COMPULSORY DEPOSIT SCHEME

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"People must come to accept private enterprise not as a necessary evil. but as an affirmative good.".

—Eugene Black

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By

V. B. Haribhakti *

The Compulsory Deposit Scheme announced by the Finance Minister in his Budget Speech on 28th February, 1963, is certainly a novel idea in the Indian Fiscal System. The Frankenstein of C.D.S. which has now appeared before the Nation had its origin in only four innocuous looking paragraphs 57 to 60 in the marathon 69 paragraph Budget Speech of the Finance Minister. It has almost been a feature of the laws enacted in recent past in our country that they are drafted rather hastily and with less than the necessary care. As a result, apparent inconsistencies and difficulties in practice have to be pointed oub by the public soon after the legislation is enacted. The legislation on C.D.S. also suffers from this defect. But its greater draw-back is that it is thoroughly ill-considered and ill-conceived. The Scheme will be so gigantic; the cost and trouble involved in administering it effectively will be so great and the inconvenience it may cause to the poorer classes will be so acute that perhaps no substantial benefit, commensurate with the effort and privation involved, may accrue to the National Exchequer from the same.

The Finance Minister indicated in his Budget Speech that his object in introducing C.D.S. was two-fold. First, to restrain demand in the immediate future, and second, to inculcate the saving habit in the country. Whatever may be the justification for these objectives as far as Income-tax payers are concerned, it is doubtful whether it can be seriously suggested that the demand of a person having a monthly income of between Rs. 125/- and

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Rs. 250/- needs to be restricted or such a person must be asked to inculcate the saving habit. The Finance Minister hopes to collect a total sum of Rs. 65 to 70 crores from Compulsory Savings out of which Rs. 12 crores will be contributed by income-tax payers. It is difficult to understand how this estimate of Rs. 12 crores on account of C.D.S. collection from income-tax payers has been arrived at. According to the published All-India Income-tax Revenue Statistics for the year 1960-61, there were about 8,28,347 Individual assessees having a Net Income (after deduction of taxes) of about Rs. 680 crores. Taking into account the fact that there might be some increase in the net income after taxes, during the subsequent two years, it may be reasonably expected that C.D. collection from Income-tax payers in a normal year would be about Rs. 16 to 18 crores. For the current year, an important fact to be considered is that income-tax payers having incomes from sources other than salary will have to pay compulsory 'deposit for two years, viz., for the previous year relevant to Assessment year 1963-64 as well as for the previous year relevant to Assessment year 1964-65. Therefore, even on a conservative estimate, it may be, expected that C.D. collection from income-tax payers. during the financial year 1963-64 will be more than Rs. 22 crores.

CATEGORIES OF PERSONS WHO HAVE TO PAP COMPULSORY DEPOSITS

Under Section 2 of the Compulsory Deposit Scheme Act, 1963, (hereafter referred to as "the Act"), five categories of persons by whom deposits will have to be made under the Act have been prescribed. The Central Government has been given power to specify even additional categories of persons who would be liable to pay Compulsory Deposits. The five categories may be classified as under:

A. Categories for which Schemes to be administered

by the Central Government have been already announced:

(a) persons liable to payment of **tax** under the Income-tax Act;

(b) employees of various descriptions.

B. Categories for which Schemes to be administered by the State Governments are still to be finalised and announced:

(a) persons liable for payment of land revenue. Such persons will be liable to pay Compulsory Deposits based on the land revenue paid by them in addition to the deposit made by them as income-tax payers on the basis of their residual income;

(b) holders of immovable properties in Urban areas who pay property taxes and who are not liable for payment of Income-tax;

(c) dealers whose annual turnover is Rs. 15,000 or more and who are not liable for payment of. Income-tax.

We shall restrict our discussion only to the first two Categories for which the Schemes have been already announced and which Have been already enforced. In the discussion that follows, the word "Employees" is used to denote "Employees" who are not tax-payers.

Which Employees will be liable to make deposits?

The Scheme is applicable, if certain conditions are satisfied, to all the employees of Governments — both Central and State, local authorities, companies — including foreign and Government companies and Corporations. As regards employees of individuals, associations of persons or bodies of individuals, the scheme would apply only if an additional condition is satisfied, viz., such individuals, associations of persons or bodies of individuals are liable to payment of **tax** under the Income-tax Act. This additional condition applicable to individuals, associations etc. has led to all manner of interpretations. It is suggested by some persons that employees of individuals in a case where the employers in a particular year are not likely to have taxable income; employees of registered firms whose income does not exceed Rs. 25,000 (the minimum limit up to which the Registered firm tax is not payable) and employees of Trusts who enjoy exemption under Section 11 of the Income-tax Act, 1961, will not be liable to make Compulsory Deposits. The correct interpretation would be that only the employees of Trusts the income of which are wholly exempt under Section 11 and which do not even have to submit a return of their income would be exempted from making the deposits. The employees of all Individuals and Firms (the employers being Income-tax Assessees who submit their Income-tax Returns and who claim the salaries paid as a deduction from their income for determination of their income or their loss) will be liable to make deposits under the Act. All such employers would be well advised to make appropriate deductions on account of C.D. from the salaries paid to their employees.

The employee to whom the Act applies in the manner outlined above is liable to pay deposits under the Act only if the following conditions are satisfied:

(1) The employee must have completed continuous employment for 240 days under the same employer. Thus, casual workers who work on daily wages and do not have a particular Axed employer will be exempted from making the deposits. This is an important concession recently announced and it will make the administration of the Scheme slightly easier;

(2) The employees' annual salary must be Rs. 1,500/- or more.

According to the changes announced in the Scheme, **salary** will include: (a) basic pay; (b) leave Salary, or Wages; (c) food concessions; and (d) retaining allowance.

The following allowances and variable amounts received by the employee would, however, be excluded: (a) house-rent allowance; (b) Overtime salary; (c) **Bonus**; and (d) Commissions, presents etc.

The exclusion of variable amounts from "salary" would be welcome. However, it would have been much better if items like "food concessions" etc., the valuation of which would present some difficulty and would involve difference of opinion, had also been excluded. Thus, as far as non-income-tax paying employees are concerned, the definition of salary is radically different from the definition of salary under the Income-tax Act. However, Section 3(e) of the Act states that "salary" has the same meaning as given in Sec. 17 of the Income-tax Act. Here again there is some inconsistency. Strictly speaking, any definition of salary given by the Scheme would be illegal to the extent it conflicts with the provisions of the Act.

(3) The employee must be one who does not already; save 11% of his salary income by way of: (a) Insurance Premium; (b) Contribution to Provident Fund; (c) Payment in a ten or fifteen-year account under the Post Office Savings Bank (Cumulative Time Deposit) Rules, ,1950. If he is saving such eleven per cent, he will not be liable to make any deposit under the Act even if his annual salary exceeds Rs. 1,500/-. In order to claim this exemption, the employee must give a declaration in writing to his employer to the effect that he is making such saving. This declaration must be given before the payment of salary for the month of July 1963 and again in every subsequent year before payment of the salary for the month of April. The scheme does not provide for a prescribe& form of such a declaration. If the scheme were to provide for a prescribed form of the declaration, it would make the task of both employers and employees considerably simpler.

Amount of deposit and where to deposit

The amount to be deposited is 3% of the annual salary. There is a slight modification in this percentage for the financial year 1963-64. As the Scheme is enforced only from 1st July 1963, i.e. it will be operative only for three-fourths of the year, the amount of deposit for the current year will be only $2\frac{1}{4}$% (i.e. $\frac{3}{4}$ of 3%) of the annual salary. This would mean that 3% of the monthly salary received for the month of July 1963 and subsequent months must be deposited. The amount deposited will earn interest at the rate of four per cent per annum. The interest will be calculated for full months only — tha month of deposit and the month of repayment being excluded.

As regards the place where the deposit is to be made, a fairly wide choice is available. The deposit can be made at any of the following places: (1) All Post Offices transacting Savings Bank Business; (2) Offices of the Reserve Bank of India; (3) Branches and Offices of the State Bank of India and its Subsidiary Banks; and (4) Offices of eight scheduled banks, viz., the Central Bank of India, the United Commercial Bank, the Bank of Baroda, the Bank of India, the Dena Bank, the United Bank of India, the Punjab National Bank and the Indian Bank.

What the employees are expected to do

Even though the latest "Important Changes" announced in the Scheme authorises the employer to open an account in the name of the employee, in order to claim repayment on due date and to ensure that in the unfortunate event of death of the depositor, the payment is made to his heirs, it would be wise for employees to complete and submit to the deposit office at an early date, Forms 'A' and 'D'. Form 'A' is for opening an Account. In this Form the specimen signature of the depositor will be communicated to the deposit office. Unless the specimen signature is registered, it will not be possible for the employee to claim repayment of this deposit with interest. Form 'D' is to be completed for nominating a person who will get the amount of deposit with interest in case of depositors' death.

The Scheme makes no provision for those employees who are serving more than one employer from each of whom they get less than Rs. 125/- per month but whose aggregate annual income from salary exceeds Rs. 1,500/- and is below the taxable limit. Such employees should preferably open an account on their own, and deposit 3% ($2\frac{1}{4}$% for Current year) of the amount of their annual salary in their Account voluntarily. The deposit must be made on or before 31st March every year. Not more than one deposit can be made in one month.

If an employee liable to make a deposit fails to do so, he would be liable to pay penalty which may be as much as one half of the amount of deposit which he is required to make under the Scheme. If an employee leaves the employment of an employer, he should collect his passbook from the employer and see that his account is duly transferred to another deposit office where usually the accounts of the employees of his new employer are maintained.

What the employers are expected to do

It is the duty of an employer to deduct on account of Compulsory Deposit an amount equal to three per cent of the salary from all salaries paid for the month of July 1963 onwards which exceeds Rs. 125/- per month and from which no tax is required to be deducted under the Income-tax Act. The employer will not make a deduction only if the employee has given a declaration in writing: that he is already saving a sum equal to eleven per cent of his salary in various permitted ways described earlier.

Before paying the salary for the months of January, February and March, the employer is expected to verify whether the eleven percent saving as per declaration has been duly made or not. If it has not been made he must deduct the full amount of the deposit from the salary for the closing months. An important point to be clarified in this regard is that, if the saving in the other permitted modes falls even slightly short of eleven per cent, (supposing it is 10.8%), the full amount of Compulsory deposit has to be deducted. The employee will not be permitted only to make up the shortfall. It would be just and equitable, at least in marginal cases, to permit an employee to make up the shortfall and not to require him to deposit the full amount.

The penalty on the employer in case he fails to deduct and pay to the deposit office the prescribed amount of compulsory deposit is that he will not be allowed to claim the amount of salary paid by him as a deduction for the purpose of computing his total income or total loss assessable under the Income-Tax Act. The employer is now authorised (by implication bound) to open the Compulsory Deposit Accounts for all his employees in a Deposit Office—even if each individual employee has not signed his respective Form 'A' for opening Account. Within fourteen days of making the deduction, the employer must remit the amount deducted to the deposit office, together with a schedule giving details of the deduction in Form 'F' in duplicate or triplicate — to be on the safe side, in triplicate. The deposit office will return one copy of the Form with its stamp in token of its having received the amount of deposit. The frequency of the deposits should not be more than once a month.

The employer is also responsible for the custody of the Pass Books of all his employees. It will be his duty to have the Pass Books of all his employees written up, to keep them in safe custody and to hand them over to the employees when they leave employment.

The scheme also provides for a novel type of option to certain types of big employers. The option is really one of undertaking the responsibility of running a miniature bank on its premises by maintaining the individual accounts of all the employees. It is not known whether the Government is going to compensate such establishments who will maintain the individual accounts of their employees. If there is no compensation, at least enough

to cover the additional expenditure involved in maintaining so many accounts of employees, it is difficult to understand why an establishment will exercise the option of taking up a huge responsibility when it can conveniently be shouldered by other specialised agencies like banks and post offices. The option has been given to the following types of employers:

(a) Factories and establishments exempted under the Employees' Provident Fund Act, 1952; (b) Public Sector enterprises, both of the Central and State Governments; (c) Local authorities; and (d) Central and State Government Departments employing more than 1,000 persons at the same station.

All the above categories of employers must deposit the amount collected in one lump sum in an approved deposit office in an account opened in their own name. The employer is also expected to preserve carefully the documents relating to the deductions and the remittances to the Deposit Offices and should produce them when required by the appropriate Government authority.

Nominations and Repayments:

Every employee would be well advised to make at an early date a nomination on Form 'D' of a person who would be entitled to get the amount of deposit in the event of his death. A nomination once made can also be altered by making an application in Form 'E'. If, the amount of Compulsory deposit has been deducted from the salary of an employee whose monthly salary was Rs. 125/- or more, but whose yearly income does not reach Rs. 1,500/- (in the event of his losing the job etc.) he will be entitled to claim refund of the deposit made by him with interest, after the end of the year.

The amount of deposit made every year will be repaid with interest at the end of five years from the end of the year in which the deposit is made. Thus the amounts paid during financial year 1963-64 will fall due for repayment on 1-4-1969. For tlaiming the refund, it will be necessary to make an application in Form 'C' and also 'to produce the passbook. In cases of genuine hardship, however, the Goveinment may refund the amount of deposit even earlier than five years.

An important provision under the scheme for both employees and income-tax payers is that the amount of deposit made under C.D.S. cannot be attached under any decree or order of any court.

SCHEME FOR INCOME-TAX PAYERS

The Compulsory Deposit scheme for income-tax payers provides that the payment of the "compulsory" deposit by income-tax payers is a "voluntary" affair — quite a paradoxical provision! But even though, the making of compulsory deposit is optional for income-tax payers, in fact it is worse than compulsory. If an income-tax payer does not make the compulsory deposit, he will have to pay that much additional amount by way of "additional surcharge on income-tax". The additional surcharge is in the nature of an expenditure while compulsory deposit is in the nature of investment, which yields a four percent tax-free return. Therefore, in fact, even for income-tax payers the scheme, though apparently voluntary, is really compulsory. In fact, in case of income-tax payers the scheme is more fool-proof than it is for other categories of persons.

The provisions of the Compulsory Deposit Scheme Act, 1963, in this regard are an example of poor and careless draftsmanship. A strict interpretation of the provisions of the Act would lead to results which could have been hardly intended by the Government. For instance, Section 2(b) states that the scheme would apply to "persons liable to payment of tax under the Income-tax Act". Section 3(d) states that "person" shall have the same meaning as in clause (31) of section 2 of the Income-tax Act. Section 2(31) of the Income-tax Act gives a very wide definition and states that "person" includes an individual, Hindu undivided family, a company, a firm, an association of persons, a local authority and every other artificial juridical person. However, the provisions of the. Act and the scheme and the estimated amount of Rs. 12 crores expected to be collected from this source clearly suggest that the Scheme is intended to apply only so "individuals". This view derives support from the fact that in Clause (3) of the scheme, and at several other places, the words "he" or "his" are used in relation to a depositor. In the application in Form "A" also, the depositor is to be described as "son/daughter/wife" of someone. These provisions clearly indicate that the scheme is applicable to individuals only. It would, however, be desirable for the Government to amend the definition of a "person" in Section 3(d) and clearly specify that the scheme is applicable only to individuals.

Amount of Deposit and where to deposit.

The amount to be deposited by an income-tax payer depends upon his "residual income", which has been defined by Section 2(8) of the Finance Act, 1963. In simple terms residual income means: "the total income '(excluding Capital gains)' **less** the amount of **gross tax** payable thereon without considering any partial or full exemption of tax in respect of any **part** of the total income."

Thus, the tax to be deducted from the total income for arriving at the "residual income" would usually be more than the actual amount of tax payable thereon, and the "residual income" will be less than the actual net income in the hands of an assessee after payment of tax.

The maximum amount that may be deposited by an income-tax payer would be as under:

(a) on first Rs. 6,000/- of the residual income 3%

(b) one the balance of the residual income, if any 2%

As in the case of "employees", the deposit will bear interest at four percent per annum. The fact that such return will be tax-free is of real significance to an income-tax payer. As regard the place where the amount may be deposited, the provisions are identical to those for "employees".

Deposits for two sears during financial year 1963-64

In respect of all types of income other than "salary" income, a point which has, perhaps, not been adequately realised is that during the financial year 1963-64, an income-tax payer is expected to (A) Deposit in respect of the residual income other than salary income for the previous year relevant to assessment year 1963-64; and (B) Deposit in respect of the residual income for the previous year relevant to assessment year 1964-65.

The reason for excluding "salary" income for assessment year 1963-64 is that, the salary income earned during the financial year 1962-63 would be taxed at the rates prescribed by the Finance Act 1962 which did not provide for levy of any additional surcharge while all other income earned during the previous year 'relevant to the assessment year 1963-64 would be taxed as per the provisions of the Finance Act 1963 which provides for the levy of additional sur-charge.

The income-tax payer stands to gain the following two advantages by paying the compulsory deposit. The Notice of Demand for payment of advance tax would obviously require payment of the full amount of additional sur-charge without considering the permitted deduction in the same on payment of compulsory deposit. Under Section 4(5) of the Act, the deduction in additional sur-charge will be available only on proof for payment of the compulsory deposit before the Income-tax Officer. Clause 5 of the Scheme, however, requires only a statement of the deposit made to be sent to the Income-tax Officer before 31st March. This apparent contradiction in both the provisions is another instance of careless drafting. The assessees may be advised that after receiving the Notice for payment of advance tax, they may write to the Income-tax Officer, that they are going to pay, before 31st March next following, the amount of compulsory deposit payable on the income on which advaace-tax has been demanded. They may further say that in view of that, they would gay by way of advance-tax the amount demanded as reduced by the Compulsory Deposit to be paid by them. They should preferably make the entire amount of compulsory deposit by 15th March and again send a statement to the Income-tax Officer confirming that the amount to be deposited by them under the Scheme has been duly deposited.

When an Income-tax payer has deposited the maximum amount that can be deposited by him under the Scheme, he will be entitled to a deduction in the amount of additional sur-charge payable by him under the Finance Act, 1963, of the amount so deposited, subject to the maximum limits stated earlier.

The deposits in respect of the residual income (other than salaries) for Assessment year 1963-64 will be made by, the following dates:

(a) If the assessment for Assessment Year 1963-64 is completed before 30th June 1963.	on or before 30th Sept. 1963.
(b) If the assessment for Assessment Year 1963-64 is completed at any time before 28th February 1964, and the notice of demand is also received before 28th February 1964	within a month of the date of receipt of the Notice of Demand.
(c) In other cases	on or before 31st March 1964.

The deposits in respect of the residual income for Assessment Year 1964-65 must be made at any time on or before 31st March 1964. In making the provisions regarding the time by which the deposits must be made in respect of assessment year 1964-65 onwards, the scheme has completely overlooked the difficulties which will arise in actual practice. In order to ascertain the correct amouht of compulsory deposit, every tax-payer will virtually have to prepare his Return of Income latest by about 15th March of the financial year and calculate the tax payable and the amount of compulsory deposit. In many cases, this will be nearly impossible. Even if the tax-payer is able to prepare his Return of Income for the next assessment year by 15th March, in how many cases does the Income-tax Department accept the income returned by the assessees? The result would be that on all additions made to the income returned, the assessee would have to pay excessive additional surchage and will not get an opportunity to deposit the necessary amount under the scheme in respect of the additions and thus claim appropriate deduction in the additional surcharge payable by him.

Under the income-tax payers' scheme, the duty of opening an account is on the income-tax payer. Therefore, every income-tax payer must take care to open his own Compulsory Deposit Account by making an application in Form "A" in good time. He must open the account before the last date on which the payment of deposit in respect of the residual income for Assessment Year 1963-64 is due. In any case, he should open the account latest by 25th March 1964 so that he is able to make the deposit latest by 31st March 1964, even if by that time his assessment year 1963-64 is not completed. It would also be advisable for him to make the necessary Nomination in Form 'D' as soon as possible.

For the amounts deposited, he must have the necessary entries for the same made in his passbook and obtain a Receipt in Form 'B' from the deposit office every time he makes a deposit. He should carefully preserve'the passboook and the receipts. He cannot, of course, make

a deposit more than once a month. The passbook will be necessary for claiming repayment when it is due and the Receipts in Form 'B' will have to be produced before the Income-tax Officer for the purpose of claiming deduction in the additional sur-charge both in respect of the demand for advance tax and the demand for tax payable on completion of the assessment.

Before 3ist March in every year, he has to submit a statement to the Income-tax Officer regarding the amount deposited by him. An income-tax payer in employment has to furnish such a statement also to his employer. The scheme does not provide for a prescribed form of such a statement. In order to avoid possible difficulties, the scheme should have provided for a prescribed form of such a statement. The Government should make the forms freely available without any charge.

What the employers are expected to do

At the commencement of the financial year, the employer should obtain from the income-tax paying employees a letter stating that they would be paying the compulsory deposit under the scheme by 31st March next following and, therefore, the additional surcharge payable by them should be reduced to that extent for the purpose of deduction of tax at source. On getting such a letter, he may deduct tax on the assumption that the necessary amount will be deposited under the Scheme.

Before making payment of the salary for the month of March, he should satisfy himself that the amount required to be deposited under the scheme has been duly deposited and if he finds that it has not been deposited, he should deduct and pay to the Government the entire amount of ad'ditional surcharge for the salary from the month of March.

The provisions for nominations and repayments In case of income-tax payers are generally similar to those for employees. The only important point of distinction is that while in case of employees, the amount paid in excess of the limits stated in the scheme is refunded with Interest, in case of income-tax payers it is paid without Interest. For claiming refund of excess amount of deposits made, it will also be necessary for the depositor to produce a certificate from the Income-tax Officer indicating the maximum amount of deposit payable by him for that year under the Scheme.

The complications involved in this gigantic Compulsory Deposit Scheme are almost bewildering. In spite of the complications, perhaps a justification may be found for the scheme, as far as the Income-tax payers are concerned. But the question of justification for the employee scheme seems to be agitating the minds of all responsible persons. A correct answer to this question can be easily provided by economic facts. The per capita income in India for the Year 1961-62 was Rs. 292.50 as compared to Rs. 11,118 of the United States of America. Capacity to save certainly has some relation to the capacity to earn. A recent survey of urban savings revealed that about 85% of the urban households had an income less than Rs. 3,000 and their contribution to saving was "nil". and in fact they "dis-saved", i.e., had to borrow in order to make both ends meet. Almost the entire saving in the urban sector was provided by the top 15% only. The June 1960 issue of the "Monthly Abstract of Statistics" published by the Central Statistical Organisation gives some revealing information. It is stated that the average monthly family expenditure of families having income between Rs. 100/- and Rs. 150/- was Rs. 178-87 and the expenditure of families in the Income group Rs. 150/- to Rs. 200/- was Rs. 238-77. Are these the people whose demand is sought to be limited? Are these the people in whom saving habit is sought to be inculcated?

There are many other avenues for conserving the. nation's resources. The most important of these is Government spending. The Government is incurring a colossal amount of avoidable expenditure, and it is in this

direction that very energetic steps should be taken to conserve the resources for use in defence and development.

It is plainly meaningless to ask the people who are already spending for necessities of life a larger amount than their income to "compulsorily save". To them "compulsory saving" is only a directive to "Compulsorily borrow" (if they can). In the light of these facts, the C.D.S. for persons whose income is below Rs. 3,000/- must be scrapped.

C. D. S. IS DIFFICULT TO IMPLEMENT

H. C. Malkani *

Ever since the Finance Minister introduced the Budget proposals for the year **1963-64,** there has been a lot of discussion about the feasibility and desirability of the Compulsory Deposit Scheme. The common people, specially the middle classes, have been worried about the Scheme. It is a comprehensive scheme affecting all classes of people. The complaint is that with a low per capita income and rising prices, people's capacity to save is almost nil. Though there is an element of truth in this, there is the great problem facing us as a nation to provide for the twin needs of Defence and Development. No amount of argument can hide the ugly fact that we suffered reverses because our defences were not properly organised. If we have to increase the expenditure on defence without reducing the outlay on development, we must provide for additional resources.

The objects of C.D.S., as mentioned by the Finance Minister, were to supplement additional taxation and voluntary savings and to inculcate the spirit of austerity among the people. It is necessary to encourage people to save more. The Third Plan was prepared on the assumption that the rate of saving (net domestic saving) in the country was about 8.5% of the national income towards the end of the Second Plan period. It was believed that it would be possible to raise the rate to about 11.5% by the end of the Third Plan. It has been, however, found that there has been a steep fall in the rate of small savings. As the national income has hardly increased by 2% over the first two Years of the Plan, the amount of savings has remained more or less stagnant.

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Of course, the National Council of Applied Economic Research (NCAER) has published more optimistic figures of savings in India.

The idea of compulsory saving or deferred payment was tried in Great Britain under the influence of Lord Keynes with considerable success. In a period of National Emergency, when there is demand for additional domestic resources, the country has to try all possible means of raising funds. It is believed that as national income increases, the amount of moneys collected as compulsory deposit would also increase. Compulsory deposits are preferable to taxation because they are "earning assets" and earn interest at the rate of 4%. The only alternatives to compulsory deposits are taxation and deflcit financing. Both of these have their limits. Increased deflcit Anancing may lead to further inflationary pressures, which would be highly undesirable.

Already the Third Plan is in difficulties. The tempo of economic development has slackened. The rate of growth in the first two years of the Plan has been estimated at 2.2%, i.e., even less than 2.4%, the estimated rate of growth of the population. Three-fourths of the Plan still remains to be achieved. It has been calculated that if the shortfall in the growth of national income is to be made up, a 7% rate of growth will have to be achieved in the remaining three years. All this points to the greater need of increasing savings. However, it remains to be seen how far C.D.S. is capable of implementation.

The scheme was passed in April **1963.** The machinery for implementation was devised three months later. The agitation against the scheme is mounting and modifications have been made to surmount the objections raised.

Let us consider the different categories of people affected by the C.D.S. and see how far each category would contribute to the common pool of savings. The first category consists of persons liable to payment of, land revenue above Rs. 5/-. This is the most numerous class of people affected by C.D.S. The responsibility of collecting compulsory deposits from the agriculturists rests with the State Governments as Land Revenue is a state subject. It is common knowledge that the State Governments have not been able to realise even the arrears of Land Revenue. Already some of the important State Governments like that of Madras have started grumbling. Of course, the Finance Minister takes shelter behind the fact that the State Chief Ministers had agreed to the Scheme. But considering the large number of people paying land; revenue, the Finance Minister has spread his net too widely. The object is no doubt "laudable" inasmuch as the agriculturists have escaped the increase in taxation. On account of certain constitutional difficulties, land revenue has remained a more or less static source of revenue. Implementation of the Compulsory Deposit Scheme in the case of land revenue paying class would present insurmountable difficulties as the revenue collecting agency will prove quite inadequate.

Let us take the second category, viz. income-tax payers. It is said that it is voluntary for them to deposit money. But it becomes compulsory because otherwise they will have to pay that much additional amount by way of "additional surcharge on income-tax". Hence no sensible income-tax payer will avoid making a compulsory deposit as not doing so will involve a definite loss. In the case of income-tax payers, it is rightly feared that C.D.S. will only mean a diversion from voluntary savings to compulsory savings. The Income-tax payers, as a class, are supposed to be people who have sufficient income and commonsense to provide for life insurance and compulsory provident fund. This is the class of people who are likely to have bank accounts. The C.D.S. would only mean some diversion of resources from the Private Sector to the Public Sector as the moneys deposited with the banks are likely to be advanced for financing private industry and commerce while funds deposited with the Government are likely to be used by the Public Sector. But it would be rather optimistic to expect that there will be any huge funds available. Except in the case of those whose income-tax is deducted at the source, it will not be possible to get much by way of deposits as there are huge arrears of income-tax. At the end of the year 1960-61, there were arrears amounting to Rs. 253.49 crores, roughly equal to the total collections made in that year (Rs. 278.44 crores). There would be arrears of Compulsory Deposits also. If the machinery for the collection of income-tax is not able to realise the amount due to the Government, how will it be able to enforce the depositing of compulsory deposits? Examining of accounts deposited will involve further procedural delays. The estimated amount of Rs. 12 crores expected to be collected from "persona liable to payment of tax under the Income-Tax Act" may not actually be realised at least this year.

Taking the next category of people, who are not liable to pay tax under the Income-Tax Act and who are getting salaries of Rs. 1,500 or more per annum as employees of Central and State Governments, local authorities, companies, etc., they are required to deposit 3% of their annual salary income. Of this class of people, the National Council of Applied Economic Research has said "whatever evidence is there indicates that persons with incomes up to Rs. 3,000 per year have on an average hardly, any net savings." This class of people, it is feared, will have to borrow in order to make the Compulsory Deposit. Increase in the cost of living as a result of increase in indirect taxes, rise in prices has reduced the capacity to save of persons earning incomes between Rs. 1,500 and Rs. 3,000. Imposition of Compulsory Deposit would only lead to an increase in their demand for enhanced D.A.

There remain three more categories: (i) Shopkeepers whose turnover is Rs. 15,000 or more annually; (ii) Urban immovable property holders assessed to tax; and (iii) Persons belonging to professions, trades and callings not subject to income-tax.

It is doubtful if the amounts expected would be collected as the machinery for implementation of C.D.S. has got to be perfected. The sales tax is in arrears in several states. Considering the large number of people liable to compulsory deposits, it is doubtful whether it would be possible to implement the scheme effectively. The number of income-tax payers alone would be Rs. 8,28,347. The number of people having incomes between Rs. 1,500 to Rs. 3,000 may be estimated at about 355.06 lakhs (consisting of non-farm households). This would, of course, include all classes of people besides the wage or salary earners. The number of accounts that will have to be opened makes the operation of the C.D.S. a colossal task. It has been calculated that in Bombay City alone 8 lakhs of accounts will have to be opened. On the whole, the conclusion seems to be irresistible that while the objects of the Compulsory Deposit Scheme are indeed laudable, its implementation would prove to be a very difficult task.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprbe

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Based on talks delivered under the auspices of the Forum of Free Enterprise in Bombay on July 23, 1963.

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—A. D. Shroff

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Published by M. R. Pai for the Forum of Free Enterprise. 235, Dr. Dadabhai Naoroji Road, Bombay 1, and Printed by Michael Andrades at the Bombay Chronicle Press, Horniman Circle. Bombay-1.

9/September/1963.

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