BUDGET

2001 - 2002

SPEECH OF

THE MINISTER FOR FINANCE AND LAW

Thiru C. PONNAIYAN

Aavani 2, Thiruvalluvar Aandu 2032
18th August 2001

Speech of Thiru C. Ponnaiyan, Minister of Finance and Law, Government of Tamilnadu, presenting the Revised Budget for 2001-02 to the Legislative Assembly on 18th August 2001.

Honourable Speaker Sir,

I rise to place the Revised Budget Estimates for 2001-02 before this august House. It may be recalled that the previous Government had obtained a Vote on Account for incurring expenditure during the first six months of the current financial year through an Interim Budget presented to the Legislative Assembly on 29th January 2001. Taking into account the revenue and expenditure estimates of the remaining six months and after examining the overall fiscal position of the State Government, I seek the approval of the House for the Budget Estimates for the current financial year.

2. This is the first budget of the new Government, which was voted into office after a resounding victory in the elections to the State Assembly held in May 2001. These elections have demonstrated the unshakeable faith of the people of Tamilnadu in the A.I.A.D.M.K and its visionary leader, our Honourable Chief Minister Selvi J Jayalalithaa. I wish to sincerely thank the people of the State for their unflinching support and assure them that this Government will always remain conscious of the enormous responsibilities bestowed on it.

3. This Government recognises that the quality of life of the people, and not statistical data, is the ultimate criterion for assessing the development of the State. The socio-economic advancement of the people of Tamilnadu depends on the balanced growth of agro-economy, industrial economy and the services sector. It shall be our foremost endeavour to lay the foundations for the economic revival of the State. This Government will seek to improve the human development indicators of the State, which includes longevity, knowledge and decent standard of living of the people, through appropriate policy interventions. This Government will achieve these objectives by providing good, transparent, responsive and participatory governance.

4. In the past few months after assuming office, the Honourable Chief Minister has conducted a detailed review of all administrative departments and their existing programmes. The critical challenges have been identified and new policies for sustained socio-economic development of the State formulated. We pledge to resolutely face the challenges confronting the State with the active support of the people.

WHITE PAPER ON TAMILNADU GOVERNMENT'S FINANCES

5. As promised in the Governor's Address to the newly elected Legislative Assembly, I am placing a "White Paper on Tamilnadu Government's Finances" on the Table of this House. The objective of the White Paper is to apprise the Honourable Members and the people of Tamilnadu, of the precarious state of finances inherited by this Government.

6. Let me briefly touch upon a few highlights of the White Paper. An analysis of the economic and fiscal trends of Tamilnadu since the mid 1990 shows some extremely disturbing features. The growth of Gross State Domestic Product, which represents the total value of goods and services produced in the economy during a year, declined from 6.66 percent per annum during 1991-96 to 6.22 percent per annum during 1996-2001. The performance of the agricultural and industrial sectors showed a decline during 1996-2001 compared to the performance during 1991-96. In contrast to the performance of the commodity producing sectors of the economy, the services sector showed growth in the corresponding period mainly through the contribution of the private sector.

141. We propose to appoint a Staff and Expenditure Review Commission to examine the scope of curtailing avoidable expenditure in administration.

142. I take this opportunity to announce an expenditure policy to be followed by this Government to help restrict the abnormal pace of growth of revenue expenditure. We shall conduct a Zero Base Budgeting exercise for various Departments in the Government and its agencies to ensure efficiency and economy in expenditure.

143. The Honourable Chief Minister has asked all the Ministers to conduct a comprehensive review of the Departments under their control to identify new sources of revenue. This would include revising the existing user charges for various services being provided by the Government to realistic levels and cutting down avoidable and wasteful expenditure.

COMMERCIAL TAXES

144. Commercial Taxes are the largest source of revenue for the Government. Hon'ble members may be aware that a decision has been taken at the all India level in the Conference of Chief Ministers and State Finance Ministers, presided over by the Hon'ble Union Finance Minister at New Delhi on 5.7.2001, that all the States must comply with the Uniform Floor Rates of sales tax latest by 31.7.2001 and they should also implement the Value Added Tax (VAT) regime from 1.4.2002 onwards. Based on the recommendations of the Empowered Committee of Finance Ministers, the Union Finance Minister has also announced in the same Conference that Central Assistance would be withheld for the States which do not comply with the Uniform Floor Rates.

145. Based on an understanding among the States and Union Territories to conform to a discipline of uniform floor rates with effect from January 2000, the previous Government has already complied with 40 items of taxation under the floor rate regime. We have now reviewed the remaining deviations and have decided to take appropriate measures. While doing so, we hope that the other States and Union Territories, especially the neighbouring ones, would also ensure full compliance in order to enable us to sustain the Uniform Floor Rates and prevent diversion of trade and tax revenue from Tamil Nadu.

146. As regards the implementation of VAT in Tamil Nadu, our Government has undertaken a comprehensive examination of all the issues involved. The Government has very recently issued orders for setting up a VAT Cell to analyse and process the various aspects of VAT and the steps that need to be taken towards this goal. It is also proposed to constitute an Empowered Committee to guide and monitor the preparations required for the implementation of VAT. We also propose to hold detailed consultations with trade and industry as well as consumer bodies in order to obtain their responses on the various aspects of VAT. In this context, we have already informed the Chairman of the Empowered Committee of Finance Ministers that the proposed VAT rates and classification of commodities require certain modifications. It is also planned to fully complete the computerisation process, which now covers only 140 out of 323 assessment circles in the Commercial Taxes Department in order to ensure that the processing of returns and analysis of transactions are speeded up and improved.

147. It is proposed to set up at the level of the Commercial Taxes Department suitable mechanisms for regular interactions with manufacturing and trade bodies. The intention would be to use the suggestions and the feed-back thus obtained for the review of forms and procedures and to simplify classification and broad band related items.

148. I now turn to the taxation component of the Budget. While the system of taxation need to have revenue mobilisation as a major objective. it is also necessary to keep in mind the impact of such taxation on trade, industry and consumers. The Government of India has firmly indicated that the system of uniform floor rates of taxes as already decided should be implemented before 31.7.2001, failing which it would withhold the central assistance being given to the States. Under these circumstances, some tax changes are inevitable. It is therefore proposed to raise the present TNGST rates to 4% for copra, maize products, man-made fibres and yarns, jari of all kinds, cumin seeds, cotton, dressed skins and hides. Bicycle locks now being charged at 11% and bicycle seat covers now being charged at 1% will be taxed at a uniform 4% on par with other parts and accessories of bicycles.

149. The tax on tractor tyres and tubes, photographic films, plates, etc., printing and writing paper, sewing machine parts and accessories, butter and ghee branded or unbranded, footwear whether branded or unbranded, unbranded bakery products, unbranded confectionery and chocolates, compact fluorescent lamps and cellular telephones will henceforth be charged at 8%. However, keeping in mind the interest of the lower income groups and the poorer sections of society, the present tax exemption in respect of footwear costing Rs.50/- or less, will stand raised to Rs.100/-. Straps of footwear will continue to be exempted. The existing rate of 4% for unbranded biscuits and the exemption for bakeries with a turnover up to Rs.5 lakhs will continue.

150. The tax rate on two wheelers, three wheelers and four wheelers other than earth moving machinery, articles of stainless steel other than household utensils, handmade soaps will henceforth be charged at the floor rate of 12% Synthetic gems, which are now exempt, will henceforth be charged at the floor rate of 1%.

151. We have also undertaken an exercise to simplify and reduce the number of taxation rates presently in existence. The First

Schedule to the Tamil Nadu General Sales Tax Act, 1959 has, as of now, 14 parts. It is proposed to eliminate Part-A of the First Schedule which as of now has only three items, viz. poultry feed supplements and concentrates, parched gram or fried gram and flour of pulses and gram. Since poultry feed is already exempted and as cattle feed supplements and concentrates, fried groundnut kernels, wheat flour, rava and maida are already taxed at 4%, it is now proposed to raise the rate on the three items in the Schedule from 2% to 4% and merge it with Part-B of the First Schedule.

152. As a further step towards rationalisation, it is proposed that except butter and ghee sold under registered brand name, camphor, caustic soda, bicycle locks, other goods not specified elsewhere and unspecified dyes, weighing machines of all kinds, pressure lamps, paraffin and slack wax, and animal drawn vehicle tyres and tubes, all other items under Part-D of First Schedule will be raised to 12%. As mentioned already, all varieties of butter and ghee branded or unbranded will be taxed at 8%. The tax on camphor will continue to be at 4%. Unspecified dyes now being taxed at 11% will be taxed along with specified dyes at 8%.

153. In the budget for 1999-2000, the tax on electrical goods was reduced from 16% to 8% with the expectation that there would be an increase in the turnover and compensating increase in revenue. However, it is observed that the attendant revenue has fallen by Rs.18.94 crores. It is therefore proposed to increase the rate for electrical goods to 12%. Plastic products, which are now being charged at 8%, will be henceforth charged at 12%, though HDPE/PP woven fabrics will continue to be taxed at 8%.

154. The Government proposes to reduce the tax on silk cotton seeds from 11% to 4% and paper cups from 11% to 8%. Hand pumps, parts and accessories of kerosene stoves and an additional

12 number of adisarakku items that are widely used by the weaker sections, will be exempted from the payment of tax.

155. Parts and accessories of electronic voltage stabilizers will be included with parts and accessories of electronic goods now being taxed at 4%. The tax on sales to Bharat Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited of telecom cables will be reduced to 4% under TNGST and also under CST, with or without 'C' Form.

156. A number of new recreation parlours, which provide for games like bowling, billiards, snooker, etc. catering to the upper echelons of society have come up in some of the major cities in Tamilnadu. Though these parlours charge heavy amounts from the users, they do not bring any revenue to the Government. It is proposed to levy entertainment tax at 20 per cent of the charges on these facilities.

157. With a view to protecting and augmenting the State revenue, the Government will introduce entry tax on certain commodities, materials, articles and goods as may be notified.

158. It has been mentioned in the Budget that the present level of revenue mobilisation falls far short of the expenditure requirements of development. In order to mobilise additional revenue, it is proposed to levy 1% Additional Sales Tax on assessees with a taxable turnover exceeding Rs.10 crores but not exceeding Rs.25 crores per annum.

159. It is expected that all the above measures of taxation would result in a net additional revenue mobilisation of about Rs.135.38 crores in the current financial year.

160. The Government is also keen to revitalise the Traders' Welfare Board, which now has a membership of 38,569 traders.

Attempts would be made with the cooperation of Traders' Associations to widen the membership base, and to improve the service of the Board, particularly to those who are indigent..

FISCAL MANAGEMENT

161. One of the important sources of revenue for the Government is the long term loan given by the Government of India on the basis of the net small savings collections during the year. We received a loan amount of Rs.1290 crores last year. We have projected a loan of Rs.1700 crores in the estimates. The Honourable Chief Minister desires that housewives be involved more in this important task. We intend to introduce attractive schemes, prizes and incentives which will help us mobilise larger savings.

162. Honourable Members are aware that the Government of India has been repeatedly requested to revise the royalty on lignite retrospectively from August, 1990. In March 2001, the Government of India revised the royalty on lignite on par with Coal (Grade F and G) prospectively, and released an advance of Rs.250 crores towards royalty payable over 2001 – 2003. We consider this to be extremely unfair because our Government has been denied the flexibility of using future royalty receipts, besides being denied the benefit of retrospective revision. We propose to take it up very strongly with the Government of India and expect a favourable response.

163. The overall deficit in the budget estimates will come down to Rs.692 crores after taking into account the proposed changes in taxes. We expect to bridge this gap by stepping up the collection of arrears and through various economy measures.

164. Honourable Members are aware that our Government faces many challenges in implementing the tasks given to us by the people. These challenges emanate from the poor fiscal situation inherited by us and the urgent need to restore the financial health