

LOK SABHA

THE GIFT-TAX BILL, 1958

(Report of the Select Committee)

Presented on the 2nd May, 1958



**LOK SABHA. SECRETARIAT
NEW DELHI
May, 1958**

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THE GIFT-TAX BILL, 1958

COMPOSITION OF THE COMMITTEE

1. Shri C. R. Pattabhi Raman—*Chairman*.
2. Shri Asoke K. Sen
3. Shri C. D. Pande
4. Shri M. Thirumala Rao
5. Shri Tribhuvan Narayan Singh
6. Shri Mahavir Tyagi
7. Shri S. Ahmad Mehdi
8. Shrimati Uma Nehru
9. Shri Shivram Rango Rane
10. Sardar Iqbal Singh
- *11. Dr. Y. S. Parmar
12. Shrimati Renuka Ray
13. Shri Liladhar Kotoki
14. Shri Jaganatha Rao
15. Shri Narendrabhai Nathwani
16. Shri Radheshyam Ramkumar Morarka
17. Shri Harish Chandra Mathur
18. Shri Radhelal Vyas
19. Shri Vidya Charan Shukla
20. Shri N. G. Ranga
21. Shri M. Shankaraiya
22. Shri Satyendra Narayan Sinha
23. Shri George Thomas Kottukapally
24. Shri A. M. Tariq
25. Shri Kamalnayan Jamnalal Bajaj
26. Shri B. R. Bhagat
27. Shri Mathura Prasad Mishra

*Ceased to be member of the Committee with effect from the 28th April, 1958, on his election to the Lok Sabha being declared void by the Election Tribunal.

(ii)

28. Shri T. Sanganna
29. Shri S. R. Damani
30. Shri Rajeshwar Patel
31. Shri T. C. N. Menon
32. Shri Prabhat Kar
33. Shri R. K. Khadilkar
34. Shri Bimal Comar Ghose
35. Shri Arjun Singh Bhadauria
36. Shri M. R. Masani
37. H. H. Maharaja Sri Karni Singhji of Bikaner
38. Shri Premji R. Assar
39. Shri N. Siva Raj
40. H. H. Maharaja Pratap Keshari Deo
41. Shri Naushir Bharucha
42. Dr. A. Krishnaswami
43. Shri Morarji Desai.

DRAFTSMAN

Shri G. R. Rajagopaul, *Additional Secretary and Chief
Draftsman, Ministry of Law.*

SECRETARIAT

Shri N. N. Mallya—*Deputy Secretary.*
Shri A. L. Rai—*Under Secretary.*

Report of the Select Committee

I, the Chairman of the Select Committee to which the *Bill to provide for the levy of gift-tax was referred, having been authorised to submit the report on their behalf, present this their Report, with the Bill as amended by the Committee annexed thereto.

2. The Bill was introduced in the Lok Sabha on the 28th February, 1958. The motion for reference of the Bill to a Select Committee was moved by Shri Morarji Desai on the 23rd April, 1958. It was discussed in the House on the 23rd and 24th April, and adopted on the 24th April, 1958 (*Appendix I*).

3. The Committee held 6 sittings in all.

4. The first sitting of the Committee was held on the 26th April, 1958 to draw up a programme of work.

5. Seven memoranda on the Bill were received by the Committee from different associations/individuals as mentioned in *Appendix II*.

6. The Committee considered the Bill clause by clause at their sittings held on the 28th, 29th, 30th April, and 1st May, 1958.

7. The Report of the Committee was to be presented by the 1st May, 1958. The Committee were granted extension of time on 1st May, 1958 upto the 2nd May, 1958.

8. The Committee considered and adopted the Report on the 2nd May, 1958.

9. The observations of the Committee with regard to principal changes proposed in the Bill are detailed in succeeding paragraphs.

10. *Clause 2.—(1) Item (iii).*—The definition of assessee has been brought in line with the definition in the Income-tax Act.

(2) *Item (xii).*—The meaning of the word "consideration" in this definition has been made clear by the insertion of the words "in money or money's worth."

(3) *Item (xviii).*—The Committee feel that the definition of 'person' should also cover association of persons.

The item has been amended accordingly.

*Published in Part II, Section 2 of the Gazette of India, Extraordinary, dated the 28th February, 1958.

(4) *Item (xx)*.—The Committee feel that the definition of “previous year” should cover all cases of gifts made during a period of 12 months prior to the assessment year including the gifts made by persons in whose case there is no previous year under the Income-tax Act.

The item has been amended accordingly.

(5) *Item (xxi)*.—The amendment brings the expression Secretary and Treasurer in line with the Companies Act, 1956.

11. *Clause 3*.—The Committee feel that it should be specifically provided that gifts made before the 1st April, 1957 should not come within the purview of the Bill. They also feel that there should be no aggregation of gifts made during the five preceding years for the purpose of determining the rate of duty. The tax should be levied on gifts made during the previous year at the rates specified in the schedule.

Explanation to clause 3 would cause hardship and should be omitted.

The clause has been amended accordingly.

12. *Clause 4*.—(1) *Item (a)*.—The amendment is of a formal nature.

(2) *Item (b)*.—The words “in the opinion of the Gift-tax Officer” have been omitted as unnecessary. The other amendment made in this item is of a clarificatory nature.

(3) *Item (c)*.—The Committee feel that debts, contracts, actionable claims or interests in property which are written off, compounded or remitted, *bona fide* should not be treated as gifts.

The item has been redrafted accordingly.

(4) *Item (d)*.—It has been made clear that this item applies only when the vesting of property is “without adequate consideration”. The other amendments make it clear that an appropriation from a joint property for the benefit of a third party will also be a gift.

13. *Clause 5*.—In the opinion of the Committee:—

- (i) *Item (ii) (a)* of Clause 5(1) should be amended to make it clear that no citizen of India is charged tax in respect of gifts of movable property made outside India unless he is regarded as resident and ordinarily resident within India within the meaning of the Income-tax Act.

(v)

- (ii) Item (vi) should be amended so as not to subject gifts for charitable purposes made before 1st April, 1958 to tax and further in respect of such gifts made after that date the aggregate value of gifts made to one donee should not exceed rupees five hundred.

Recommendation of the President under Article 117(1) of the Constitution has been obtained for making the amendment.

- (iii) Item (vii) should be amended so that the conditions apply uniformly to individuals and to Hindu undivided families and the provision applies to both male and female relations.

- (iv) Item (viii) should apply equally to the husband and wife, but if out of the gift so made the donee makes further gifts, those gifts should be taxable. This has been done by inserting a new sub-clause (3).

Recommendation of the President under Article 117(1) of the Constitution has been obtained for making the amendment.

- (v) Item (ix) should be amended so as to exclude the wife from its scope, in view of the provision included in item (viii).

Recommendation of the President under article 117(1) of the Constitution has been obtained for making the amendment.

- (vi) Sub-clause (1) should be further amended so as to include within its scope gifts for the education of one's children, gifts by way of bonus etc., gifts made in the course of business, gifts to *Bhoodan* or *Sampattidan* movement and gifts made out of privy purses which custom demands should be made.

- (vii) Sub-clause (2) should be amended to allow a basic exemption of rupees ten thousand, irrespective of the value of the number of gifts to an individual donee.

Clause 5 has been amended suitably to provide for the above matters.

14. *Clause 6.*—The amendment is of a clarificatory nature.

15. (*Original Clause 7.*)—This clause has been omitted for the reasons mentioned against Clause 3.

16. *Clause 16 (Original Clause 17).*—The amendment made is of a clarificatory nature.

17. *Clause 18 (Original Clause 19).*—The amendment ensures the same advantages to persons who have made gifts before the passing of the Act as are available to persons who make gifts hereafter.

18. *Clause 21 (Original Clause 22).*—The clause has been amended to bring it in line with section 44 of the Income-tax Act as amended by Section 11 of the Finance Act, 1958.

19. *Clause 23 (Original Clause 24).*—The Committee feel that an assessee should have an opportunity for appeal against the order of Appellate Assistant Commissioner and Commissioner imposing a penalty under Clause 17.

The Clause has been amended accordingly.

20. *Clause 35 (Original Clause 36).*—The amendment made in sub-clause (i) secures uniformity with the language of sub-clause (1).

21. *Clause 45 (Original Clause 46).*—In the opinion of the Committee no distinction need be made between public companies and private companies for the purpose of exemption, but in either case the exemptions should not apply to gifts made to directors, managing agents, etc., or to their relatives.

Charitable and other institutions whose income is exempt from income-tax should not be subjected to gift-tax in respect of gifts made by them.

Accordingly after obtaining the recommendation of the President under article 117(1) of the Constitution the Clause has been amended suitably.

22. *Clause 46 (Original Clause 47).*—The amendment made in this Clause seeks to enumerate the subject matter in respect of which rule for refund of gift tax may be made.

23. The Select Committee recommend that the Bill as amended be passed.

NEW DELHI;
The 2nd May, 1958.

C. R. PATTABHI RAMAN,
Chairman,
Select Committee.

MINUTES OF DISSENT

I

India has a fine tradition of compassion and charity. On the other hand, for many centuries now, there has been a deficiency in the capacity of our people to get together in small groups in order to establish voluntary institutions and organisations for the furtherance of public purposes or objectives shared by them. There can be little controversy about the proposition that the tradition of charity and of sharing one's material wealth needs to be protected while the instinct for self-help and "grass roots" action for the solution of social, economic and political problems needs to be stimulated. Unfortunately, the Gift Tax Bill as it emerges from Select Committee appears to me to be only too likely to have just the opposite effect.

The original purpose of the Bill, when it was first announced last year by the present Finance Minister's predecessor, Mr. T. T. Krishnamachari was stated to be that of checking attempts at evasion or reduction of tax liability to Estate Duty and other taxes through the levying of a tax on such gifts as might provide a convenient means of such evasion. Even in the brief Statement of Objects and Reasons of this Bill dated February 28, 1958, considerable prominence is given to this purpose, though other objects already begin to find a place there. A perusal of the Bill itself, however, reveals that the primary purpose has been left far behind and that its main feature is to tax gifts for the sake of taxing them, as if there is something slightly reprehensible about the act of giving except within limits set by the State. The citizens' freedom of choice is thus crippled in yet one more sphere of life.

A good illustration of this attitude is to be found in Clause 5, Sub-clauses (v) and (vi) of the Bill. Barring trifling gifts of less than Rs. 100, the benefits of exemption from Gift Tax is given only to those institutions or funds established for a charitable purpose to which the provisions of Section 15B of the Income Tax Act apply. This limitation excludes donations of two kinds which, in my view, are deserving of encouragement.

On the one hand, donations to public institutions and for public purposes which are not strictly charitable in character are henceforth to be mulcted by the imposition of a Gift Tax. Among these

would be contributions of such a diverse nature as those to flower shows, sports and games, literary societies, ideological causes such as, for instance, population control, or the abolition of capital punishment, and finally to political parties or organizations.

In India, it is difficult enough to get people to put their hands into their pockets and make contributions even towards purposes they otherwise hold dear. Democracy thrives while citizens who hold certain purposes or objectives in common get together for educating public opinion in regard to them or otherwise furthering them. Now, in addition to the existing disinclination, there will be the further disincentive of taxation.

In so far as charities are concerned, the limitations of Section 15B of the Income Tax will exclude from tax exemption donations made to charities which are for the benefit of members of "any particular religious community". Support for this distinction was sought to be canvassed on the ground that our Constitution pledges us to a secular State. I must confess I find nothing in the Constitution to warrant such a proposition. Such a label is not warranted by anything in our Constitution which, on the contrary, guarantees freedom of worship and the practice of the religion of one's own choice. What is enjoined by our Constitution is a non-denominational State—which is something quite distinct from a secular State—one that respects equally all religions and gives equal facilities for their propagation and observance.

It is curious that while charities confined to members of a particular religious denomination are sought to be discouraged, there is no such attempt made in the Bill to discourage parochial charities or those that may be confined to denizens of one particular State or region. Are the barriers between people of different regions in this country really less obstructive to a common nationality and a sense of nationhood than barriers erected by religion? If not, why this discrimination?

I myself have always been allergic to communal or denominational charities but I see no reason why some of us who have such an attitude should seek to inflict it, on the large majority of our compatriots. It will surely not be denied that most citizens of India have not yet reached such a stage of national consciousness as to eschew donations to what may be described as sectional funds and institutions. The duty of those of us who feel that these divisive labels and barriers need to be eliminated is to educate public opinion by force of example and through patient persuasion. It is not right that coercive powers of the law and the penalty of a tax should be brought into operation even for such a worthy purpose.

Different persons have different limits set to their charitable instincts. Some will share with members of the family or clan, others with members of the caste, yet others with co-religionists or denizens of their own village, town or region, and finally some with members of the entire nation or the world. Any attempt to bring pressure to bear in order to direct charities in one particular direction will only act as a deterrent to the exercise of compassion and charity itself, for people simply will not be dictated to in the matter of charity. Either the donor will be deterred by the tax from donating at all, or he will reduce the amount of his charity to make allowance for the tax he will have to pay. In either event, the sufferer will not be the citizen whom our ardent secularists consider misguided, but the poor recipients whose needs will be met just as well as whether the charity is a communal or national one.

If the State in India had the resources to operate a system of social security from the cradle to the grave as in more advanced countries, it might perhaps have some right to discourage others from helping the needy and poor. We, in India, unfortunately are not in such a position and will not be for many years to come. Have we any right to contribute towards the drying up of the springs of private compassion and charity when we are not in a position to replace their bounty? I fear that the damage done by the imposition of the Gift Tax on charities that do not conform to Section 15B of the Income Tax Act will far outweigh any good it may do as it will lose to the poor recipients of benefactions a vastly larger amount of money than the State coffers are likely to get in the form of Gift Tax on unapproved charities.

I endeavoured unsuccessfully to rectify these features of the Bill by suggesting the exemption from Gift Tax of donations made to any institutions or funds established for "any charitable, benevolent, religious, scientific, national, political or public object or purpose". Despite the responsive attitude of the Finance Minister to various suggestions made by members of the Committee and certain improvements in the Bill made in the Select Committee of which I am not unappreciative I therefore find myself constrained to append this minute of dissent.

M. R. MASANI.

NEW DELHI;
The 2nd May, 1958.

As I differ with the majority of the members of the Select Committee on certain important matters, I am compelled to write this minute of dissent.

At the outset it may be noted that whatever the motive underlying the making of gifts, the net result of every gift is to reduce tax liability, particularly the Estate Duty, Income-Tax and Wealth Tax. A Gift Tax is therefore needed to eliminate the tax advantages of giving. The avowed object, therefore, if this bill is to tax gifts generally and the scope of the bill is not confined merely to plug loopholes in the other taxing statutes.

Clause 5(1) (viii):—In my opinion in taxing gifts generally, legitimate expectations in favour of family and society should not be disturbed. That is why in Clause (5), various exemptions, *inter alia*, in favour of the members of the family and the charity are made, besides providing for a very liberal exemption of Rs. 10,000 a year under Sub-clause (2). Yet, in my opinion, an exemption limit of Rs. 1 lac in favour of either spouse by the other under sub-clause (viii) appears to go far beyond such expectation. This exemption becomes still more glaring in view of the deletion by the Select Committee of the explanation to clause 3, in the original Bill. The provision now added for taxing gifts made by a donee out of the gift so made to him or her, cannot detract from the objection to making such a large exemption in favour of wife or husband. The limit of Rs. 1 lac should be substantially lowered, say to Rs. 25,000|-.

Clause (7):—But the more serious objection is against the deletion of the original clause (7), which provided for aggregating the value of all taxable gifts made by an assessee during the five years immediately preceeding the financial year. It is worth observing that the Gift Tax is protective, its main, though not sole, purpose is to strengthen the Estate Duty. Gifts made during life time not merely reduce the estate left behind but they represent that portion of a man's estate which would have attracted higher rates of duty. It was to prevent such a loss to revenue that the principle of aggregation was adopted in Clause (vii) of the Bill. The effect of the deletion of the Clause would be to further accelerate the making of gifts spread over a number of years and thereby impair greatly the main function of Gift Tax to strengthen the Estate Duty.

Clause (45):—The original clause exempted gifts made by public companies whose affairs are controlled by not less than six months. The clause as now amended exempts gifts made by companies, private or public, other than those in favour of certain specified

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individuals properly considered as interested persons in such companies. The result is that whereas gifts made by individuals for political purposes or for charity (other than those sanctioned by Section 15B of Income-Tax Act) are taxable under this Bill, such gifts by companies are exempted altogether. In my view there is no justification for this discrimination in favour of companies, particularly when individuals can circumvent the provisions for taxing such gifts by resorting to the device of forming companies.

There are a few other points on which also I differ with the majority of the members. But as they are of minor importance, I do not think it necessary to elaborate them here.

NARENDRABHAI NATHWANI.

NEW DELHI;
The 2nd May, 1958.

III

I cannot reconcile myself to the provisions made in clause 45 (original 46) with a view to exempt gifts by companies. I wonder why gifts by companies, are to be favoured and are not to attract tax.

I also think that exemption limit of gifts to wife be cut down from 1 lakh to 25 thousand.

HARISH CHANDRA MATHUR.

NEW DELHI;
The 2nd May, 1958.

IV

We regret, we have to submit a minute of dissent. We are partially concerned in respect of the decision of the Select Committee to delete original clause 7 of the Bill.

The Bill contains numerous exemptions which considerably reduce the effectiveness of the statute as a measure to plug the loopholes in the complimentary fiscal statutes. The rates of tax are also fixed at a low level. It would suggest to anyone that the best way to avoid the full incidence of the transactions would be to distribute the gifts over a period of years instead of making all the gifts in one year. It was to prevent such attempts at fragmentation of gifts with a view to avoid the full incidence of taxation that a provision was incorporated in the Bill to aggregate gifts over a period of

five years for the purposes of determining the rate of tax applicable to gifts made in one previous year. This provision is probably the least we can do to defeat an easy method of evasion.

In the U.S.A. we find that gifts made since June 1932 are aggregated for the purpose of determining the rate.

We could have understood the deletion of the provision for aggregation of the gifts, if tax were levied with reference to the total wealth of the donor. We have not gone by that criterion. We are taxing the donor on the value of total gifts made by him during the previous year. Now if we allow him to pay tax at the rates applicable only to the value of gifts made during the previous year, we are in effect reducing this tax to a farce.

Under the circumstance, we are sorry we cannot be a party to this decision.

NEW DELHI;
The 2nd May, 1958.

RENUKA RAY,
T. SANGANNA,
LILADHAR KOTOKI,
M. SHANKARAIYA.

V

We regret that the exemptions provided in the Bill are so numerous and liberal that they are likely to defeat its main purpose. For one thing, it enlarges the scope for legal tax avoidance. For another, even the introduction of what is called the integrated tax structure will, in our opinion, fail to help the process of evolving an egalitarian society, primarily because of these liberal exemptions provided for in the Bill. We are in particular against the exemptions of gifts made to spouses and even if Parliament might be unable to accept this view we would strongly urge that the exemption limit in case of spouses should be brought down to Rs. 25,000. We also could not endorse provisions in the bill granting exemptions of gifts made by companies and see no reason whatsoever why individuals and companies should be viewed differently in this regard. The deletion of the provision in the original Bill regarding aggregation of gifts made in the preceding five years for the purpose of charging them at progressively higher rates is totally unacceptable to us as it would give further latitude to tax dodgers. On the contrary both to check evasion more effectively and secure revenues we feel that the period of such aggregation for the purposes of determining the rate should extend to 10 years.

While we are not against exemption of a general nature provided for in the Bill under clause 5 (v), yet we cannot ignore an unfortunate, but growing tendency in our country to organise charities on caste and communal basis. We, therefore, urge that more vigilance needs to be exercised in the matter of granting exemptions for gifts for charitable purposes.

Finally, in our efforts to evolve a broadbased, rational and integrated tax structure we should bear in mind the great importance of the administration machinery which, in our opinion, needs thorough overhauling. If the tax collecting machinery is not properly geared to shoulder the great responsibility that now devolves upon it, we are afraid all the new tax measures put together would fail to achieve their objective.

NEW DELHI;
The 2nd May, 1958.

B. K. KHADILKAR,
BIMAL COMAR GHOSE.

VI

I regret that basic differences of approach to a tax on gifts have compelled me to dissent from my colleagues. However, I must place on record my appreciation of the manner in which the Finance Minister handled this intricate question with tact, patience and consideration.

One can conceive of a gift tax either as a *substitute* for or as a *supplement* to the Estate Duty; one cannot have a tax on gifts which is both a substitute for and a supplement to a duty on estates. If a tax on gifts is to be thought of as a substitute as Mr. Kaldor did, it is possible to argue that such a tax should secure all the objectives of an estate duty—these objectives being reduction of inequalities in our society, avoidance of concentration of wealth in the hands of a few and prevention of non-functional accrual of wealth. If these are the purposes then all manner of safeguards must be introduced to ensure that under the cloak of making gifts property is not effectively transferred to those who would otherwise have been beneficiaries in respect of the Estate. If, however, a gift tax is to be a supplement to an estate duty—as it should be—the purpose has to be more restrictive. To the extent that gifts are not allowed to escape the incidence of taxation the law would be serving its purpose.

We have therefore to start with the existing provisions of Estate Duty as a *datum* and look upon the gift tax as a supplement to overcome specific lacunae in the administration of the Estate Duty. Consequently, a basic distinction has to be made between gifts to outsiders and gifts made for ostensibly charitable purposes which are likely to benefit persons having a stake in the Estate. In such cases, the rates of taxation may be stiff and comparable to those in the Estate Duty Act. This obviously implies that the incidence of gifts tax would be restricted in the first instance only to *prima facie* cases of avoidance of Estate Duty through the medium of gifts. A corollary to this proposition is that in cases where the Estate Duty returns show a surprisingly small Estate, taking all things into account the assessing authority should have the option to examine accounts and transfers up to a minimum period of six and a maximum to twelve years prior to the death of the donor. Moreover, the incidence of this gift tax, if any, should be made to fall primarily on the Estate, then on the individuals who have received gifts and lastly on charities. This by itself will act as a strong enough deterrent to using gifts as a means of avoiding Estate Duty. The other advantage in this approach is that it will confine the tax administration's activities only to likely cases of avoidance and not give it the power to make a roving enquiry into all manner of gifts made by the person. Even assuming that such a procedure causes inconvenience to assesseees in a few cases the type of assesseees likely to be affected would well be able to look after themselves. On the other hand, the Gifts Tax will not draw into its net large number of people many of whom may be unfamiliar with the technicalities of the new legislation.

Nor will such a procedure affect the normal functioning of business. But in the present Bill notwithstanding the improvements effected in clause 4(c) on the motion of the Finance Minister great hardship is likely to be caused to the proper functioning of business. For this clause, as it stands, postulates an exemption from the tax in cases of "a release, discharge, surrender, forfeiture or abandonment of any debt, contract or other actionable claim" being proved to the satisfaction of the Gifts Tax Officer to be *bona fide*. All types of unrecoverable debts ranging from anything over Rs. 100/- will be tax exempt only if the assessing authority is satisfied that the amount cannot be recovered! As the number of cases will be legion in practice the law cannot be enforced. But this is not a saving grace, since it is bad in principle to enact legislation which is effective in many cases only on paper. It will only serve to exaggerate the severity of laws quite unnecessarily. At the same time what is even more dangerous it brings a portion of the law into contempt.

Tax on charities

I regret that the Select Committee should have decided to retain the provision relating to taxation of charities which do not fall within the purview of section 15B of the Income-tax Act. One can understand the definition of 'charities' being restricted for purposes of Income-tax law. With high marginal rates of personal taxation persisting, it is not unlikely that an increasing proportion of the income may be withdrawn from the taxable pool if all charities are exempt from income-tax. But the present provision goes much further; not only do such charities attract income-tax but they will also attract the Gifts Tax. From a social point of view no tax definition can ever be adequate to cover all the socially desirable purposes of charity which in a country like ours fulfil vital needs—those of social security and welfare. Since the Select Committee has not chosen to make a distinction between 'charities' to outsiders and to those who have a stake in the Estate this provision will result in making it virtually impossible for non-approved charities to grow or even to exist.

It is a matter for some satisfaction that the Committee should have disapproved the principle of aggregation of all gifts for assessment purposes. Had the original proposal been retained it would have been utilised in all cases of assessment and this could not have been justified either on grounds of logic, equity or administrative convenience. Let us realise that according to the amending Estate Duty Bill, a valid gift is one which is made five years before the death of the donor; otherwise an Estate Duty will have to be paid on it. Under the Bill any gift will be liable to Gift Tax. Normally, there are few persons who can space out their gifts in such a manner as to reduce appreciably the duty leviable on the Estate. It is not as though owners of property are willing to take the risk of parting with their property five years before their anticipated death in order to secure a possible exemption from the Estate Duty. Besides the administrative difficulties involved in the adoption of the cumulative formula would have far outweighed any possible benefits that would have accrued to the exchequer. The Select Committee has therefore rightly frowned on the principle of aggregation.

But notwithstanding such improvements effected in the Bill, I cannot help feeling that the whole principle of taxing all gifts is most pernicious, since it makes no distinction between gifts which are used as instruments of avoidance of taxation and those which reflect the finer and nobler instincts of man. Strictly speaking, even gifts made out of current income to relatives who would normally have no share in the property will attract the Gift Tax. Let us

realise that the Expenditure Tax is levied on people with more than Rs. 36,000/- income and the proposed Estate Duty will be levied on Estates of Rs. 50,000/- in value. But the Gift Taxes would be applicable to small amounts. Hence those not liable to taxes on Expenditure and Estate Duty, and these would be a large number, would have a tendency to consume capital rather than either attract the Gifts Tax or become liable to the Estate Duty. Surely there is no social or moral justification for preventing all gifts. There is a confusion behind the basic purposes of this legislation which has vitiated large parts of it and which even if approved by Parliament would have to be reviewed within the next year or two.

A. KRISHNASWAMI

NEW DELHI;
The 2nd May, 1958.

VII

The previous Finance Minister had announced that the Gift Tax Bill would be introduced to plug the loopholes in Estate Duty, Wealth Tax and Expenditure Tax etc. It was never meant to be an independent revenue measure.

I feel I would be failing in my duty if I do not add my humble observations. I am inclined to think that the circumstances are not ripe for imposing, in our country, a Gift Tax as an independent revenue measure. I feel, therefore, that communal, sectional and charity to non-profit making cultural Associations, clubs, commercial bodies etc. should be completely exempted.

It has been said that some of the unregistered charities are being misused by the descendants of the settlers of these charities. They rightly feel that Government should not allow such misuse of the charities. My humble suggestion is that wherever such misuse is being made by the heirs or the relatives of the settlers a separate law can be brought in to punish such persons, but that is no reason why tax should be levied on other kinds of charities. The Gift Tax should not become deterrent to the spirit of charity which is in vogue in the nature and traditions of the people from times immemorial.

KAMAL NAYAN BAJAJ.

NEW DELHI;
The 2nd May, 1958.

VIII

While I welcome the Gift-tax Bill on principle as a measure calculated to complete an integrated structure of direct personal taxation and as an effective means of plugging loopholes either in the Estate Duty Act or in other similar measures, I am afraid the provisions go far beyond the requirements of the case in certain respects. I accept the principle that gifts should yield revenue to the State. But unfortunately in one major respect there has not been provided exemption to an important category of gifts.

2. I refer to clause 5, sub-clause (v) which reads as follows:—

- (v) Gift-tax shall not be charged under this Act in respect of gifts made by any person to any institution of fund established for a charitable purpose to which the provisions of section 15B of the Income-tax Act apply.

The effect of it would be to impose a gift tax on gifts made to charities which do not fall within the purview of section 15B of the Income-tax Act. To my mind it is rather illogical that when income from such sectional or 'communal' charities are exempted under the Income-Tax Act and also for the purposes of Estate Duty and the Expenditure Tax, an exception should be made and they should be subject to tax under this Bill.

3. While one recognises that ours is a secular State, or rather non-denominational in matters of religion, what this clause does is to impose tax on genuine and *bona fide* charities and charitable institutions which have done excellent work over decades. The gift tax would also be levied and collected on all gifts to all religious institutions. *Bona fide* gifts to religious institutions of genuine type can hardly be regarded as gifts for the purpose of evading a tax.

4. I regret I am unable to share, on the following grounds, the views of the majority of the Committee in making such gifts taxable:

(1) So long as our State is not in position to provide for various requirements of the citizens, let alone a social security plan, it would not be advisable to discourage private philanthropy in the case of social service even though confined to one particular community or religious denomination.

(2) It would be unfortunate if on the grounds of eradicating communalism, genuine charitable institutions rendering excellent social service were taxed at time when our State cannot provide medical treatment to even 1% of the population and where there are millions without food, shelter and employment.

- (3) Section 15B of the Income-Tax Act does not deal with charity as such, but only with provisions for a special tax relief in respect of particular donations.
- (4) Religious institutions or Trusts in their very nature cannot be open to other communities. To tax them on that ground is tantamount to taxing the individual freedom of religion.
- (5) The so-called 'communal' charities have for years provided relief to the poor, medical aid, education, housing for the poor and relief of distressed. It is absurd to suggest that contributions to such causes should be discouraged simply because the relief is confined to a particular community or to a religious denomination. Following the teachings of Jesus Christ "inasmuch as you do to the least of these, you do unto Me", I would suggest that if the State cannot provide relief of the poor, at least it should not discourage others from relieving the distress of these poor. It is after all a type of service to God.
- (6) I would therefore suggest that there should be introduced in clause 2 the definition of "public charitable purposes" on much the same lines as it is defined in the Estate Duty Act 1953, clause 2, sub-clause (xvii) "Public Charitable purpose" includes relief of the poor, education, medical relief and the advancement of any object of general public utility within the territory of India". Having adopted this definition in the Gift-tax Bill, I would suggest the amendment of sub-clause (v) of clause 5 by addition of the words "or for any public charitable purpose."
- (6) I may add that there are thousands of so-called communal or religious charity Trusts which are genuine. It is the tradition of the Indian people to contribute gifts or subscriptions to such charities and those Trusts have filled an important requirement of our social and economic structure. It would be undesirable to exclude those Trusts or institutions from the benefit of the exemptions given in the Bill.
- (7) It has been argued that what the Bill does is to impose a duty and a charitable minded man should not grudge paying extra to the State while paying to a charity. Today the rate of gift-tax ranges from 4 to 40%. One does not know when these might be stepped up and constitute an effective impediment to a person making a charity. It

is futile to expect that a person would be diverting his charity to cosmopolitan purposes just because of the gift tax. The chances are he will not at all donate.

- (8) There is another point relating to a provident fund, gratuity, etc. The Select Committee has added a new sub-clause (xiii) to clause 5 exempting "bonus, gratuity, or pension to an employee or a dependent from the operation of the tax" which is a welcome amendment, but these words may not include other retirement benefits, such as provident fund, retrenchment compensation, free passes on railways to retired railway servants, and so forth. I would therefore suggest the words "retirement benefits" being added to sub-clause (xiii) of clause 5.
- (9) Unfortunately the exemptions do not cover also another case. While providing for exemption upto a lakh of rupees in case of wife, there is no provision for the benefit of children out of bonus, gratuity or Provident Fund. Thus where the retired employee getting a gratuity, bonus, or provident fund, say of Rs. 50,000, whose wife is dead, desires to set up his only son in business with a capital of Rs. 50,000 he would have to pay a gift-tax on this amount (less the basic exemption of Rs. 10,000). I presume that basic human instinct, and a fine instinct at that is, provision for one's sons who in this Bill are also not provided for even on the occasion of their marriage. To tax provident fund or other retirement benefits simply because they are passed on to the persons for whose benefit these are provided, as a gift, seems to me really going beyond the requirements of the case. I strongly oppose this undesirable feature in the Bill.
- (10) I acknowledge the hon. Finance Minister had adopted a very reasonable attitude throughout the Select Committee proceedings in accommodating the view point of many Members of the Committee on different aspects of the Bill. Unfortunately on the subject matters of my minute of dissent, he has thought it fit to take up a different view which I am unable to share. I trust the House will consider these points and in its discretion make such amendments as will do justice to the cases I have cited above on which a section of the community deeply feels.

IX

The Statement of objects and reasons of the Gift Tax Bill, 1958 has described this measure as the 'only effective method of checking attempts at evasion or reduction of tax liability in regard to the Estate duty, income tax, wealth tax and expenditure tax.' In the course of the discussions in Parliament, fears were expressed by some that the reference of the bill to the Select Committee may result not only in liberalising the various provisions but may also provide more loopholes for evasion. Some of those fears appear to be justified after a study of the changes made in the Select Committee.

In this connection attention may be drawn to the changes made in Clauses 3 and 5 and the omission of Clause 7. The omission of the Explanation to Clause 3 will provide opportunities for evasion of the tax by the husband by using the wife as a medium for making gifts. When the consequences of this omission of the Explanation to Clause 3 were realised a belated attempt has been made to rectify matters by adding a new sub-clause (iii) to Clause 5. This change, however, does not materially reduce the chances of evasion. In no country where gift tax is in vogue any special exemption is made for gifts made to wife. Why such exemption should at all be made there passes my comprehension, particularly when it is known that this kind of transfer through gifts in favour of the wife can be and has been used for evading taxes. Moreover, how many people are there in India who can afford to make substantial gifts amounting to Rs. 1 lakh to the wife? This provision is, therefore, meant to afford relief to those who are in no need of relief.

The concessions made to persons liable to gift tax as a result of the omission of original clause 7 in the matter of aggregation of gifts also do not seem justifiable. The following table gives an idea of the very heavy concessions now made assuming there is a donor making gifts up to Rs. 25 lakhs in value in the course of 13 years.

Assessment year	Amount of gift	Tax under original Clause 7	Tax after the omission of Clause 7
1958-59	2,00,000	14,000	14,000
1959-60	1,00,000	8,666	5,000
1960-61	3,00,000	38,000	26,000
1961-62	2,00,000	29,000	14,000
1962-63	1,00,000	15,111	5,000
1963-64	1,00,000	14,500	5,000
1964-65	5,00,000	85,833	56,000
1965-66	2,00,000	32,909	14,000
1966-67	1,00,000	15,600	5,000
1967-68	3,00,000	45,250	26,000
1968-69	2,00,000	35,538	14,000
1969-70	50,000	7,412	2,000
1970-71	1,50,000	21,750	9,000
	25,00,000	3,63,569	1,95,000

The amendment to Clause 46 (c) (new clause 45) excluding private companies will, in my opinion, provide further loopholes for tax evasion. There can be no justification for excluding these companies which are virtually family concerns. In any case public and private companies cannot be treated on a par for purposes of the Gift Tax.

From a rough calculation it would appear that the various concessions made by the Select Committee would reduce the expected revenue from gift-tax by 33 to 50 per cent. The concessions made in the Select Committee have neither helped the exchequer nor assisted in plugging the loopholes to evasion of taxes. Both these objects were served better by the original bill.

I regret I am constrained to put in this note of dissent despite my desire to accommodate myself to various sections of opinion represented on the Select Committee.

NEW DELHI;
The 2nd May, 1958.

T. N. SINGH.

X

1. We regret that we are not able to agree with the recommendations made by the majority of our colleagues regarding the Bill. Our dissent with the majority view is all the more necessitated because the very fundamental principle and object for which the Bill is introduced in the House would be negatived if the taxation measures included in the Bill are to be implemented as recommended by the majority of the Select Committee.

2. It is necessary for us to go into the origin of this Bill in order to realise the implications of the majority report. This Bill incorporates the last of the recommendations made by Prof. Kaldor in his report on Indian tax reform in which he suggested a series of taxes both from the point of view of revenue and also as a comprehensive tax structure which would minimise evasion to the most possible extent. We are sorry to submit that the Bill as recommended by the majority of the Select Committee fails to satisfy both these conditions. Prof. Kaldor in his report has made a categorical statement as to the necessity of introducing the various kinds of taxes recommended by him. He has suggested "It is essential that the additional burden that will inevitably be imposed either through taxation or through an inflationary rise in prices on the broad masses of population should

be complemented by an efficient system of progressive taxation on the small minority of the well-to-do who in India number only about 1% of the population. When that should rise any expenditure during the Plan will inevitably increase the wealth of the richest classes disproportionately and distribution of the burden imposed on the community which will be contrary to the sense of justice and equity of a democratic society". If the report of the Select Committee on the Bill is viewed in the light of this observation made by the originator of the gift-tax idea himself we have no hesitation in recording that the Select Committee report frustrates the very object of the Bill itself.

3. Secondly Prof. Kaldor himself has estimated a revenue income of Rs. 30 crores a year by the introduction of the gifts tax but the Government itself by means of the Bill as it is introduced have an estimate only Rs. 3 crores. By means of the changes the Bill has undergone in the Select Committee, we fear quite justifiably that even this estimate of Rs. 3 crores might itself be slashed down to a considerable extent. Therefore, the Bill does not satisfy even a shadow of the requirements and expectations.

4. The gift-tax is supposed to provide plugs to the various loopholes in the taxation structure, but because of the variety and number of exemptions given to the donor, these plugs themselves are bound to be hopelessly leaky and the very purpose of closing the loopholes stands frustrated.

5. Generally, we wish to record our extreme regret that the majority of our colleagues have failed to appreciate the economic and social implications which are sought to be achieved by means of such taxation measures. The social change we contemplate and the economic reformation we desire to which Parliament is committed cannot take place without a statutory revolution on the economics of distribution, accumulation and mode of spending of wealth and in India today the budget with its taxation measures is the most important means of attaining these social and economic ends. As a result of the changes the provisions of the Bill have been reduced to a symbolic compliance with the recommendations of Prof. Kaldor himself, at the same time openly denouncing even some of the corner stones of the recommendations. The rate of tax and the mode of the varying rate are examples of this. We feel that the Bill as a whole should have conformed to the broad basis of Prof. Kaldor's recommendations and the estimated revenue should have some similarity to the estimates made by such an eminent economist as Prof. Kaldor himself.

6. In the following paragraphs, we are recording our opinion on the different clauses of the Bill as reported by the Select Committee.

Clause 5(1) (iii). This clause exempts gift of savings Certificates which the Government by notification in the official Gazette may exempt. This exempting clause is vague. We feel that provision should have been made in the Bill itself limiting the value of those certificates and also the minimum period during which they could not be encashed; otherwise, the very purpose and principle behind this exemption would be defeated. Therefore, we propose that the value of these certificates given by a single donor should not be more than Rs. 10,000 and such certificates could be encashable only after a period of 10 or 15 years.

Clause 5(1) (v). This clause exempts gifts made to any institution established for a charitable purpose and which come under the provisions of section 15B of the Income-tax Act. It is strange to note that section 15B of the Income-tax Act applies only to define the nature of the institution to which the gift is made, but section 15B does not apply in limiting the value of the gift. We are very strongly of the opinion that gifts made to any institution should not be exempted at all because in our experience we have found that a large number of these institutions are run only under cover of a charitable purpose but in these the ultimate beneficiaries boil down to a few individuals. Therefore a case for exemption does not arise on this count. On principle it will not be for the State to encourage charities and at least to subsidise charity by means of tax exemptions. In a planned socialistic pattern of society, such charities could ultimately help either to perpetuate or to create social and economic anarchy. Such institutions cannot also be safely charged with the various social functions which the State itself has undertaken to discharge. The emergence of the State as a major spender and investor, especially through social services and nationalised industries and the comprehensive schemes of social and educational services incorporated in our Second Five Year Plan should have considerable influence on our own conceptions of public charity. We do not feel that there is any justifiable case to exempt any institution from the operation of the gift-tax or any one who contributes to those institutions. This exemption, we fear, will be another loophole of evasion of the gift-tax.

Clause 5(1) (vi) (i). This exempts all gifts made for any charitable purpose without restriction either in character or extent before 1st April 1958. This exemption is quite unwarranted. It has been made quite clear at the time of introduction of the budget for 1957-58 that a gift-tax is going to be introduced from this year. Taking

advantage of this announcement, it is quite natural that a large number of transactions under cover of charity might have taken place and it is contrary to all principles of taxation that such transactions made with the full knowledge of the advent of such taxation be exempted. We submit that the exemptions contained in this clause should be removed.

Clause 5(1) (vii). This clause is another exemption from tax of gifts made to relatives on the occasion of marriage upto a maximum of Rs. 10,000. There is no principle involved in this exemption. Prof. Kaldor himself has made a remark in his report that "*inter vivos* gifts are made on many occasions, as for example, on the marriage of children or grand children or when children reach maturity and set up a separate house-hold or business. Again there is a no *a priori* reason why such gifts should be differently treated for tax purposes than gifts arising through inheritance. It is quite likely that this exemption would deplete to a large extent the revenue which could be made available by means of the gift-tax". We propose deletion of this clause.

Clause 5(1) (viii). This clause exempts gifts made by spouse upto the extent of a lakh. We fail to understand the reason for this exemption. It is impossible to conceive any social or humanitarian considerations behind this exemption and as a matter of fact the gift-tax is a measure to counteract the avoidance of Estate Duty, but by means of this exemption, the very purpose is defeated. In India one of the main inheritors of property is the wife herself and if a lakh should be gifted away tax-free, it means estate duty to that extent could be very easily avoided. In almost all cases, the wife is to live with her husband in one household under his care and he looked after her needs and necessities. Any gift made to the wife can be only with a motive to avoid taxation because necessity is not involved in the case. Therefore, by retaining this clause the majority of our colleagues are giving a bounty for successful evasion. We are opposed to this and suggest deletion of the clause.

Clause 5(1) (xi). A gift made in contemplation of death is exempted. The idea seems to be that according to the new amendments in the Estate Duty Act, any gift made five years prior to death is liable to estate duty and therefore an exemption could be given under this Act, but this throws open another wide loophole for evasion because contemplation of death is more or less subjective as far as the donor is concerned and the donor even if he lives for more than 5 years, even estate duty could be avoided on this ground. Therefore, we oppose this exempting clause.

Clause 5(1) (xiv) which exempts gifts made *bona fide* for the purpose of business, profession or vocations. This is quite unwarranted and they are putting a premium on corruption and another avenue is opened for evasion of tax. We suggest that this is one of the most serious loopholes for evasion of the proposed tax measure and this exempting clause should be deleted.

Clause 5(1) (xvi). We fail to understand why princes should be given an exemption from this tax. Even though the new tax measures are supposed to be in furtherance of the State policy of socialistic pattern of the society, it is a strange paradox that attempts are being made to maintain the *status quo* of the princely order and their revenues under this Bill. We propose that the clause should be deleted.

Clause 5(2). The general exemption given by the Bill to the extent of Rs. 10,000 is excessive. Exemption should be brought down at least to a sum of Rs. 5,000.

Clause 6(2) throws another loophole because gifts may be made which are revocable at any time of the life time of the donor. The clause is vague and capable of different interpretations and we feel that this sub-clause should be re-worded to mean that all gifts made which could be revoked after a time specified should be treated as gifts made for the purpose of this Act and it should be deemed that in all such gifts the property has completely passed from the donor to the donee.

The deletion of the provisions in the original Bill which provides for aggregation of the value of gifts made in the preceding five years for the purpose of assessing the liability of the tax at progressively higher rates is strongly opposed by us. We consider that this deletion of the original provision of the Bill is uncalled for and this would give a further latitude to tax-evasion both in the interests of larger revenues and to splice the loop as narrow as possible on tax evasion, we recommend that the duration of such aggregation for the purpose of determining tax liability and the rate should be extended to at least 10 years.

We are also sorry that the machinery for enforcing this tax is nothing but a fair copy of the provisions of the previous tax statutes. It is high time that some radical change is made in the whole administrative machinery for collection of taxes in the light of our experience of large arrears and alarming evasion. We also wish to point out that an appellate authority having a right of reference again to the High Court is too much a latitude given to the assesseees. The High Court has already powers to interfere under Article 226 of the

Constitution. The Supreme Court has also power under Article 136 to interfere in proper cases. When these remedies are there, it will be too much to create another reviewing authority. As the present state of affairs shows, a large amount of public money which should be at the disposal of the Exchequer without delay for the purpose of the Plan, is bound to be locked up in the various High Courts and Supreme Court and the ultimate result will be a state of anarchy as far as actual collection of the tax is concerned. We are of the opinion that even the existing jurisdiction of the High Court and the Supreme Court has created much delay in the collection of these revenues and such difficulties could only be avoided by a re-thinking of the whole process of reviewing authorities. At any rate we recommend that the right of reference to High Courts should not be retained and in case of all taxation measures the Government should think of getting rid of the various jurisdictions of High Courts and the Supreme Court and instead establish some such suitable machinery for reviewing the assessments made.

Section 45(c) is newly inserted by the Select Committee. This exempts all gifts made by any Company. This exemption, we feel, is a total negation of the very objects and reasons of the Act. Under this all the public and private companies would be at perfect liberty to gift away as much money as possible to any one concerned at the same time without the necessity of paying any tax on that. The Objects and Reasons of the Bill, we wish to point out to the House, itself stands negatived by this clause. The Objects and Reasons states, "The object of this Bill is to levy a tax on gifts made by individuals, Hindu undivided families, companies, firms and associations of persons." We fear that the Select Committee has not even jurisdiction to go beyond the Objects and Reasons which has been accepted by the House in principle. Further, this exemption is a recognition of the right of these various monopoly companies in India for subsidising various organisations, including political parties. This is an outrage upon our own democratic conceptions and also it is a political immorality. Two eminent High Courts of our country have already pointed out the necessity of suitable legislation to prevent the public companies from contributing to political parties. In the wake of these judgments, this particular exemption is startling to us. The Parliament would be giving a statutory recognition to such contributions already condemned as immoral by the High Courts. We would also be legislating upon an important matter which affects the very basis of our democratic institutions and life by means of this clause without even being aware of the nature, seriousness and implications of our own doings. We strongly oppose this clause on this ground primarily. Secondly, this clause depletes the possible revenue which would otherwise be available by means of this tax. At this

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time even from the small estimated revenue income by this Bill, we are not prepared to agree to cut away a large size of the possible revenue. We feel that we will be doing a disservice to our national economy if we agree for this large scale exemptions. Finally, we are also convinced that this gives abundant scope for evasion of this tax also by individuals. Therefore, we strongly recommend that this clause may be deleted.

In conclusion, we wish to submit that the entire Bill should be re-modelled with the exemptions from the liability to tax limited to the utmost minimum and then only it is possible to conform at least in name to the recommendations made by Prof. Kaldor himself. Therefore, we submit that the House should consider about these exemptions in particular with all seriousness and bring such amendments to the Select Committee's report as are required to achieve the very objects and reasons of the Bill.

NEW DELHI;
The 2nd May, 1958.

T. C. N. MENON,
PRABHAT KAR.

THE GIFT-TAX BILL, 1958

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