The Economic Weekly

A Journal of Current Economic and Political Affairs

(Established January 1949)

September 14, 1957 | Volume IX—No. 37 | Price 50 Naye Paise

EDITORIALS

The Economic Weekly

104, Apollo Street, Fort, Bombay

Telephone : 252258

Annual Subscription : Rs 24

Foreign Rs 27

The End of the Affair

|T was widely felt at one time that the Finance Minister would not be able to survive the storm raised by the tax proposals contained in his post-General Elections Budget. In the event, this fear has proved to be unjustified. In spite of powerful pressure from influential quarters including certain important members of the Cabinet itself the Finance Minister has ultimately succeeded in steering his tax measures across, but only by forgoing in tax revenue something like three to four crores of rupees of the additional receipts for which he had originally budgeted. A considerable proportion of the credit for this success must be given to the Prime Minister, but for whose positive support, Shri Krishnamachari might have found it difficult to survive the onslaught against him. The concessions that have had to be made in spite of this support provide some measure of the vigour with which the attack against the tax proposals was pressed. The amount of three to four crores of rupees cited above represents the cost of concessions made in the Wealth Tax and In the tax on railway fares. The loss in income caused by the amendments made in the Expenditure Tax Bill are not included as receipts from this tax will only accrue next year.

The amount of revenue surrendered is small. But one should not ignore the fact that some of the concessions made are of great significance. Since the new taxes have now taken final shape, it is appropriate that stock should be taken of the changes they have undergone -since they were proposed,

In the case of the Wealth Tax, the most significant amendment is the one authorising a rebate of 50 per cent to foreign investors who are not ordinarily resident in India. This amendment is very clearly intended to provide one more tax incentive to foreigners who plan to invest their funds in this country and is in line with the concessions the Finance Minister announced In his budget speech whereby the rate of super-tax on dividends received by principal companies from subsidiaries has been reduced from 17½ per cent to 10 per cent and the effective rate of super-tax on Indian branches of foreign companies reduced from 36 per cent to 30 per cent. There was a time when even the most minor concession in favour of foreign interests would have met the most powerful opposition; today the concessions are given without even a murmur of opposition. This change in the climate of political opinion in India is worth special notice in those quarters abroad which are favourably disposed towards helping this country. It will undoubtedly strengthen the Finance Minister's hands in any bid for increased American business investment in India which Shri Krishnamachari might make during his impending visit to the United States,

Some of the other changes in the Wealth Tax are hard to approve. For instance, the raising of the exemption limit for the Hindu Undivided Family from Rs 3 lakhs to Rs 4 lakhs, without first arming the Bill suitably against the splitting up of property will only increase the scope for tax avoidance. As the Finance Minister himself conceded in the course of the budget debate, the entire approach to the treatment of the ' Hindu Undivided Family in tax laws calls for urgent re-examination. But such a re-examination will probably be quite a tortuous process. In the meanwhile, a solution to the [present difficulties, it is suggested, might be found by taxing individual taxpayers who have Interest also in the property held by Hindu Undivided Families on their total wealth or income (including their .share in the joint family interests), while allowing them to offset against their liability a proportionate part of the taxes paid by the Hindu Undivided Family. This procedure would eliminate the need for a higher exemption limit for Hindu Undivided Families.

The total exemption of household assets and of jewellery up to the value of Rs 25,000 makes the tax over-liberal. As has been pointed out by a contributor in these columns (July 6, p 892), "complete statutory exemption should as far as possible be avoided because experience in other countries 'suggests that statutory exemptions become avenues of tax avoidance and create over time vested interests which are difficult to dislodge at a later stage". Moreover, the imposition of the Wealth Tax afforded an opportunity of collecting information in regard to the gold held in private hands. By exempting jewellery valued up to Rs 25,000, this opportunity has been thrown away and that too without much justification either in terms of equity or economic and administrative expediency. The argument that undue harassment of women is likely if jewellery is not exempted could have been met by appointing women on the revenue staff for purposes of tax collection.

Yet another unwarranted exemption is the one given to residential houses in rural areas. One could hardly concede that it is the Government's intention to encourage the richer classes to invest their, funds in tax-exempt country houses; yet, that Is exactly the implication of this concession.

The concessions to companies are a mixed lot. The tax holiday to new industrial companies and to old companies for new expansion, as well as the exemption of shipping companies altogether, these can be justified as being well-merited tax incentives. However, the exemption to companies for the year in which they incur a loss might lead some companies to 'manufacture' losses merely in order to avoid the tax. It would have been better to allow for the carry over of the liability to wealth tax from a year of loss to the year of profit and treat this. liability as. a deduction for the calculation of net assets in the later year.

So much for the changes in the Wealth Tax. As regards the Expenditure Tax, it is really a matter of regret that the Finance Minister failed to persuade the Select Committee to his way of thinking In regard to the original clause that the tax would be payable only by taxpayers whose income assessed to income tax exceeded Rs 60,000. The Finance Minister had himself proposed to drop this clause and replace it by a straightforward exemption limit related to total expenditure on the very sound plea that to relate the liability to expenditure tax to the accrual of income would amount to giving a free hand to persons who lived on their capital. The Select Committee has not accepted the Finance Minister's suggestion, but has reduced the Income-exemption limit from Rs 60,000 to Rs 36,000 and also broadened the definition of income for this purpose to include accretions like capital gains. While the new clause is certainly an improvement on the original one, the select committee's argument that an income exemption limit is necessary "to prevent harassment to assessees and to make the administration of the Act somewhat easier" is not very convincing.

The Select Committee deserves to be complimented for recognising that gifts and donations could De used as a method of avoiding expenditure tax. The proviso added by it will not, however, prevent a man from concealing his expenditure in gifts to persona other than his dependents. For under this proviso, only expenditure on or by one's dependents out of gifts or donations made by an assessee to these dependents are to be treated as part of the assessee's own expenditure. The only way in which tax avoidance can be effectively checked is to impose a deterrent gift tax. Such a measure is necessary also to prevent the division of property in order to avoid the wealth tax and as a complement to the existing estate duty. It is therefore encouraging to note the recent disclosure in the Lok Sabha that a gift tax is under the active consideration of the Government.

The above criticism is not offered in disparagement of the new taxes as they have finally emerged. For, inspite of al] their defects, they mark a healthy trend towards the reorientation of the tax system to meet the requirements of planned development. The criticism is offered in the hope that it will, In the future, help to modify these taxes so as ,to make them more 'suitable instruments for the furtherance of the objectives set before itself by the country.

Gold Against Guns

GRADUALLY but with the inevitability of a Greek epic, the West Asian drama is nearing its tragic end. Geneva may have inspired the drama, but the swift developments in west Asia have been provoked by the Egyptian arms deal in 1955. This is the Western version of the source of the west Asian drama. Neither Moscow nor Cairo nor Damascus accepts this version of the origin of the "cold war" In West Asia. Egypt was forced to look to the East as the West combined to teach President Nasser a lesson. For President Nasser's policy of neutralism, Mr. John Foster Dulles, the American Secretary of State, withdrew the earlier American offer of aid for the Aswan Dam. For Cairo's support to the nationalist movement In Algeria, for President Nasser's act of nationalisation of the Suez Canal Company, Britain and France combined to launch an aggression against Egypt. In Syria, similar developments are being repeated, though the main characters in this third act of the drama are not Britain, France and the Soviet Union, but America and Russia.

To appreciate the logic and sequence of the third act of the West Asian drama, which Is centered on and around Syria, it is necessary to recall the story unfolded in the second act. As the first act reached its tragic climax in the joint Anglo-French aggression against Egypt, America entered the stage as a maker of peace. At her instance and initiative, the United Nations policy of ensuring Anglo-French withdrawal from Egypt was successfully implemented. America not only emerged as the hero, but Washington left no room for doubt that It will reject the Soviet Union's claim