BUDGET

1993 - 94

SPEECH OF

THE HONOURABLE MINISTER FOR FINANCE

THIRU V.R. NEDUNCHEZHIYAN

Maasi 29, Thiruvalluvar Era 2024
12th March 1993

Speech of Dr. V.R. Nedunchezhiyan, Hon'ble Minister for Finance, Government of Tamil Nadu, presenting the Budget for 1993-94 to the Legislative Assembly on 12th March, 1993.

Hon'ble Speaker Sir,

It is my pleasure and privilege to place the Revised Estimates for 1992-93 and the Budget Estimates for 1993-94 before this House for its approval.

"இன்சொலால் ஈத்தளிக்க வல்லாற்குத் தன்சொலால்
தான்கண் டனைத்துஇவ் உலகு."

To the leader who can protect with pleasing words
and gifts galore,
This world will submit itself as he wished and will adore.

The golden saying of Saint Thiruvalluvar is that the leader who speaks sweetly, guards well and gives with graceful clemency, commands the praise and obedience of the world.

It is with these qualities that the Hon'ble Chief Minister Puratchi Thalaivi Dr. J. Jayalalitha has been giving this State an excellent administration. The Hon'ble Chief Minister has been steadfast in following the policies, objectives and democratic principles of Perarignar Anna and carrying forward and implementing the programmes of human resource development pioneered by Ponmanachemmal Puratchi Thalaivar Dr. M.G.R.

2. Tamil Nadu has been exceptionally successful in maintaining peace, law and order and unity and in stamping out disruptive and violent influences which threatened them. In the midst of the violence, turmoil and disturbances which occurred throughout India, Tamil Nadu has remained an oasis

of peace and harmony. It is a matter of great satisfaction that the people of Tamil Nadu live in peace, enjoy full protection and have been given the opportunity to continue to pursue their avocations with zeal and vigour.

3. Though the economies of many States have suffered a set back due to the violence resulting from sectarianism and communal hatred, Tamil Nadu has been able to continue the efficient and successful implementation of planned development programmes, thanks to the proper maintenance of peace and law and order.

4. Hon'ble Members of the House are aware of the national economic crisis when this Government assumed office in June, 1991. The economic crisis which this Government had to face was unprecedented. The country's economic growth in 1991-92 was just 1.2%. The rate of inflation at the end of 1991-92 was 13.6%. This was the situation which we had to face when we assumed office. The country's economic growth in 1992-93 will exceed 4%. The annual rate of inflation is now around 7%. The sharp increase in administered prices by the Central Government in the last one year on various items like rice, diesel, LPG, coal, railway fares and freight rates, fertilizers, etc. has kept up the inflation rate during the entire year 1992. This chain of increases in administered prices has seriously affected the poor and the underprivileged. While we endorse the economic policies of the Centre to provide the impetus for economic growth, liberalise procedures and integrate the Indian economy with the global economy, we are concerned about the immediate effect of the adjustment process on the standard of living of the poor. In every national or regional forum, the Chief Minister has been pleading for restraint in

implementing policies that may affect the poor. In November, 1992 at the meeting of the Southern Zonal Council, the Honourable Chief Minister had cautioned that any further attempt to increase the issue price of foodgrains, would make it impossible for the State Government to bear the burden.

5. The State Government strongly feels that it would have been more appropriate for the Centre to sustain a higher level of food subsidy for at least some more time to insulate the poor against the inflationary forces. It is not possible for the States to keep sustaining a higher food subsidy burden with their fragile resources base. As it is we have not fully passed on to the consumers the rice price increase implemented by the Centre. **This has resulted in our having to assume an all time high annual food subsidy burden of Rs.400 crores.** Together with the arrears of subsidy of Rs.110 crores to be paid, the total provision has gone up to an alarming amount of Rs.510 crores in 1993-94. Tamil Nadu has the lowest rice prices in the public distribution system in the country. The commitment on food subsidy incurred by this Government is the largest for any State in the country. Now that the Centre's fiscal situation has improved, we hope that the Centre would exercise restraint in any price change which will further affect the poor, and also initiate programmes which would reduce the disproportionately high burden of the structural adjustment process that has fallen on the poor.

6. It has always been our stand, consistent with the philosophy of a strong Union and prosperous autonomous States that the Constitution would need appropriate changes to ensure that all the powers to protect and

safeguard the sovereignty of the nation are with the Union, while the powers and responsibilities for growth and welfare remain with the States. We shall continue to reiterate this stand.

7. In this context, we have cause to be concerned about certain recent trends in Centre-State fiscal relations. I refer to the increasing role being assumed by the Centre in spheres which are essentially the States' domain. The World Bank has made available 500 million US dollars for a Social Safety Net. This has enabled the Centre to correct the unwelcome trend resulting in cuts in allocations for the poor. At the same time it would be more appropriate that these funds are made available to the States in an equitable manner. These resources are instead being allocated to various Ministries in the Centre. The National Development Council has already resolved in its meeting in December, 1991 that Centrally Sponsored Schemes should be progressively transferred to the States. It would have been more appropriate to increase the direct transfer of these resources to the States allowing them to undertake these activities in the State Plan. It also needs to be highlighted that in the distribution by the Central Ministries, States which have already done well in social sectors like Tamil Nadu stand to lose. Those States which have neglected these sectors in the past are now to be rewarded with additional funds whereas the States which have done well and are bearing the recurring costs are required to be on their own. This is not at all fair and it is our request that there should be a national consensus on the question of inter-se allocation of these additional resources between States.

8. Further, in the recent past the focus has only been on the Centre's fiscal situation while at the same time the States' fiscal difficulties have been ignored. The Centre is

able to access structural adjustment loans from the World Bank and special funds from the International Monetary Fund, whereas the States have no such facility. No significant measures relating to the improvement of the States' finances have been implemented. I would, in particular, like to refer to the Sarkaria Commission's recommendation relating to the sharing of Corporation Tax. Successive Finance Commissions have been unable to go into this question for want of a reference from the Centre. The Centre is now also suggesting that in the liberalised situation it is the States which should actively promote new investment. It is clearly inequitable that when the States have to incur major outlays on infrastructure, environmental protection and social support services and support to the export effort, no share of the Corporation Tax is made available to them. We will continue to urge the Centre to bring in the necessary Constitutional amendment and make a specific reference to the Tenth Finance Commission to allocate a share of the Corporation Tax amongst the States.

9. We are also deeply concerned about the delay in the levy of Consignment Tax. The Chief Minister has written to the Union Finance Minister in December, 1992 stressing that there should be no rethinking about the levy of Consignment Tax. She has also suggested that a Bill to provide for this be introduced within a period of 3 months. We hope that this Bill, as urged by all States, will be introduced in the current session of Parliament. We are also quite concerned about the announcement regarding the entrustment of a study on the levy of a value added tax. Such a tax will make deep inroads into the State's own main tax revenue base comprising Sales Tax. It is but proper that the Central Government initiate a

dialogue with the States before proceeding any further on this issue.

10. We have to improve savings so that the level of developmental expenditure can be stepped up. It is for this reason we had urged the Centre to consider as part of the Union Budget for 1993-94, special new concessions for small savings. It is disappointing that despite the steep decline in small savings collections in 1992-93, the Centre has not chosen to announce new concessions for small savings in the recent Union Budget. This is a set back to our efforts to find resources for planned development. It is to be hoped that the Centre will heed our plea and at least make available some special concessions for small savings.

TENTH FINANCE COMMISSION

11. Hon'ble Members of the House are aware that the Tenth Finance Commission has been constituted at a time when the States are confronted with extremely serious financial problems. This Finance Commission will have to take special note of the serious financial situation in which the States are now placed. It needs to be pointed out that the fiscal crisis confronting many States is clearly because of the inadequacy of the dispensations of the Ninth Finance Commission. The recent spate of increases in administered prices and the inflationary situation in the last two years have left the States in an extremely vulnerable position. The States, which are so much closer to the people, are placed in the unenviable position of having to explain this situation to the poor. The Tenth Finance Commission would have to take note of these realities in its recommendations. It will have to break new ground in the resources transfers to the States.

168. We are hopeful that the measures which I have outlined and on which we have already taken action will yield good results in 1993-94. We have set ourselves a target of mobilising Rs.95 crores by undertaking the various steps that I have outlined.

TAXES

Sales Tax

169. The Finance Minister has inevitably to look at Sales Tax to find some way of bridging the large deficit. This time I have chosen not to do so but instead we have decided to go in boldly for a major package of reform. We have the benefit of the detailed report of the High Power Sales Tax Reforms Committee headed by Thiru B. Vijayaraghavan, I.A.S. This report contains very many recommendations, some of which have a major revenue impact and some of which involve significant procedural changes. The recommendations suggesting revenue changes would have to be implemented as one package and involve a net positive revenue impact. This would also involve complete removal of all exemptions to all goods and institutions and a major step up in the levy of additional sales tax including a change over to total turn over instead of taxable turn over. The Committee has also recommended changes in the exemption limit, grouping of rates, merger of surcharge and additional surcharge with basic tax and further extension of concession for raw materials used in manufacturing goods, etc. We have given careful thought to the several recommendations made. In a non-inflationary situation it may have been appropriate to implement the whole package including withdrawal of all

exemptions. Further, given the fact that domestic industry has to become cost competitive and quality conscious, this would not be the appropriate time to increase the tax burden. Keeping these facts in mind we have decided to implement some key recommendations which together will constitute a major package of tax reform.

170. At present under Section 3(1) all items which do not figure under specific Schedules are taxable at 8 per cent. We have decided to completely do away with this section and instead bring in more items specifically under Schedule I and also add a residuary entry under Schedule I to cover all other items not specifically defined in the Schedule. This is a major reform following which raw materials used in the manufacture of items coming under the residuary entry will be entitled to the concessional tax of 3 per cent under Form XVII. This is a significant measure to bring down production costs in industry. Simultaneously, we shall expand Section 3(3) to exclude besides Naphtha and Molasses, items such as Mineral Oils (Present entry 157), Lubricating Oils (present entry 156), Gases (present entry 106).

171. As a further step towards decreasing the cost of manufacture, we have decided to extend the concessional rate of tax at 3 per cent under Section 3(3) to packing materials, labels and consumables used in manufacture. These materials used in manufacture will be eligible for the concessional rate of 3 per cent under Form XVII.

172. At present, only under Section 3(1) are dealers eligible for Sales Tax exemption up to a total turn over of Rs.1 lakh. This benefits only some dealers. We have decided to make available this exemption to all registered dealers with a total turn over of less than Rs. 1 lakh under the

Tamil Nadu General Sales Tax Act, irrespective of the Schedule under which the goods fall. Of a total of 1.50 lakh dealers assessed, this will benefit 60,000 dealers presently dealing in Schedule I goods. I am sure industry and trade will welcome this major reform doing away with assessments for a large number of traders. Consequently, the time and energy of the department will be free to concentrate on large cases.

173. At present under the self assessment scheme only 6,000 dealers have been benefitted. We have decided to liberalise the procedure so that more dealers can avail of the facility. We anticipate that with the liberalised procedure an additional 68,000 dealers will be benefitted.

174. Following the recent judgement of the Supreme Court and also the Madras High Court on the levy of Sales Tax on works contracts, it has become necessary to bring in certain amendments to set right the deficiencies indicated by the Courts. Thus all TNGST suffered goods used in works contracts will be exempt from tax. Simultaneously, while the rates existing in Schedule IV will continue till 11th March 1993, in future, all the taxable goods in works contracts will bear the same rates as if they were sold, that is, the same rates as in other Schedules. Since works contracts do not involve manufacture and full exemption for TNGST suffered goods is provided, goods in works contracts will not be eligible for the concessional rate under Section 3(3) using Form XVII. We shall bring in the necessary amendments in this Session. In addition we have also decided to extend the facility of a compounding provision on an optional basis in respect of civil contracts. The compounding rate of tax will be 2 per cent for civil contracts. This will considerably simplify the levy of the

tax in respect of civil contracts. A similar provision exists in Karnataka and Gujarat.

175. We have also decided to simplify the levy of Sales Tax on leasing transactions. Goods which have already suffered tax locally under TNGST will not suffer tax again when on lease. As in the case of the modification brought in respect of works contracts, till 11th March 1993, the existing rates of tax on leasing will be applicable and in future taxable goods under leasing contracts will bear the same rates as if they were sold, that is the same rates as in other Schedules.

176. Another important recommendation of the Committee is that all exemptions to goods and institutions should be completely removed. This has been suggested by the Committee as a revenue raising measure and also to bring to account all turnover. The total yield anticipated from the withdrawal of these exemptions is Rs.68 Crores. In a tax simplification process this suggestion has great merit. It will also bring to assessment the turnover involved and this expands the tax base. Many of the exemptions have also been given at various points of time, some without adequate justification. Even so, as the list includes some items of common use like paddy, rice wheat, cumbu, ragi, cholam, common salt etc., we have decided to refrain from withdrawing these exemptions. We have to go into this in further detail to bring to tax such of those items which do not merit exemption. Members of the House may note that this decision means that we do not tap the revenue potential of Rs.68 crores per annum. We have taken this decision keeping in mind the need to hold the price line.

177. Another main recommendation of the committee is to categorise all goods into major groups attracting 13 different tax rates. At present there are 17 tax

rates in operation. The Committee has also suggested that while regrouping, the surcharge and additional surcharge can be merged with the basic tax suitably increasing the basic rate. We have given careful thought to these recommendations. The recommendation to reduce the number of tax rates by grouping the goods is a welcome suggestion. At the same time the suggestion on merging surcharge and additional surcharge as part of this process, resulting in a higher tax burden consequent on upper rounding will lead to an across the board increase in prices of all goods. Further, the revenue from the surcharge is partly given to local bodies and the additional surcharge is being utilized to finance the Madras City Water Supply Scheme. We have therefore decided to defer this recommendation regarding merger of surcharge and additional surcharge with the basic tax. At the same time we have decided to implement an even more comprehensive grouping of all goods and simplification of tax rates.

178. As against the present number of 17 tax rates and the recommendations of the Committee to bring it down to 13 we have decided to go in for a much simpler system of just 5 rates, plus 4 additional rates for a few specific goods. All goods coming under Schedule I and Schedule VI will hereafter be subject to tax under any one of these 9 categories. The tax rates in future will be: (in percentages)

1, 3, 5, 8, 12, 16, 20, 25, and 50.

The grouping has been undertaken keeping in mind the nature of goods such as articles of mass consumption used by the poor, raw materials and other common articles, intermediates, machinery, goods used by middle income groups, luxury goods,special goods and foreign spirits. This will be one of the most comprehensive reforms of the tax system undertaken by any State. We have gone into this without worrying about revenue considerations. In this major process of regrouping the rate of tax will be brought down in respect of many goods. A few goods may suffer a slightly higher tax in view of the regrouping. This is the boldest tax reform being undertaken since 1959. The regrouping and rationalisation should therefore be viewed not as a revenue measure but as a major tax reform effort.

179. The detailed revised schedules with the new rates to take effect from 12th March 1993 are being notified separately to-day. As the list involves nearly 200 goods it is not possible for me to indicate each and every item following the regrouping and the revised rates. I shall only like to illustratively indicate the main items where tax rates havebeen brought down and the marginal increases in respect of a few other goods. Members of the House will be glad to know that the tax rates are being brought down in respect of the following goods:

• Name of item	Existing Rate (percent)	Revised Rate (percent)
Turmeric	4	3
Chillies	4	3
Coriander	4	3
Soap nut	4	3
Tamarind	4	3

Name of item	Existing Rate (percent)	Revised Rate (percent)
Pepper	4	3
Jaggery, Gur	6	3
Vanaspathi	8	5
Groundnut oil	4	3
Coconut oil	4	3
Gingilee oil	4	3
Refined oil	4	3
Wheat products	4	3
Kerosene	4	3
Coffee seeds	6	5
Coffee Powder	6	5
Instant Tea	6	5
Kaskasa	8	5
Nut meg (Jathikkai)	8	5
Jeera	6	5
Hand made soap	4	3

180. Members of the House will, I am sure welcome this reform which reduces the tax rates in respect of a wide rangeof commodities used by the poor.

181. Apart from the above products of household and daily use we shall also bring down the rates in respect of a wide range of many other goods used by the people. This would include:

Name of item	Existing Rate (percent)	Revised Rate (percent)
Drugs and medicines	6	5
Plastic products	6	5
Aluminium utensils	4	3
Bricks	4	3
Dry Cells	9	8
Gunnies	5	3
Blood donor set	8	5
Intravenous set	8	5
Surgical Instruments	10	5

182. Further, as part of the rationalisation process, we shall also reduce the rates of tax in respect of some industrial products. This will include:

Name of the item	Existing Rate (percent)	Revised Rate (percent)
Tools	10	8
Motors	10	8

Name of the item	Existing Rate (percent)	Revised Rate (percent)
Raw films (Cine)	6	5
Cotton Waste	6	5
Conduit pipes and fittings	10	8
Motor Vehicle tyres and tubes	9	8
Machinery	10	8
Welding electrodes and rods	10	8
Jute twine	8	3

183. As I have already mentioned it is inevitable that such a major regrouping of goods will also involve some upward revision in respect of a few goods. We have reduced the rates in respect of a large number of goods of common use and at the same time we have made some upward revision of goods used mainly by affluent classes.

184. We have ensured that the tax on Kerosene has been reduced. There will be no change in the tax on diesel. As part of the rationalisation process the tax on petrol will be raised from 18 per cent to 20 per cent as in Kerala and Karnataka.

185. I would also like to mention an illustrative list of items where the rates are being revised upwards.

	Existing Rate (percent)	Revised Rate (percent)
Refrigerators	15	16
Floor and Wall tiles	15	16
Lifts	15	16
Marble and marble articles	15	16
Diamonds	10	12
Scents / Perfumes	15	16
Paints and Distempers	10	12
Airconditioning Plants	15	16
Air purifiers	15	16
Vehicle Chassis	6	8
Chinaware	10	12
Pile Carpets	15	16
Ivory articles and inlaid ivory	10	12
Motor car	5	8
Rifles and Revolvers	15	16
Duplicating Machines	15	16

186. Another simplification we have brought in is to charge spares and accessories, at the same rate applicable to the basic goods subject to a few exceptions.

187. The revised rates of tax in respect of all goods, consequent on the major regrouping we have undertaken are being notified today to take effect from 12th March, 1993. A copy of the notification is placed on the table of the House. The revised rates indicated in respect of individual goods in the notification may be taken as read by me and considered as part of the speech. I am confident, Members of the House will fully endorse this historic tax reform that we have undertaken.

188. The Committee has made major recommendations relating to the levy of Additional Sales Tax. It has recommended the levy of a flat rate of 3% on total turnover. We have decided to defer this proposal for a major upward revision of Additional Sales Tax as there could be a consequential upward revision of prices. We have instead decided to give some relief particularly to smaller dealers and manufacturers. We have also decided to modify the tax slabs keeping in mind the major revisions in turnover that have taken place. We shall exempt the first Rs.10 lakhs of taxable turnover in respect of all dealers having taxable turnover of less than Rs.1 crore. This measure which will benefit smaller dealers and manufacturers and will also discourage suppression of turnover at the crossover point of Rs.10 lakhs. The existing rates and tax slabs are as below:-

Taxable turnover per annum	Existing rate of Additional Sales Tax (percent)
Rs.0 - 10 lakhs	Exempt
Rs.10 lakhs - 40 lakhs	1.25 (on entire taxable turnover)
Rs.40 lakhs - 1 crore	1.5
Rs.1 crore - 5 crores	2
Rs.5 crores - Rs.10 crores	2.25
Above Rs.10 crores	2.5

The revised tax slabs and rates will be as below:

Taxable turnover per annum	Revised Rate of Additional Sales Tax (percent)
Rs.0 - 10 lakhs	Exempt
Rs.10 lakhs to Rs.1 crore	1.5 (Uniform exemption for first Rs. 10 lakhs will be given in this slab only)
Rs.1 crore to Rs.5 crores	2
Rs.5 crores to Rs.10crores	2.25
Rs.10 crores to Rs.300 crore	2.5
Above Rs. 300 crores	3

189. This modification of the levy of Additional Sales Tax has been made after careful consideration taking note of the fact that small dealers and manufacturers should be given some relief and there should be more transparent accounting at the Rs.10 lakh turnover point. We have also given careful consideration to the question of dispensing with the provision regarding passing on the additional sales tax to the consumers. When our effort is to bring down prices it would not be appropriate at this juncture to allow any scope for upward movement of prices. We have therefore decided to defer consideration of this question. The revised slabs and rates of Additional Sales Tax will take effect from 1st April, 1993.

190. We have decided as part of this major tax reform to also amend the entries in Schedule II and III bringing these entries in line with similar descriptions in the Central Excise Tariff Act 1985. However, there will be no change in the rates in these Schedules. Suitable notifications will be issued in due course.

191. It will be apparent that our effort is to undertake significant tax reform and simplify matters and also reduce the tax burden for the poor. We shall therefore have to be extremely vigilant on tax evasion. It shall be our endeavour to prevent tax evasion and eliminate the leakages. As part of this effort we have decided to expand Schedule VI to include a few items which are evasion prone. The new items to be included under Schedule VI and the tax rates are aerated water and bottled or packed soft drinks at 8 per cent, ice-creams and ice fruits at 12 per cent and shampoos at 16 per cent. In order to prevent any cascading, the values that suffer tax at the first point will be set off at the second point.

192. The Supreme Court has since held that a Section similar to the earlier Section 3(4) of the Tamil Nadu General Sales Tax Act is valid. Therefore, we propose to reintroduce Section 3(4) whereby when raw materials are purchased within the State under Form XVII and the finished product is consigned out of the State, the raw materials will be charged an extra 2 per cent.

193. There are several other procedural and rationalisation changes suggested by the Committee including rationalisation of penalties. We have examined these recommendations and have decided to implement most of them with effect from 12-3-1993. We shall bring forward the necessary amendments in the current Session to give effect to these changes.

Entry Tax

194. The current rates for Entry Tax on Motor Vehicles also require rationalisation and modification, keeping with the rationalisation and modification of the rates of tax on motor vehicles under the Tamil Nadu General Sales Tax Act, 1959.

The existing rates are as below:

Sl. No.	Category	Existing Rate of tax (percent)
1.	Motor car	10
2.	Motor taxi cabs	20
3.	Motor Omni Buses	12

4.	Chassis of motor vehicles	10
5.	Bodies built on chassis of motor vehicles	12
6.	Auto rickshaw	12
7.	Motor cycles, Motor Scooters, Motorettes, Mopeds (irrespective of engine capacity)	8
8.	Light Motor Vehicles as defined in the Motor Vehicles Act,1988	12
8A.	Tractors of all kinds	7
9.	Truck/Bus/Motor Lorries	12
10.	Jeep	12
11.	Tankers built or meant for mounting on chassis of motor vehicles	20
12.	All kinds of Trailers	12
13.	Any other motor vehicles not specifically mentioned in S.Nos (1) to (12) above	20

195. The revised rates will be as below with effect from 12th March, 1993.

Sl.No.	Category	Proposed Rate of tax(per cent)
1.	All Two-wheelers and Three-wheelers All three-wheeler chassis and Bodies built thereon	9
2.	All cars, taxi-cabs, light motor vehicles, trucks, buses, jeeps, motor lorries, chassis of such vehicles and on all bodies built on chassis and on all trailers of these vehicles	13
3.	All tractors and trailers	6
4.	All scrapers, loaders, dumpers and all heavy earth moving machinery and road-rollers.	9
5.	Tankers built, or meant for mounting on motor vehicles	20
6.	All other vehicles not specifically mentioned in Sl.No.1 to 5	20

Profession Tax

196. We have introduced a new legislation bringing together all the provisions relating to the levy of tax on professions, trades, callings and employments. This tax is levied as provided for in the Constitution. Such a separate Act for the levy of profession tax exists in Karnataka and