

(Last part of Finance Member's Budget  
Speech, 1941-42)

43. I return now to the estimated revenue position for next financial year, which as I indicated a few minutes ago reveals a prospective deficit of Rs.20,46 lakhs. I would at this point remind Hon'ble Members of the extent to which the railway contribution has come to our assistance and how greatly it has mitigated our difficulties. It remains for me to place before the House the proposals which I have formulated in regard to the deficit.

44. I deal first with direct taxation, namely the Excess Profits Tax and the Income-tax. It is true on the whole that at the present moment the main economic advantage which is derived from India's war supply activities accrues to the industrial and commercial section of the country, and the direct tax-payer may fairly be called on to shoulder the larger share of any further burdens which are to be imposed. I propose that the profits of a further period of one year shall now be subjected to the Excess Profits Tax, and that the rate applicable to such profits shall be 66 $\frac{2}{3}$ %. I think it relevant to remind the House of the remarks which I made regarding the effect on the incidence of this tax of the important modifications which were made in the clauses of the E.P.T. Bill dealing with the optional standard periods, and also the special provisions for new industries and for such matters as abnormal depreciation. I have little doubt that with these features of our system the new level of the tax will neither cause substantial hardship to existing industries nor operate to impede the growth of new ones. The change in the percentage will however introduce a complication where adjustments have to be made for the assessment of the previous year, and to regulate this aspect a small amending Bill will be brought forward. The yield of this enhancement of the Excess Profits Tax is estimated at 2 $\frac{1}{2}$  crores. As regards income-tax and super-tax, I propose that the present Central sur-charge of 25% should for the year 1941-42 be raised to 33 $\frac{1}{3}$ %. This is expected to yield an additional Rs.190 lakhs.

45. In the field of indirect taxes, my main proposal is to double the excise duty on matches. I may observe here that the present duty was fixed in relation to a certain retail price, and that changes in that price must be in terms of the lowest unit of currency in common use and are thus not susceptible of fine gradation. Over large parts of the country the retail price has already advanced to the next higher point, yielding a large uncovenanted profit to the trade. The increase in duty now proposed will appropriate for the Exchequer a due share of the enhanced retail price which the consumer has to pay. A corresponding increase will automatically ensue in the duty on imported matches, and a similar increase will be made in the duty on mechanical lighters. The yield of the additional duty on matches is estimated at Rs.150 lakhs.

I have two other smaller proposals. One is to increase the import duty now leviable on artificial silk yarn and thread, an item in our import trade which, unlike most others, appears to offer, even in war-time conditions, the possibility of higher revenue. The duty on artificial silk yarn and thread stands at 25% ad valorem or 3 annas per pound whichever is higher, and I propose to increase the alternative specific duty to 5 annas per pound. The yield of the increased tax on these yarns and thread is taken at Rs.36 lakhs.

The second of my smaller proposals is to introduce a new excise duty of 10% ad valorem on pneumatic tyres and tubes. The manufacture of these tyres and tubes in India was set up a few years ago, and the domestic supply now fills a large proportion of the demand which formerly was met by imports on which a revenue duty of 25% ad valorem is levied. The yield of this new duty for the imposition of which a separate Bill will be introduced, is estimated at Rs.35 lakhs.

The new duties on matches and on artificial silk yarn and thread will take immediate effect, by virtue of a certificate under the Provisional Collection of Taxes

46. The total estimated yield of this new taxation is Rs.6,61 lakhs, which brings the estimated revenue for 1941-42 to Rs.113,00 lakhs and reduces the prospective deficit to Rs.13,85 lakhs. This is still a formidable gap in relation to the scale of Indian finances, and I must confess that I shall be more sensitive to the criticism of that smaller and less vocal body who may feel that the contemporary contribution by taxation to the cost of the war is too little than of the doubtless large multitude who would say it is too great. It is not merely that the estimated gap is large, but that the unforeseen contingencies of the year ahead are obviously far more likely to widen than to narrow it. On the other hand it must be remembered that our expenditure estimates still contain a provision of Rs.3 crores for the reduction and avoidance of debt. Again there is a factor at present incalculable which may emerge from the Indo-Burma trade negotiations now proceeding, since any modification of the existing free trade regime must result in some increase of revenue. In any case it is not the proportion of next year's deficit to be met by taxation which is important, but the share of the whole additional cost of our war measures which is so provided. Judged by that criterion, I feel that the position is fully defensible. The uncovered revenue deficit will of course be met by borrowing which will be part of the larger programme the necessity of which I have explained at an earlier stage.

I have little doubt that greater sacrifices await us but it is indisputable that the inherent soundness of India's financial position entitles her to face the future with courage and confidence. This is not time for compacency, but whatever may be in store in the weeks and months that lie ahead, there is reason for satisfaction in the way in which the financial and economic structure of India has withstood the strains and stresses of one and a half years of war, while enabling her to play a part, of which she may be justly proud, in this mortal struggle for the ideals of enlightened humanity.