. Some modest increase in specific excise duty rates was effected in cement and cigarettes. The excise duty on cement produced by integrated cement plants was adjusted upwards from Rs.330 to Rs.350 per metric tonne and from Rs.185 to Rs.200 per metric tonne in case of mini cement plants. For mini cement plants using vertical shaft kilns, the daily clearance limit was raised from 200 to 300 metric tonnes per day. Consonant with the increase in prices, the existing specific rates of duty on cigarettes were increased by about 7 per cent.

Small scale sector

81. Small scale units play a significant role in the economy of the country. Keeping in view its growth potential, the eligibility limit for availing concessional rates of excise duty under the general small scale industry exemption scheme was raised. This eligibility limit in terms of turnover of dutiable goods in the preceding financial year was enhanced from Rs.2 crore to Rs.3 crore. Another measure undertaken to benefit a large number of units in the small scale sector was to fully exempt waste and scrap generated in the manufacture of exempted goods.

Anti-evasion measures

82. Some proposals in the nature of anti-evasion measures were also introduced. To this end, an excise duty of 10 per cent was prescribed on wool tops. As full MODVAT credit is admissible, this tax would impinge on those who evade excise duty at

the yarn stage. Besides, a minimum excise duty of Rs.10 per Kg on waste and scrap of fibre and yarn was prescribed with a view to discourage the tendency to clear good quality fibre and yarn in the guise of waste. Also yarn made predominantly from synthetic waste was subjected to the same rate of duty as yarn made from staple fibre.

Post budget changes

83. During the course of the current year, excise duty exemptions were extended to sweet meat and snacks, doubled yarn, unprocessed braids in piece, ornamental trimmings, tassels and pompons and rubberised fabrics (other than tyre cord fabrics) and certain metal containers produced without the aid of power. Certain types of processed cotton knitted fabrics were exempted from additional excise duty in lieu of sales tax. Similar dispensation was restored to certain categories of woven/knitted/crocheted fabrics. Excise duty of 15 per cent was levied on certain types of knitted or crocheted fabrics and glass and glassware including kitchenware, tableware etc. Besides, an excise duty of 20 per cent was imposed on all kinds of wastes of man made fibres and filament generated by independent units. Excise duty was reduced from 20 to 10 per cent in case of copper sulphate. Certain inputs (sulphuric acid and ammonia) used in fertiliser plants were exempted from excise duty and a concessional duty of Rs.80 per tonne was prescribed for low sulphur heavy stock and Rs.5.50 per kilo litre on naphtha if used in fertiliser plants. The goods supplied to United Nations or an international organisation or to projects funded by them were given excise duty exemption.

84. Significant reforms have been undertaken in the excise duty structure with a view to make a smooth transition towards VAT in the future. However, there is still scope for improvement in, and further reforms of, the excise tax system along the lines of TRC recommendations (Box 2.3). The multiplicity of rates and their dispersion both in general (ranging from nil to 50 per cent advalorem), and within the same product group / (chapter) need further reduction. Specific duty rates and relatively high duty rates for a number of intermediates, such as man-made fibresand non-metallic mineral products, also invite reform. As indicated in the Ministry of Finance, Discussion Paper (1993) on "Economic Reforms", it would be desirable to have a moderate unified excise duty rate for intermediates. This would help in rectifying distortions and anomalies.

Revenue performance 1995-96

85. In the budget for 1995-96, it was indicated that the net loss to the Centre from the revenue proposals on the conventional basis would be Rs.1582 crore. These methods do not take adequate account of the gains from simplification, rationalisation and improved tax compliance. This temporary loss in the interim would be recouped over the medium term through real gains in efficiency, competitiveness and faster growth of the economy. Available trends from major sources of revenue reveal that gains from better compliance and better administration are likely to be greater than the loss estimates made on the conventional basis. The data available for principal sources of direct and indirect taxes for the first nine months (April-December, 1995) of the current year are encouraging. In the case of direct taxes, collections from personal income tax and corporation tax at Rs.21327 crore were higher by 27.6 per cent over the same period of 1994. Collections from excise and customs were at Rs.53802 crore during April-December, 1995 and posted a growth of about 19 per cent.

States and Union Territories: 1995-96

86. The gap between the current revenue and total expenditure which had increased to 3.6 per cent of GDP in 1994-95 (RE) is estimated to decline to 3.4 per cent of GDP in 1995-96 (BE). Total expenditure is estimated to remain at 16.0 per cent of GDP in 1995-96 (BE). The current revenue is estimated to increase from 12.4 per cent of GDP in 1994-95 (RE) to 12.7 per cent of GDP in 1995-96 (BE). Tax revenue is estimated to increase from 8.4 per cent of GDP to 8.7 per cent in 1995-96 (BE). The increase in non-tax revenue is only marginal. Due to the increase in the current revenue, the gap between the current revenue and total expenditure is estimated to decline from 3.6 per cent of GDP in 1994-95 (RE) to 3.4 per cent in 1995-96 (BE).

Centre, States and Union Territories: 1995-96

87. The combined outlay of the Centre, States and Union Territories including Public Sector Enterprises is estimated to increase from 32.2 per cent of GDP in 1994-95 (RE) to 32.5 per cent in 1995-96 (BE) (Table 2.8). The developmental outlay is estimated to decline marginally from 18.3 per cent of GDP in 1994-95 (RE) to 18.2 per cent in 1995-96 (BE). The increase in the non-developmental expenditure is from 13.9 per cent of GDP to 14.3 per cent in 1995-96 (BE). Current revenue is estimated to increase from 21.1 per cent of GDP in 1994-95 (RE) to 22.1 per cent (BE). The gap between the current revenue and total expenditure is estimated to decline to 10.4 per cent of GDP in 1995-96 (BE) from 11.0 per cent in 1994-95 (RE). Financing pattern of this gap shows that the contribution of domestic capital receipts is estimated to decline marginally from 89.3 per cent

Box 2.3
Progress in Excise Duty Restructuring

	Product Group	Chapter No	TRC Recommendations in percent	Existing Rates in percent
1.	Dairy produce	4	10 & 15	nil & 10
2.	Products of animal origin	5	10	nil
3.	Edible vegetables,nuts,fruits in container	7 & 8	10 & 15	nil
4.	Coffee,tea & spices	9	10 & SD	nil
5.	Animal or vegetable fats & oils	15	15	0 & 20 SD RS.1500/MT
6.	Sugar & confectionery	17	10	0,10 & 20 SD Rs.21/Rs.37/qt
7.	Cocoa and cocoa preparations	18	20	20
8.	Miscellaneous edible preparations	21	15 & 40	0,10,15,20,30,40 & 50
9.	Bevearages,vinegar & spirit	22	15 & 20	10,20 & 40
10.	Tobacco	24		0,15,20,30,40, & SD
11.	Cement	25	20,30	0,10,20,30,40 & SD
12.	Mineral Fuels	27		0,10 & 20
13.	Chemicals	28 & 29	Bulk Drugs-10	0,10
			Others-15	20
14.	Pharmaceuticals	30.	Medicines for National Health Programme-Nil	0
			Others-10	15
15.	Fertilisers	31	10	nil
16.	Dyes & paints	32	Pigments & Colouring Matter-15	20
			Paints & Dyes-20	20
17.	Cosmetics & toiletries	33	20 & 50	0,10,20 & 40
18.	Photographic goods	37	10,20	0,10,20
19.	Plastics & Polymers	39	20	0,10,20 & 25
20.	Articles of leather	42	20	0,20,25
21.	Wood and Straw Products	44 & 46	Wood-10	0
			Veneered sheet,etc-15	20
			Plywood-20	20
			Straw & Other Plaiting Materials-15	0
22	Paper and Paperboard	48	Newsprint,hand made paper from bagasse-10	0,5,10,15
			Other paper and paper-board-20	20
23	Wool	51		0,10,15 & 20
24	Cotton	52		0,3,5 & 20
25	Other vegetable textiles	53		0,5,10,15 & 20
26	Man-made fibres & yarns	54 & 55	20*	0,10,15,20,30 & 50 SD
27	Ceramic products	69	All goods 10%, except	0,10,20
			a) Articles of porcelain or china-30%	15
			b) Glazed tiles-40%	30
28	Ferrous & non-ferrous metals	72 to 81	All metals including wastes and scraps-10	0,10,15, & SD
			Article of metals-15	0,10,15
29	Machinery	84	10	0,10,15,20,30 & 40
30	Electrical Machinery	85	Domestic appliances-20	10,20
			Consumer electronic goods-30	10,15,20, & SD
			Air-conditioners - 50	40
31	Motor vehicles	87		
	for goods		20	15
	saloon cars		50	40
	two wheelers		30	15,25
	cycles		15	nil

Note : SD-specific duty, qt-quintel, MT-metric tonne. * : Recommendation of inter-departmental committee.

in 1994-95 (RE) to 88.7 per cent in 1995-96 (BE). The share of external assistance increases to 5.2 per cent from 4.9 per cent in 1994-95 (RE). The contribution of budgetary deficit is also estimated to increase from 5.8 per cent in 1994-95 (RE) to 6.1 per cent in 1995-96 (BE).

Annual Plan

88. An outlay of Rs.128590 crore has been fixed for the Annual Plan 1995-96 for the Centre, States and Union Territories. This represents an increase of 21.1 per cent over the outlay of Rs.106204 crore for the 1994-95 (RE) Annual Plan (Table 2.11). The sectors accounting for higher increase in the outlay are Irrigation and Flood Control (38.1 per cent) and Industry and Minerals (28.6 per cent). The outlay on Social Services has been increased by 22.9 per cent, over and above the increase of 30.0 per cent in 1994-95 (RE) and 23.8 per cent in 1993-94. As a proportion of total outlay, the share of Social Services has been rising from the beginning of the Eighth Five Year Plan. The outlays for General Economic Services have declined by 16.7 per cent whereas for Communications it increased by 11.0 per cent compared to their outlays in 1994-95 (RE).

89. The Central Plan outlay of Rs.78849 crore accounts for 61.3 per cent of the total Plan outlay, down from 64.3 per cent in 1994-95 (RE). Outlay for the States (Rs.47440 crore) accounts for 36.9 per cent of total Plan outlay which is an improvement over their share of 33.7 per cent in 1994-95 (RE). The Plan size of the Union Territories is Rs.2301 crore accounting for 1.8 per cent of the total outlay against 1.9 per cent in 1994-95 (RE).

90. Domestic resources are estimated to constitute 86.1 per cent of the aggregate resources for financing Plan outlay against 83.6 per cent in 1994-95 (RE). The net inflow from abroad is estimated to account for 9.8 per cent of the aggregate resources against 10.3 per cent in 1994-95 (RE). The reliance on budgetary deficit is also lower at 4.1 per cent against 6.1 per cent in 1994-95 (RE).

91. The outlay of Rs.56868 crore for the Annual Plan of the Central Public Sector Enterprises (CPSEs) constitutes 72.1 per cent of the total Central Plan outlay against 71.1 per cent in 1994-95 (RE). Internal resources of the CPSEs are estimated to finance 50.8 per cent of their Plan outlay for 1995-96 (BE) against 49.7 per cent as per the revised estimates of 1994-95. Extra budgetary resources, comprising bonds/debentures, external commercial borrowings and suppliers' credit etc. are estimated to account for another 36.9 per cent up from 33.4 per cent in 1994-95 (RE). The need for budgetary support is, therefore, lower at 12.3 per cent against 16.9 per cent in 1994-95 (RE). The budget estimates of 1994-95 had provided for a support of 14.4 per cent which was subsequently raised due to lower contribution of internal and extra budgetary resources.

TABLE 2.11
Annual Plan Outlay: Centre, States and Union Territories

Heads of Development	1994-95 (RE)	1995-96 (BE)	1994-95 (RE)	1995-96 (BE)
	(Rs. crore)		(Per cent)	
1. Agriculture and Allied Activities	5678	6661	5.3	5.2
2. Rural Development	8270	9923	7.8	7.7
3. Special Area Program.ne	1466	1780	1.4	1.4
4. Irrigation and Flood Control	5410	7473	5.1	5.8
5. Energy	29026	35237	27.3	27.4
6. Industry and Minerals	10790	13877	10.2	10.8
7. Transport	15212	18097	14.3	14.1
8. Communications	7498	8321	7.1	6.5
9. Science,Technology and Environment	1473	1745	1.4	1.4
10. General Economic Services	2193	1827	2.1	1.4
11. Social Services	18223	22402	17.2	17.4
12. General Services	965	1247	0.9	1.0
Total	**106204**	**128590**	**100.0**	**100.0**

Performance of Departmental Enterprises

Railways

92. The gross traffic receipts of the Indian Railways increased from Rs.17946 crore in 1993-94 to Rs.19920 crore in 1994-95 (RE), representing a growth of 11 per cent. Due to less offering of freight traffic by the core sector, the growth in Gross Traffic Receipts was slightly on a lower side when compared to 1992-93 and 1993-94 level, when it was 14.3 per cent and 14.4 per cent, respectively. In 1994-95 (RE), the total working expenses (including appropriations to the Depreciation Reserve Fund and Pension Fund) have been estimated at Rs.16940 crore as against Rs.15135 crore in the previous year. The working expenses thus showed an increase of 11.9 per cent. Though below the 12.8 per cent increase in 1992-93, this is higher than that in 1993-94. The net traffic receipts of the Railways showed an increase from Rs.2811 crore in 1993-94 to Rs.2980 crore in 1994-95 (RE). The net Railway Revenue comprising the net traffic receipts and net miscellaneous receipts amounted to Rs.3250 crore in 1994-95 (RE). The ratio of net revenue to Capital-at-Charge and investment from Capital Fund works out to 13.0 per cent in 1994-95 (RE) as compared to 9.7 per cent in 1992-93 and 13.7 per cent in 1993-94. The ordinary working expenses, forming a major part of the total working expenses, registered a lower increase of 10 per cent in 1994-95 (RE) as compared to 12.2 per cent in 1993-94. After making provisions for payment of Rs.1380 crore (RE) as dividend to General

Revenues, the Surplus amounted to Rs.1870 crore (RE), which partly contributed to the investment requirements of the Railways. The other sources of financing the Railway Plan are budgetary support and market borrowings through Indian Railway Finance Corporation, as also withdrawals from the Depreciation Reserve Fund. Due to severe stringency in resources, measures for privatisation of different services were contemplated and announced.

93. In 1994-95 Railways contributed actually Rs.2670 crore to the general exchequer consisting of payment of dividend of Rs.1362 crore and net accretion of Rs.1308 crore to Railway funds kept with the general exchequer. Railways dues of Rs.831 crore remained outstanding against certain State Electricity Boards and power houses as on 31st March, 1995. This tantamounts to extending financial assistance to the States free of interest by the Railways. Railways net drawal position from RBI also improved to (+) Rs.2665 crore from (–) Rs.198 crore in 1993-94.

94. The Railway Budget for 1995-96 envisages a surplus of Rs.2055 crore, after providing for payment of dividend to General Revenues in full. The fare and freight rate increases in the Railway Budget for 1995-96 are shown in Box 2.4. They are expected to fetch additional revenue of Rs.750 crore. The Railways Plan outlay for 1995-96, the fourth year of the Eighth Five Year Plan, has been budgeted at Rs.7500 crore, including budgetary support of Rs.1150 crore. Market borrowings are estimated at Rs.2250 crore. The rest of the Plan outlay of Rs.4100 crore is to come from internal resources.

Box 2.4

Highlights of Railway Budget 1995-96

- Classification of certain commodities reduced.
- Exemption to certain essential commodities continued.
- No increase in Second Class fares.
- Upper Class and AC Chair Car fares raised by 10 per cent.
- Fares of Rajdhani, August Kranti and Shatabdi Express trains suitably restructured.
- Second Class Monthly Season Ticket (MST) fare increased by Rs. 5 to Rs.30 on a distance of 91 km. and beyond.
- Increase effected in computerised reservation charges and suitable revision in clerkage and minimum cancellation charges.

Post

95. The gross receipt of the Department of Post in 1994-95 increased to Rs.1170 crore from Rs.1105 crore in 1993-94 mainly as a result of normal growth of traffic in the absence of any revision in the tariff. Gross working expenses were Rs.2131 crore, and

TABLE 2.12

Cost and Revenue of Main Services of the Department of Post

(Rupees)

Service	1992-93 Cost	1992-93 Revenue	1993-94 Cost	1993-94 Revenue	Subsidy during 1993-94	Subsidy as per cent of cost
1. Postcard	1.54	0.15	1.57	0.15	1.42	90
2. Printed Card	1.44	0.60	1.46	0.60	0.86	59
3. Letter Card	1.57	0.75	1.61	0.75	0.86	53
Registered Newspapers						
4. Single	2.12	0.26	2.05	0.25	1.80	88
5. Bundle	2.78	0.45	2.63	0.46	2.17	83
6. Parcel	22.11	17.02	19.40	16.46	2.94	15
7. Registeration	10.36	6.00	9.90	6.00	3.90	39
8. Value pbls.	7.62	3.15	6.31	2.81	3.50	55
9. Acknowledgement	1.37	1.00	1.39	1.00	0.39	28
10. Money orders	14.09	10.97	13.28	11.68	1.60	12
11. Tele.M.O.	13.10	12.97	15.55	13.68	1.87	12
12. I.P.Orders	7.05	1.05	6.29	1.19	5.10	81
Book Post						
13. Book Pattern and Sample Packet	2.28	1.79	2.20	2.07	0.13	6
14. Printed Books	2.94	1.52	2.78	1.56	1.22	44
15. Other periodicals	3.27	1.29	3.07	1.52	1.55	50

net working expenses Rs.1522 crore. There was therefore, a deficit of Rs.352 crore. During 1995-96, as per the budget estimates, the gross receipts are expected at Rs.1315 crore and gross working expenses at Rs.2236 crore. With net working expenses at Rs.1619 crore, the deficit is estimated at Rs.304 crore for 1995-96 (BE).

96. Non-revision of tariff of various Postal Services as well as rate of remuneration for some of the services rendered on account of Agency Functions on behalf of other Departments are main factors for such deficit. Rate of remuneration for payment of Railways pension has not been revised over a period of years. The degree of subsidy, as indicated in Table 2.12, ranges from about 6 per cent in respect of Book pattern and sample packet to 90 per cent on Postcards. Elimination of subsidy on some of the services like Registered Letters, Parcels, Insured Letters, Printed Cards etc., small rise in the tariff of other services and introduction of special Post Cards for T.V. Programmes' reply will not only eliminate Department's deficit but also convert it into a profit making organisation.

Telecommunications

97. The network owned and operated by the Department of Telecommunications has been generating higher surpluses. Net Receipts estimated at Rs.3574 crore in 1994-95 (RE) against Rs.2357 crore in 1993-94 represent an increase of 51.6 per cent against only 7.4 per cent in 1993-94. These are estimated to be raised to Rs.4132 crore in 1995-96 (BE). The dividend to be paid to the general revenues was estimated to rise to Rs.269 crore in 1994-95 (RE) from Rs.230 crore in 1993-94. The operating ratio, which is a percentage of net working expenses (excluding the provision for redemption of bonds) to the revenue earned, has been proposed to be brought down to 50.32 in 1994-95 (RE) from 50.68 in 1993-94. The Plan outlay for Telecommunication Services including outlay for Videsh Sanchar Nigam Ltd. for the year 1995-96 (BE) is Rs.8372 crore against Rs.7537 crore in 1994-95 (RE), recording an increase of about 11 per cent. The entire outlay will be financed from the internal and extra budgetary resources of the Telecommunication sector. Internal resources amounting to Rs.6519 crore account for the major part (77.9 per cent) of the total resources. The contribution of internal resources was 70.3 per cent in 1994-95 (RE).

Broadcasting

98. Total expenditure on Broadcasting, as per the revised estimates of 1994-95, was Rs.818 crore. Against this, the receipts were Rs.456 crore. Thus, receipts could meet only 55.8 per cent of the total expenditure. Receipts from the commercial operations of Broadcasting section have been lower than the expenditure in the earlier years as well. This is because All India Radio and Doordarshan have to provide a public service within the overall larger objectives of accelerating social and economic development of the country. However, keeping in view the pressure on Government finances, it is desirable that commercial receipts are stepped up. All India Radio and Doordarshan have taken measures in this regard. As a result, commercial receipts have increased over the years. Commercial receipts during 1992-93, 1993-94 and 1994-95 (RE), in absolute term, were Rs.412 crore, Rs.440 crore and Rs.456 crore, respectively. The increase was more impressive if seen separately for Doordarshan, the corresponding figures being Rs.360 crore, Rs.373 crore and Rs.397 crore approximately. It is necessary that the ratio of receipts with reference to the expenditure is also stepped up to reduce the pressure on Government finances.

Outlook

99. The Economic Survey of 1992-93 emphasised the important link between fiscal balance and public savings. With the economy now firmly back on the normal growth path, this issue is back in focus. The move to a high growth path requires a rise in the domestic saving rates as well as in international flows in the form of direct foreign investment. As our private saving rates are comparable to those prevailing in the high growth economies of Asia, the only way to increase national savings in a consistent and permanent manner is to raise the rate of public saving. This will require a reduction in the total net primary deficit of the public sector to below zero, and a reduction of the gross fiscal deficit of the Centre to around 2 to 3 per cent of GDP, by the end of this century. In addition to the deepening of the policies already experimented with on the expenditure side, it requires a bold initiative to reduce debt by the sale of assets created through use of this debt, and completion of the tax reforms initiated in the last five years. On the direct tax side further increase in revenue can follow from a further reduction of rates, simplification and elimination of exemptions & deductions. On the customs side a reduction in the protective duties to levels prevailing in the fast growing Asian economies can promote competitiveness and efficiency. On the excise side, it requires that the MODVAT system be converted into a full-fledged Central VAT, within the existing constitutional frame work. We should also look forward to a completion of the process of sales tax reforms, in first harmonising State sales taxes and then converting each of them into a Value Added type tax. As the States have become increasingly aware of the benefits of an efficient tax system, we can also hope for movement towards a unified States' VAT.