



B U D G E T

1996 - 97

SPEECH OF
CHIEF MINISTER
Thiru M. KARUNANIDHI

Aadi 2, Thiruvalluvar Aandu 2027
17th July 1996

Speech of Thiru M.Karunanidhi, Chief Minister, Government of Tamil Nadu, presenting the Budget for 1996-97 to the Legislative Assembly on 17th July 1996.

Hon'ble Speaker,

At the outset I would like to express my profound sense of gratitude to the people of Tamil Nadu, friendly organisations, large-hearted friends, members of the media and the leaders of the opposition who have offered us their constructive criticism, for having enabled us to continue the legacy of our beloved Anna by restoring the Government created by him. We cannot forget his memory even for a moment as he lives on as our life breath and heart beat.

"என்னருந் தமிழ்நாட்டின் கண்
எல்லோரும் கல்வி கற்றுப்
பன்னருங் கலைஞானத்தால்,
பராக்கிரமத்தால், அன்பால்
உன்னத இமம லைபோல்
ஓங்கிடும் கீர்த்தி எய்தி
இன்புற்றார் என்று மற்றோர்
இயம்பக் கேட்டிடல் எந்நாளோ?

கைத்திறச் சித்திரங்கள்
கணிதங்கள் வான நூற்கள்,
மெய்த்திற நூற்கள், சிற்பம்,
விஞ்ஞானம் காவியங்கள்
வைத்துள தமிழர் நூற்கள்
வையத்தின் புதுமை என்னப்
புத்தகசாலை எங்கும்
புதுக்கு நாள் எந்த நாளோ?

கண்களும் ஒளியும் போலக்
கவினமலர் வாசம் போலப்
பெண்களும் ஆண்கள் தாமும்
பெருந்தமிழ் நாடு தன்னில்.
தண்கடல் நிகர்த்த அன்பால்
சமானத்தர் ஆனார் என்ற
பண் வந்து காதிற் பாயப்
பருகுநாள் எந்த நாளோ?"

Would I ever be blessed with to hear
The Sweet and endearing message
That all the People of Tamil land are Learned men
Who have mastered all the fields of knowledge
Who are great intellectuals
And are also valiant souls
Who are kind and merciful in their dispensations
That they have attained the highest peaks of name and fame
And are living in peace and Ecstasy?

Would I ever be blessed with to hear
That the whole of the Tamil Land
Full of Libraries everywhere
Which have been added and enriched with
Great works on all the disciplines of learning
Such as Arts, Sculpture, Mathematics and Astronomy
And Science and Technology, Philosophy and Literature
Which have been endowed with
Modern and innovative knowledges on earth?

Would I ever be blessed with to hear
The sweet and nectar-like message
That would pour into my ears
Like sweet and captivating music
That the 'Equality' between Men and Women of the Tamils
Is fully visualised in this land of proud Tamils
That they are seen inseparably alike
Like the eyes and the light, the Flowers and fragrance
Who are mutually, showering great ocean-like affection and love?

(A verse by Poet Bharathidasan)

I place before this august House the Budget for 1996-97, with humility and in the hope that the measures we propose to undertake and the schemes we have formulated will be at least a small effort towards ushering in the day that the Revolutionary Poet Bharathidasan dreamt of.

PHILOSOPHY OF FEDERALISM

2. As I present this Budget to you, the Indian political scene is undergoing tumultuous changes. A federal revolution is sweeping the whole world with 40% of the population living in countries with genuinely federal structures and of the remaining population one third living in countries with some form of federalism. **I welcome the Common Minimum Programme of the United Front Government led by Thiru H.D. Deve Gowda, which has been prepared bearing in mind this changing situation.**

3. While the Common Minimum Programme does not include all the elements which we would have liked, it still richly deserves to be fully supported and whole-heartedly welcomed as it replaces anti-poor policies which went against the interests of the country, and has as its main objective the provision of a clean, responsible and secular Government.

4. So far, five documents have been brought out on Centre-State relations:

1. The Administrative Reforms Committee Report, 1969.
2. The Rajamannar Committee Report of 1969, which was the first of its kind in India, prepared at the instance of of the DMK Government led by me.
3. The White Paper and the Resolution on State Autonomy passed by the Tamil Nadu Legislature in 1974.
4. The Memorandum on Centre-State Relations prepared by the West Bengal Government in 1977 under the leadership of Hon'ble Jyoti Basu, which emphasized the need for a federal policy with a view to enshrine the " full majesty of federal principles", and
5. The Report of the Sarkaria Commission, which was the first of its kind appointed by the Government of India in 1983, to examine Centre-State relations.

However, this Commission was not set up by the Government of India on its own initiative with the intention of ushering in a genuine federal system.

COMMERCIAL TAX POLICY

136. When this party was in office earlier, most of the commodities were removed from multi-point taxation and brought to single point taxation. However, the previous Government re-imposed multi-point sales tax on several commodities. I am happy to inform the House that in response to the representations from traders' associations, it has been decided to remove all such items from multi point taxation and bring them back to single point taxation.

LONG TERM TAXATION POLICY

137. It is our primary objective to provide a clean and corruption free administration to the people of Tamil Nadu. In order to achieve this and at the same time stimulate industrial growth and commerce, it is necessary that there should be a stable, investor-friendly atmosphere devoid of any uncertainty. It is with a view to achieve this noble objective that I wish to place before you a Long Term Taxation Policy. I am sure that both the trading community and industrial houses will whole-heartedly welcome this major step.

138. In order to avoid frequent changes in taxation, both in policy and in rates, this Government has decided to adopt a stable policy on commercial taxes with a long term objective. As a first step I would like to announce the following measures:

139. The minimum turnover limit for sales tax is being raised from Rs.1 lakh to Rs.3 lakhs per annum.

140. For assesseees whose turnover is Rs.3 lakhs or more but is less than Rs.10 lakhs an optional compounding system for payment of sales tax will be introduced:-

Rs.3 lakhs and above, but less than Rs.5 lakhs	3%
Rs.5 lakhs and above, but less than Rs.10 lakhs	5%

It would be enough if such assesseees maintain accounts for the total turnover. Detailed accounts need not be maintained.

SELF-ASSESSMENT

141. At present the scheme of Self-Assessment is applicable only to those assesseees whose turnover is less than Rs.5 lakhs. This ceiling is being

raised to include industries and traders with a turnover of upto Rs.10 lakhs. Under this scheme 25% of the accounts will be selected through the computer by the Commissioner of Commercial Taxes on a random sample basis and will be subject to detailed review. The local commercial tax officials would not have any individual discretion to inspect the accounts of the remaining 75% of the assesseees. Under this scheme more than 70,000 assesseees would stand to benefit and various obstacles faced by the small traders would totally vanish. Based on the response of the business community to this new scheme, the question of upward revision of this ceiling would be examined subsequently.

TAX CONCESSIONS

142. **Although the State Government is not responsible for the increase in prices, realising its responsibilities, this Government, unmindful of the revenue loss of Rs.55 crores, has decided to totally exempt from Sales Tax basic food commodities which are used by people in their daily life including pulses, chilli, coriander(dhaniya), turmeric, tamarind, jeera, asafoetida, jaggery and soapnut (Seekkai).**

143. **Apart from this, silver toe-rings (Metti), anklets, waist cords, handmade matches, paddy husk, broken rice and coconut husk will also be totally exempted from tax.**

144. **The tax on cooking gas (LPG) will be reduced from the effective rate of 11.6% to 8%.**

145. The purchase tax on sugar cane is at the basic rate of 11% the total incidence of which, along with other taxes, is 14.7%. Sugar factories cannot avail of the concessional tax available to other manufacturers using raw materials under section 3(3). Therefore, as a measure to encourage the sugar industry, in the new tax structure, the tax on sugarcane will be reduced to 8%. Although, the loss of revenue to the Government as a result of this measure is Rs.57 crores, this concession is being extended in the hope of encouraging the sugar industry.

146. The earlier Government had effected a steep increase in the tree tax levied on 2(C) patta trees. Considering the people's opposition to this measure the tree tax will be reduced to the rates levied prior to the revision.

MERGER OF SALES TAXES

147. **Of the four elements of Sales Tax viz. Sales Tax, Surcharge on Sales Tax, Additional Surcharge on Sales Tax and Additional Sales Tax, the Surcharge on Sales Tax and Additional Surcharge on Sales Tax will be**

totally abolished throughout the State. Additional Sales Tax will be totally abolished for all firms with a taxable turn over of less than Rs.100 crores per year. As a result of this, more than 70,000 dealers will benefit from the substantial reduction in workload and reduction in the number of tax assessment forms.

148. The existing levies will be merged and the following changes effected:

Current Rate of Tax	The actual incidence of tax including Surcharge, Additional Surcharge and Additional Sales Tax	New Rate of tax
1	3	2
3	5.6	4
5	8	8
8	11.6	12
12	16.4	16
16	21.2	20

149. There will be no change in the rate of tax for petrol and liquor. The rate of tax on diesel is being reduced from 19.2% to 18%

VALUE ADDED TAX

150. We have examined certain tax reform measures within this short period of two months of assuming office and have decided to introduce the system of Value Added Tax in Tamil Nadu, on the lines of the system obtaining in States like Maharashtra.

151. Though manufacturing inputs are subject to only 3% sales tax, the actual tax incidence on inputs due to the levy of surcharge and additional sales tax works out to 5.6%. **With the merger of all the sales taxes into one composite tax as already indicated, we have also decided to actually reduce the sales tax on manufacturing inputs to 3%.** This measure will benefit the manufactures in the State to the extent of Rs.200 crores per annum. Further, this will lead to reduction in prices of products which would greatly facilitate the removal of obstacles in competing with other States and thus lead to better opportunities for industrial development.

152. **The tax on capital goods for power generation purchased from within the State for Government approved power generation projects will be reduced from 12 percent to 3 percent.**

153. The concessional 3% rate of tax for manufacturing inputs would also be extended to various types of machinery, power pumps, power factors and shunt capacitors, oil engines, furnaces and boilers, generator sets and all the associated accessories and spare parts. Government will lose revenue of Rs.55 crores due to these measures. However, this would facilitate industrial growth and create better opportunities for employment and thus strengthen the State's economy.

154. With a view to encourage exports from Tamil Nadu, all raw materials purchased within the State by registered 100% Export Oriented Units and units located in the Madras Export Processing Zone (MEPZ) will be fully exempted from payment of sales tax.

155. This Government, which has provided so many tax concessions with a view to promote industrial development, also intends introducing Value Added Tax on resellers. In the first stage, this system will be made applicable to all dealers with a total turnover of more than Rs.75 lakhs. This system will apply to only 8000 of the total of approximately 3 lakh registered dealers in the State. The dealers who come under this system will be required to pay Value Added Tax at the same rate as the sales tax on the goods. The sales tax payable at the time of resale will be levied only on the value addition at the reseller's stage. Further, it would be sufficient if the Value Added Tax is paid after deducting the tax already paid on the purchases made.

156. The detailed revised Schedules with the new rates which will take effect from 17th July 1996 are being notified separately today. Copies of the notifications are placed on the Table of the House. Certain amendments to existing Acts are also necessary to give effect to some of the changes proposed. These amendments will be brought forward in the current Session itself.

157. We have decided to implement various tax reforms that I have outlined above, even though it would result in a very substantial loss in sales tax revenue amounting to Rs.306 crores, keeping in view the development of industry and commerce in the State. At the same time, such a large loss of revenue is likely to adversely affect development works and welfare schemes taken up by this Government. Therefore, it is very essential to compensate this revenue loss by levying new taxes. Our only request to the Government of India now is that suitable enabling legislation should be enacted to give the

States the power to levy Service Tax. Just as Services Tax is levied in several foreign countries, we have introduced Value Added Tax which is also levied in a number of foreign countries, unmindful of the revenue loss. Therefore, in our view it is very essential that the States are given the power to levy Service Tax to offset the loss.

158. To bridge the deficit to some extent, this Government has undertaken measures to drastically reduce the ostentatious expenditure incurred by the previous Government. I assure the House that this Government will not be extravagant in the manner in which Rs.27 crores were spent in five years on the functions in which the Chief Minister participated, excluding the World Tamil Conference and the South Asian Federation Games held recently; Rs.21 crores were incurred over five years on providing excessive security arrangements for the Chief Minister and the way in which crores of rupees of Government money was squandered on a variety of advertisements.

CONCLUSION

159. Earlier in my speech, I had indicated that the closing deficit for 1996-97 would be Rs.745.05 crores. There are very few proposals for additional taxation, while several concessions to promote the growth of industries in the State and to secure the well being of the poor and middle classes have been given. The net effect of all the measures announced in this budget would be a revenue loss of Rs.306 crores. By ensuring economy in expenditure and with a better tax compliance and consequent on the major tax reforms undertaken, I am hopeful of neutralising the anticipated loss of revenue substantially. Even then, the loss is not likely to be bridged fully and the closing deficit for 1996-97 is likely to increase further by Rs.106 crores and go up to Rs.851.05 crores.

160. The Budget that I have presented before you is like a palmleaf fan with which the poor fan themselves; a clay lamp lit in the house of the working classes; a towel which wipes the sweat of farmers and agricultural labourers; industrial development which is the elixir for the welfare of workers and the alleviation of the unemployment problem; a little relief to weavers and fishermen who toil every day for their living; a brief flash of lightning for women, students and educated unemployed youth and like a garland of flowers placed at the feet of Mother Tamil who is dearer to us than our lives. On the whole, I am aware that it has not been possible to provide liberal bounties, but a little relief has been given to all. In any case, the Tamil people should not be angered by our inability to fulfil all their needs, and I would assure them that, as we still have in our hearts a number of schemes to be implemented for them in the future, they should not lose hope.