

**UNION BUDGET (1983-84) PROPOSALS  
WILL WEAKEN INDUSTRY**

H. P. Ranina



**FORUM OF FREE ENTERPRISE**

PIRAMAL MANSION, 235 DR. D. N. ROAD,  
BOMBAY 400 001.

“Free Enterprise was born with man  
and shall survive as long as man  
survives.”

— **A. D. Shroff**  
1899-1965  
Founder-President  
Forum of Free Enterprise

# UNION BUDGET (1983-84) PROPOSALS WILL WEAKEN INDUSTRY

by

**H. P. Ranina\***

The "Economic Survey" presented a few days before the Budget, highlighted some distressing factors and also made some suggestions as to what is needed to restore vitality to the sagging economy. The Budget proposals were, therefore, awaited in the belief that there would be new and innovative proposals which could give a fillip to various sectors of the economy which have been under considerable strain.

Apart from the fall in agricultural production to 125 million tonnes on account of the acute drought conditions, industrial growth showed a precipitous fall from 8.6% in 1981-82 to 4.5% in 1982-83. The recession in industry has affected no less than twenty-five major industries.

Though the wholesale price index has increased on an average by 2.4% per month, it is partly because the full impact of the drought has yet to be felt. In fact, the price situation threatens to be disastrous in the coming year in view of the inflationary pressures which are going to increase on account of the expanding potential for money supply to the tune of Rs. 5,000 crores.

The high imposts levied by the Government just a few days before the Budget proposals by hiking the railway freight, postal charges and petroleum prices, will further have a snow-balling effect. Thus, the total impact of the budgetary proposals as well as the increase in the volume of money supply may lead to a very high rate of inflation.

Large-scale national and international borrowings are envisaged by the Finance Minister in the Budget proposals. The total borrowings of the Government of India have reached such

---

\* The author is an eminent authority on taxation.

proportions that "National Debt" could appropriately be described as the most outstanding public figure of India today.

The total investment in the public sector units has been to the extent of Rs. 24,761 crores. Sales of Rs. 36,443 crores have been recorded. The gross profit before tax is Rs. 1,074 crores and the net profit is Rs. 485 crores. Thus, the ratio of net profit to sales is just about 1.5% and the ratio of the gross profits to the total investment is just a little over 4%. In fact, but for the profitability of O.N.G.C. and Oil India Limited, the public sector would have been totally in the red as in the past.

The total expenditure of the Union Government during 1983-84 has been fixed at Rs. 34,836 crores. Out of this amount, the total non-plan expenditure is estimated at Rs. 21,984 crores as against Rs. 20,511 crores in 1982-83. Thus, the increase in non-plan expenditure of Rs. 1,473 crores is almost equal to the deficit of Rs. 1,555 crores which has been estimated by the Finance Minister.

The most unfortunate part of the Budget exercise has been the Finance Minister's inability in reducing non-plan, non-developmental expenditure. Such expenditure is not only on defence, because out of a total of Rs. 21,984 crores, only Rs. 5,971 crores is allotted for defence, apart from Rs. 890 crores for food subsidy, Rs. 700 crores for fertilizer subsidy and Rs. 550 crores for export subsidy.

Turning first to the proposals made by the Finance Minister in respect of individuals, the Finance Minister seems to have entered into a futile exercise of what he describes as trimming of the marginal rates of income-tax. Having admitted that the lowest marginal rate of income-tax of 33% is very high, he goes on to reduce it to 28.125%. By doing so, he has retained the high rate on the lowest level of taxable income and it would be useful to know that even the reduced rate of 28% is applicable in most countries of the world to incomes in excess of Rs. 1 lakh per annum! The lowest marginal rate of income-tax should in no case exceed 10%.

There was absolutely no justification to increase the rates of

surcharge from 10% to 12½%. If at all some change was necessary, it was to abolish the surcharge altogether, so that the highest marginal rate is pegged at 60% as recommended by several expert committees on taxation set up by the Government itself.

The Finance Minister has mentioned in paragraph 70 of his Budget Speech that one of the principles on which his Budget proposals have been framed is to promote savings for companies and individuals. There are four changes proposed to be made in this regard:—

- 1) The Public Provident Fund limit for investment is proposed to be increased to Rs. 40,000, which is the overall limit under section 80-C.
- 2) The limit of 30% of the gross total income is sought to be removed, so that a person could invest upto Rs. 40,000 per annum even if his income is exactly equal to that figure.
- 3) The deduction under section 80-L has been increased from Rs. 6,000 to Rs. 7,000 per annum.
- 4) Interest on Five-Year Post Office Time Deposits has been hiked from 10.5% to 11.5%.

One of the salutary amendments proposed to be made is in respect of house property income. At present, if an individual borrows funds out of which a house is constructed by him or by a builder on his behalf, the assessee does not get a deduction for the interest payable on the loan because such interest can only be claimed as a deduction under section 24 from income under the head "House Property". Since income under the head "House Property" is taxable only where the assessee is the owner of a house, the interest would not be deductible while the house is under construction. It has, therefore, been provided that in the year in which the house is constructed and in the subsequent four previous years, the total of the accumulated interest paid during the construction period, can be written-off in five equal instalments against the property income which is assessable under section 22.

Needless to add, where the total amount of the interest exceeds the annual value of the property assessable under section 22, the loss under the head "Income from House Property" can be set-off against income under other heads, like salary income, investment income, capital gains, etc. This amendment is laudable as it will bring great relief to middle-class assesseees who have to borrow funds to purchase or construct a house.

As in all previous Budgets, more and more concessions are sought to be given to the agricultural sector, just as more and more burdens are being imposed on the urban class, the class which contributes the maximum revenues to the Government. In the previous Budget, wealth-tax was removed on agricultural land. It is now proposed to remove estate-duty on the value of agricultural land. The Finance Minister has justified this abolition on the ground that the yield from estate duty has been insignificant over the past several years. If this be the right criteria for abolition of estate duty on agricultural land, there are several other levies which also should be abolished on the same ground.

The benefit of section 54-E is sought to be revived for allowing exemption from capital gains tax. This section was introduced in 1977. When this measure was originally introduced, it proved to be a smashing success because several attractive forms of investment were provided to an assessee who desired to get capital gains tax exemption. Shares of companies, bank deposits, units of the Unit Trust of India and other Government securities were specified, which made it extremely attractive for a taxpayer to invest the entire sale proceeds in these assets. In fact, during 1977-78, property transactions were undertaken, where the full consideration was disclosed because sellers demanded the entire amount by cheque in order to enjoy capital gains tax exemption. Subsequently, in 1979, the only asset which was specified for investment were the National Rural Development Bonds. This did not prove to be attractive at all as it was for a period of seven years and its marketability was considerably restricted.

The Finance Minister has now proposed that a person who has made capital gains in respect of an asset transferred after 28th February, 1983, can invest in any of the following assets:—

- 1) A security of the Central Government which is notified. The Government proposes to bring out a new security with a maturity period of only three years. The Finance Minister is optimistic about the success of this security and has taken credit for Rs. 135 crores in his budgetary estimates.
- 2) Special series of the units, of the Unit Trust of India which are notified by the Central Government.
- 3) National Rural Development Bonds.
- 4) Such debentures issued by the Housing and Urban Development Finance Corporation Limited as are notified.

In paragraph 70 of Mr. Pranab Mukherjee's Speech this year, he has outlined his philosophy, the first being to strengthen the productive forces in the economy and also to encourage savings in corporate sectors. However, his Budget proposals will have no effect in achieving these two objectives.

The Finance Minister has sought to increase the general rate of depreciation in respect of plant and machinery from 10% to 15%. Therefore, if an industrial unit works extra shift it would be entitled to claim depreciation at the rate of 22½% for double shift working and 30% for triple shift working unless that industry is debarred from claiming the extra shift allowance. The important point to be borne in mind in this regard is that the cost of replacement of an asset is 2½ to 3 times the original cost. In other words, unless industry can find additional resources for replacing assets, it would have to continue using obsolete equipment. The depreciation allowance even at the higher rates would be based on the historical cost of an asset and not on the replacement cost. Therefore, even after the increase in the depreciation rates, industry would still have to struggle for funds in order to be able to finance the cost of replacing an asset.

Depreciation at the rate of 100% is sought to be provided in respect of assets to be used as energy saving devices. However, such assets would now not be able to claim the investment allowance in view of the 100% rate of depreciation being prescribed.

Pollution control equipment would be eligible for a higher rate of investment allowance which would hereafter be 35%. This is a step in the right direction as it would encourage industries to buy such equipment.

The other incentive sought to be given is to encourage higher production by giving selective rebates in excise duty. Last year, the Finance Minister had proposed that there would be a rebate on 20% of the excise duty paid on excess clearances where the ad valorem duty is 20% or less. The rebate was 10% of the excess clearances where the duty was more than 20%. The figures of rebate of 20% and 10% have been increased to 30% and 15% respectively. It is also provided that where the clearances exceed 110% of the base, the rebate would be 40% and 20% respectively on the clearances in excess of 110% of the base.

In this regard, it must be pointed out that in most cases higher production cannot be achieved due to reasons beyond the control of the industrialists. This is mainly because of the weaknesses in the infrastructure, notably in the field of electric power. In other words, if adequate electric power cannot be supplied, production cannot be increased in spite of the best intentions of an industrialist. Likewise, if there is labour unrest, paucity of raw materials and restriction on credit, production cannot be increased to any appreciable extent.

The next incentive sought to be given is in respect of exports. Section 35-B and section 89-A are proposed to be deleted and in their place a new section 80-HHC is proposed to be introduced. The difference between section 35-B and section 80-HHC is that whereas the former allows the benefit on the total expenditure incurred regardless of the actual quantum of exports undertaken by the unit, under the new provision the exemption would be



available only to the extent of 5% of the incremental exports. Therefore, under the new provision no benefit would be available in the first year in which exports have been made. This is because there were no exports in the preceding year. Further, under the new provision the benefit would be available only where there is an export turnover, whereas under section 35-B the incentive was available even where the expenditure had proved to be infructuous and no exports had been made.

There are three other very draconian measures proposed by the Government which will affect industry very drastically. The first one relates to the imposition of a hybrid system of taxation on industrialists and businessmen. Under the proposed section 43-B, a businessman would not be entitled to a deduction in respect of any statutory dues like excise duty, customs duty, sales tax, etc., unless they have been actually paid.

In other words, whereas the receipts would continue to be chargeable on accrual basis, deduction would be granted for the expenditure on cash basis. This would mean that though the sale price includes the excise duty which is payable to the Government, the businessman would have to pay income-tax on an amount which does not really belong to him but which belongs to the Government. In fact, by doing so, what would be taxable in the hands of the businessman is not his income but a figure which is totally different from his income.

The next amendment to disallow legitimate business expenditure is equally obnoxious. The Finance Minister has sought to justify it by referring to such expenditure as being of a "lavish and wasteful" nature. However, when one turns to the provisions of the new section 37(3-B), one is astounded to find that not only is expenditure on advertisement, publicity and sales promotion sought to be disallowed to the extent of 20%, but even expenditure on travel by rail, motor car, ship, aircraft and the running and maintenance of motor-cars. The implications of such a provision is that if an office peon is sent to deliver a letter and he buys a rail ticket for travelling, 20% of such expenditure would be disallowed because according to the Finance Minister it is "lavish and wasteful".

As far as expenditure on advertisement is concerned, it must be pointed out that there are certain statutory requirements for advertisements. For example, under the Companies Act, 1956, there are several provisions of law which require a company to statutorily advertise in newspapers all over India, one of them being for inviting fixed deposits from the public. Further, there are circumstances in which advertisement is inevitable, like placement of tenders, advertising for recruitment of personnel, making certain statutory announcements, etc. Twenty per cent of all such expenditure would be disallowed as there is no definition of the word "advertisement". Therefore, it is necessary to give a proper definition to the word "advertisement" and exclude all advertisements which are necessary under a statute or which are incurred for recruitment of personnel. Further, the words "sales promotion" should be defined to exclude commission and discount given to distributors, selling agents and wholesalers, as otherwise it would lead to litigation. Further, it is utterly wrong to disallow expenditure over which an assessee has no control. For example, the airfares and rail fares are all increased by the Government itself and, therefore, to disallow 20% of the expenditure amounts to putting an unbearable burden on a businessman who has to genuinely incur such expenditure for the purpose of his business.

As far as payments to hotels are concerned, such expenditure is already being disallowed under a rule in excess of Rs. 200 per day and Rs. 150 per day depending upon the city of travel. Therefore, whatever is extravagant or lavish is already being disallowed. A further disallowance of 20% would be made hereafter unless the Central Board of Direct Taxes deletes the rule under which the disallowance is made at present.

Entertainment expenses are now sought to be disallowed in excess of Rs. 50,000 per annum. A very wide definition of the word "entertainment" is sought to be provided with retrospective effect from 1st April, 1976, with the idea of superceding Court decisions. The Government has stretched the definition to the bounds of absurdity by providing that the provision of even beverages like tea, coffee and cold drinks is in the nature of

entertainment. Food and beverages provided to employees have been excluded from the definition of "entertainment". Therefore, a businessman would have to determine right from 1976 and hereafter keep a record of the number of cups of tea offered to customers and the number offered to employees so that the former is taken into account for computing the disallowance of the expenditure.

The definition of "guest house" is also sought to be amended with effect from 1st April, 1979. Again, this amendment is made to supercede certain Court decisions which had construed these words correctly by applying the common parlance test. Under this definition, a guest house is defined to mean an accommodation which is being used by employees of a company who are on a tour for the purpose of work. However, the second proviso to section 37(4) provides that where a guest house is maintained for employees while on leave, the expenditure thereon is fully deductible. It is indeed strange that where expenditure on a guest house meant for employees while on duty is disallowed, expenditure on a similar guest house for employees while on leave is fully allowed as a deduction! There is no doubt that these provisions defy logic and are against the interest of the country.

The most obnoxious proposition of the Budget is the introduction of section 80-VVA. The Finance Minister has sought to justify this provision on the ground that it is a matter of concern to him that tax incentives and concessions are being availed of by companies, thereby reducing their tax liability. It is indeed strange that the Government looks down upon a business community which is prepared to take full advantage of tax benefits and thereby help in accelerating industrial growth and development.

The important point to be borne in mind in this regard is that section 80-VVA will have retrospective effect in the sense that it will apply to industrial units already set up on the basis that they would be eligible for the relief under section 80-I and section 80-HH. While setting up new industrial units, substantial funds are normally borrowed from banks and financial institutions

and, while making up the repayment schedule, companies take into account the tax benefits which have already been given by the Government. These repayment schedules will now go awry and companies will be required to reschedule the payments as it would be impossible to pay the tax as well as stick to the schedule. In fact, this provision will adversely hit all new companies which have been set up recently and all existing companies which have set up new industrial units that are capital intensive in nature.

The least that the Finance Minister can therefore do is to provide that the provisions of section 80-VVA would apply only to new industrial undertakings which are set up after 1st April, 1983. Such an amendment is imperative if industrial growth in India is not to be retarded.

There is also a major shift in the fiscal policy of the Government as far as exports are concerned. With a view to encouraging larger exports of certain goods, the Finance Act, 1982, had made a provision, section 89-A, in the Income-tax Act relating to tax relief to Indian companies and non-corporate tax-payers resident in India whose export turnover for a year exceeds the export turnover for the immediately preceding year by more than 10% thereof. Under this provision, the tax relief is to be calculated at a specified rate with reference to such turnover. The maximum amount of deduction to which the taxpayer is entitled under this provision is not to exceed 10% of the amount of income-tax otherwise payable by him on the profits and gains from the qualifying exports. The tax relief is calculated with reference to the sale proceeds (excluding freight or insurance attributable to the transport of the goods or merchandise beyond the customs station as defined in the Customs Act, 1962) of specified goods or merchandise exported out of India. This tax concession is available in relation to the assessment year 1983-84 and four immediately succeeding assessment years.

It is proposed to substitute the aforesaid provisions by a new section 80-HHC for granting tax concession based on export turnover. The broad features of this scheme are as follows:—

- (i) The tax concession will be available to Indian companies and non-corporate tax-payers resident in India who have exported out of India any qualifying goods or merchandise during the year immediately preceding the accounting year.
- (ii) The tax concession will consist of a deduction in the computation of taxable income, of 5% of the amount by which the export turnover of the accounting year exceeds the export turnover of the immediately preceding year.
- (iii) The tax concession will be available in relation to the export of all goods or merchandise other than agricultural primary commodities (not being produce of plantations), mineral oil, minerals and ores and such other goods or merchandise as the Central Government may by notification in the Official Gazette specify in this behalf.
- (iv) To qualify for tax concession, the sale proceeds of goods or merchandise exported out of India must be receivable by the tax-payer in convertible foreign exchange.

The Government has sought to revive the tax credit certificates scheme for shifting an industry from an urban area. At present, this provision applied only to capital gains made upon sale of land and buildings. It is now proposed that any capital gains arising upon sale of plant and machinery also would be exempt from capital gains tax, if the amount is invested in purchasing new machinery or plant for the purposes of the business of the company in the area to which the undertaking is shifted or for acquiring land or constructing buildings. The expenditure on shifting of the machinery is also to be considered for this purpose.

Wealth-tax on companies is sought to be revived. The amendment would apply to all closely-held companies, whether they are industrial or not.

In conclusion, the point to be considered is whether the

Budget proposals made by the Finance Minister will fulfil the objectives which he himself has put forth in his Budget Speech and, whether the major problems facing the country would be solved. Far from the objective of the productive forces of the country being strengthened, the Budget proposals will weaken the industrial sector considerably as it will eat into the quantum of the ploughed back profits and thereby leave lower resources for industries to grow or even to replace and modernise the productive apparatus. In fact, the retroactive effect of some of the proposals will retard industrial growth since companies would not have sufficient incentive to set up new industrial undertakings.

As far as the common man is concerned, he would continue to groan under the burden of heavy taxation and high prices. The price situation may go out of control unless production in the farms and factories increases dramatically.

The budgetary deficit is likely to cross Rs. 3,000 crores though it may be camouflaged by making certain adjustments. The effect of the drought suffered in 1982-83 will be fully felt in the coming year and the expansionary effect of monetary resources would undoubtedly lead to a fresh bout of inflation which would have a most deleterious effect on the economy and on the life of the common man. Further, the problems of low industrial growth, high rate of unemployment, staggering national and international debt and general industrial unrest would all continue unabated. Therefore, there is no doubt that the spectre of a stagnating economy will continue to haunt the nation and the common man will continue to slide down further in his battle for survival.

*The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.*

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

— **Eugene Black**

437

## Have you joined the Forum?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 30/- (entrance fee, Rs. 20/-) and Associate Membership fee, Rs. 12/- only (entrance fee, Rs. 8/-). Graduate course students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 5/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-400 001.

---

Published by M. R. PAI for the Forum of Free Enterprise,  
"Piramal Mansion", 235 Dr. Dadabhai Naoroji Road, Bombay-1,  
and printed by U.K. Goshalia at Ruby Printers,  
30-D, Cowasji Patel Street, Fort, Bombay-400 023.

12/April/1983