



# **B U D G E T**

**2002 - 2003**

**SPEECH OF**

*THE MINISTER FOR FINANCE  
AND INFORMATION TECHNOLOGY*

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Panguni 13, Thiruvalluvar Aandu 2033  
27th March 2002

**Speech of Thiru C. Ponnaiyan, Minister of Finance and Information Technology, Government of Tamil Nadu, presenting the Revised Estimates for 2001-2002 and the Budget for 2002-2003 to the Legislative Assembly on 27th March, 2002.**

**Honourable Speaker Sir,**

It is my privilege to present the Revised Estimates for the current year and the Budget proposals of the Government of Tamil Nadu for the year 2002-2003 before this august House. Our party, under the able and dynamic leadership of our visionary leader, Puratchi Thalaivi J Jayalalithaa, obtained the overwhelming mandate of the people based on certain policies and programmes. These were incorporated in the previous Budget presented seven months ago. In line with our commitment to ensure fiscal transparency and open governance, a 'White Paper on Tamil Nadu Government's Finances' was placed in the Legislative Assembly. I express my sincere gratitude to the Honourable Members, intellectuals, interest groups and the people of Tamil Nadu for their valuable suggestions, which have helped in shaping the contours of the Annual Financial Statement for the next financial year.

2. The Budget Speech for 2002-2003 will be a departure from past conventions and practices in certain ways. We have tried to improve the process of Budget formulation by inviting and incorporating responses to the White Paper from political parties, academics, experts, trade and industry and many others. I therefore propose to begin by delineating the fiscal position of the State Government, outline the reform programme to be followed in the next financial year and also build on the vision statement announced in the Governor's address a few days ago.

109. The Government servants constitute the backbone of any administrative set up. We will take necessary steps to restore their benefits as soon as the financial position of the Government improves. As promised, an allocation of Rs.150 crores has been made in the Revised Estimates for the current year for giving House Building Advance to the employees.

110. Given the need for constant skill and knowledge upgradation, this Government has decided to earmark a sum of Rs.1 crore for enabling our officials to take up specialized training courses and higher studies in the country.

### **FISCAL PROJECTIONS**

111. The total revenue expenditure of the State Government in 2002-2003 is projected at Rs.26861.54 crores as against revenue receipts of Rs.20628.32 crores, thereby leaving a deficit in revenue of Rs.6233.22 crores. The fiscal deficit of the Government for the next financial year is likely to be Rs. 8895.04 crores.

112. The overall deficit in 2002-2003 has been estimated to be Rs.1330.24 crores. The credible fiscal reform programme enumerated by me will help the State Government extricate itself from the existing fiscal and financial problems. I now move to present the taxation proposals for the next financial year.

### **COMMERCIAL TAXES**

113. In the White Paper placed on the Table of this House in August 2001, it was mentioned that revenue from Commercial Taxes constitutes 66% of the State's own total revenues. In the year 2001-2002, the recession in the economy has affected the buoyancy of this source of revenue. Reversal of the slow down in the immediate future looks improbable and the resultant increase of anticipated deficit levels is creating difficulties.

114. It was mentioned in the last Budget Speech that this Government has undertaken a comprehensive examination of the various issues in the implementation of VAT. As per current indications the implementation of VAT will be with effect from 1.4.2003 throughout the country. Based on the broad guidelines finalised by the Empowered Committee of State Finance Ministers, the Commissionerate of Commercial Taxes have put on the Departmental website a "Discussion Paper" on the implementation of VAT, inviting suggestions. A comprehensive proposal for computerisation of the Department is under the active consideration of the Government, since full computerisation with adequate data transmission facilities is a must for effective implementation of VAT.

115. The taxation proposals for the year 2002-2003 therefore have to take into account the need for adequate mobilisation of revenue in the face of a fall in the buoyancy due to economic slow down and also the need to reach in this financial year an intermediate stage before possible full transition to VAT from next year. The various suggestions received from trade and industry including those during the pre-budget meeting held on 18.1.2002 have been viewed in this context. I now turn to the details of the proposals.

116. Under the VAT system, the number of tax rates would be only three, apart from a limited list of exempted goods and also commodities which would be outside the purview of VAT and the set-off principle. The rates envisaged are 1%, 4% and a Revenue Neutral Rate (RNR) with a provision for a Special Additional Tax (SAT) on a limited number of items. It has therefore become necessary to review the exempted list of commodities, and also to prepare for transition within a year from the present 8% slab to a revenue neutral rate which would be 12% or higher. In the process of restructuring the Schedules and Parts of the TNGST, the grouping of the entries in the TNGST Parts and Schedules has been reviewed and

the present number of entries which exceed 450 in number will stand reduced to less than 300.

117. It is therefore proposed to dismantle the 8% rate and transport the present commodities in this Part to 4%, 10% and 12% Parts. A separate Schedule will be incorporated to the TNGST Act, 1959, wherein all petroleum products, IMFL, Foreign liquor, sugarcane, pan masala without tobacco, molasses, and all imported items whose local counterparts are in the 12% and 16% Parts will find place. There will be in addition the 1% rate schedule for bullion and worn out or beaten jewellery.

118. In order to widen the tax base, it is proposed to review the exemption for commodities like rice, wheat, jaggery, pepper, pulses and grams which are being taxed in a number of States. A nominal rate of 2% is proposed to be levied on rice and wheat at the point of first sale by the dealer. Rice and wheat supplied in PDS will not be taxed. Jaggery, pepper, pulses and grams will be taxed at 4%. Rice, wheat, pulses and grams will not be liable for Additional Sales Tax (AST). Inter-State sales tax rate of copra will be raised from 1% to 2%. Siddha and Unani drugs now exempt will be taxed on par with Ayurvedic and Homoeopathy drugs at 4%.

119. As a part of the review of the entries in the present exempted and the 4% Parts, Gum benzoin (sambrani) and instant sambrani will be taxed at the rate of camphor and agarbathi at 4%. Stitched handkerchiefs will be taxed at 4%. Exemption will continue in respect of footwear with the maximum retail price (MRP) of less than rupees one hundred; but straps of footwear sold by dealers whose turnover exceeds rupees three lakhs per annum will be taxed at footwear rates of 10%. While solar cookers, municipal waste conversion devices for producing energy and energy saving Chulas will be exempt, other renewable energy conservation devices will be taxed at 4%. Cloth rags will be grouped with cotton waste and other wastes

and taxed at 4%. Cottonseed husk will be grouped with paddy husk etc. and exempted. Neem oil cake, a soil fungicide will be exempted. It is also proposed to exempt fish net and rubber play balloons, now taxed at 4%. Articles and equipment for gymnastics including health fitness equipment, non-stick utensils and television antenna now being taxed at 4% will be taxed at 12%. Desiccated coconut will be taxed at 4%.

120. In the process of dismantling the 8% Part, it is proposed to reduce the tax on bamboos, bottle caps, unbranded toffees and confectionery, unbranded foods including unbranded cakes and icecreams, cotton yarn waste, handicraft articles, jute bags which are laminated, palm fatty acids, bleach liquids, HDPE and PP woven strips and woven fabrics, umbrellas, tin containers, light roofing sheets and unregistered branded biscuits to 4%. Branded and packed fresh vegetables and fruits and unbranded butter will be exempt. Metallic wares other than domestic utensils, pressure and heat resistance cookware, fans, electronic finished goods, dumpers, earth moving machinery will be moved to the 12% Part, while the balance entries in the 8% Part will be moved to 10% Part. Status quo will remain in the case of tea, coffee and rubber by notification since the plantation industry is under stress.

121. In this regard, mention has to be made about the regrouping attempt in respect of electric and electronic goods. While computers, computer peripherals, software and notified electronic items would be taxed at 4%, all electric and electronic components and accessories including shunt and power capacitors are being broad banded for taxation at 10%. Other electrical and electronic goods will be taxable at 12%. However, in respect of telecommunication equipment, supplies of notified items to Corporations which were erstwhile Departments of Government of India will be taxable at 4%.

122. While reviewing the items currently taxed at 12%, it has been decided to do away with the condition for taxing at a differential

rate aerated waters including soft drinks on an MRP criterion. Branded fruit juices and fruit drinks will continue to be taxed at 12%, while aerated drinks which are branded and registered will be charged at 16% along with other branded and registered foods. Branded and unregistered chips will be taxed at 10%.

123. In the process of regrouping of automobile and accessories, the rate on spark plugs which is now 20% will stand reduced to 12%. Asbestos cement sheets will be taxed at 12% as against the existing 16%. Imported goods whose indigenous counterparts are taxable at 12% and 16% will be taxable at 20%.

124. A sizeable part of the revenue of the State originates from the tax on petroleum products and in the wake of the proposed dismantling of the APM regime, the implications will have to be suitably responded to. **In respect of hotels, an additional compounding slab rate of Rs.12,000 per annum is being put in place for turnovers between Rs.10 lakhs to Rs.25 lakhs.**

125. This Government has taken several initiatives to revive industry particularly the small industry which, due to the wrong policy adopted by the then Government between 1996 and 2001, is in a state of turbulence. It is proposed to reinforce the steps taken by this Government and extend certain further concessions to industry so that growth and concomitant revenue rise is made possible. **The Government proposes to permit a concessional sales tax rate of 4% for the supplies of goods (other than motor spirit, diesel and cement) by dealers in this State to the State Government Departments of Tamil Nadu, the TNEB, NLC, TWAD, Metro Water, Medical Services Corporation, and the State Transport Corporations. This concession will also be available to the turnkey contract supplies to TNEB, TWAD and Metro Water on the production of a prescribed declaration. The rate for Molasses is proposed to be lowered to 20% to notified molasses-based**

pharmaceutical and chemical industrial units in the State, subject to the tendering of a suitable declaration by the units. At the same time, it is also proposed to exempt M/s.Sago Serve, Salem from the levy of AST, and adjust the sales tax payable by them to 4%. Purchase tax to the extent of 7% on lube base oil will be permitted to be set off by oil companies to enable increased capacity utilization of CPCL and raise revenue to the State. Assistance to rubber industry is proposed by permitting the adjustment of the CST paid on natural rubber against the purchase tax payable under TNGST. Paraffin wax purchased by SIDCO will be taxed at 4% to benefit small units. Electrical control panels will be eligible for a concessional rate of 3% as capital goods.

126. It is considered appropriate to introduce the concept of set-off as an experimental measure to understand the implications under VAT. **To start with, it is proposed to permit full set-off of the tax paid on inputs (other than fuel), components and spares against Form-XVII against the TNGST and CST payable with effect from the date of notification for electrical and electronic goods taxable at 12%, handmade soaps taxable at 12%, machine made matches and paper, both to be taxed at 10%. It is also clarified that no set-off will be allowed in respect of consignment transfers, and the set-off will be upto 50% of the output tax paid in respect of CST only if the full CST rate of 4% is paid. In case of all concessional CST or TNGST transactions, the facility of set-off will not be available. With a view to providing relief for printing industry in the State, set-off of taxes paid in the State directly to the dealer at the point of first sale in respect of paper and ink will be permitted from the date of notification. In order to minimise disputes relating to works contracts and sales in Tamil Nadu in respect of printing materials, it is proposed to provide for a compounding option of 3% of the value of the transaction irrespective of whether it is a sale or works contract. No set-off would be available for these compounded transactions. It is estimated that the revenue loss to the State due to the**



extension of the set-off facility will be of the order of Rs.21 crores per annum. It is our fervent hope that industry will come forward to share the benefit of the concessions with the consumers. Any instances of misuse of the facility by raising false claims or lack of positive developments will lead to the concession being withdrawn.

127. In order to augment and protect revenue, a number of statutory and procedural measures are proposed. It is proposed to levy a tax on resale of all commodities excluding rice, wheat, pulses and grams, IMFL, petroleum products and other declared goods. The tax rate will be nominal at 1% and will be payable by second and subsequent sellers. This step is being taken both for augmenting revenue and as a preparatory measure to VAT when all stages of a sale will attract tax. However, dealers with a turnover not exceeding Rs.10 lakhs per annum will not be liable to collect or remit the resale tax.

128. Entry Tax was levied with effect from 1.12.2001 in respect of a few items. It is proposed to include in the list of goods liable for Entry Tax the following additional items:

- Motor spirit
- Lubricating oils, greases and lube base oil
- Bitumen
- Aluminium
- Asbestos cement sheets
- HDPE granules and PVC resins and PVC pipes
- HDPE/PP woven fabrics
- Marbles, granites, ceramic tiles

- Potassium chlorate, LAB, soda ash, caustic soda and chlorine
- Sanitary wares
- Newsprint, paper and paperboards excluding coated paper, tissue paper, MICR, electrical grade paper, glassine file boards
- Wheat products
- Iron and steel
- Compressors, parts and accessories of airconditioners and refrigerators
- Tobacco and tobacco products excluding beedis

Entry Tax will be levied at the rates prescribed in the TNGST for all items except tobacco and tobacco products which will be charged at 10%. The Entry Tax on LSHS for notified Independent Power Producers will be reduced to 3% for a period of one year from the date indicated in the notification.

129. The steep increases in the price of cement from time to time have been a matter of serious concern for the Government and the general public. **The Government has now decided to levy a sales tax of 24% for OPC and PPC cement exceeding selling price of Rs.145 and Rs.135 per bag respectively. The above selling price is inclusive of sales tax. Similarly the tax on second and subsequent sales for the above categories of cement will be 5%. The rate of tax below these selling prices will be the present rate of 16% for first sale and 1% for second and subsequent sales. The entry tax on cement including white and refractory cement will be removed. It is hoped**

**that all these measures would ensure availability of cement at reasonable prices.**

130. There is considerable avoidance of tax in the case of jewellery and precious stone transactions and necessary corrective measure will be initiated. **The Luxury Tax Act will also be amended to levy a nominal luxury tax of 1% on monthly accretions of stock of silk sarees whose purchase value exceeds Rs.3,000 per saree. The scope of the Advertisement Tax Act will be expanded.**

131. In order to provide better quality of life to the people and also better quality of operative environment to business and industry, infrastructure development is of critical importance. To meet the rising requirements in this critical sector, **the Government has decided to levy an infrastructure surcharge of 5% on sales tax paid under the TNGST Act on all items except rice, wheat, kerosene, LPG and Declared Goods.** This surcharge will also not be levied on IMFL because of the recent enhancement in the sales tax on these items from 50% to 55%. The Government hopes to raise around Rs.230 crores per annum through this measure.

132. It is estimated that in net, the levies and concessions inclusive of the surcharge are likely to augment the revenue of Government by about Rs.690 crores per annum.

133. I now turn to the vexatious issue of arrears of sales tax. Reports have been carried in the media as though the deficit of Government would have been bridged, had sales tax arrears been collected. I have to clarify that almost 90% of the arrears of sales tax are under the broad categories of (a) those under litigation in various fora or pending elimination as a follow up to orders of appellate fora and (b) those which are covered by deferral/instalment payment concessions, proposals for write off, waiver, action under the Central/State Revenue Recovery Act etc. Arrears rose almost threefold

between 1996-1997 and 1999-2000, and part of the reason was the move to complete pending assessments by a deadline, resulting in large scale best of judgment assessments and consequent litigation. **This Government will take steps to expedite decisions in legal fora and bring in necessary procedural changes. The services of investigating agencies will be availed of to trace dealers who are now reported as untraceable so that they can be made liable for actions. Statutory changes to ensure stiffer penalties and more effective administration including a check on best of judgment assessments will be brought by amendments to the respective Acts.**

134. The Government will make amendments to the TNGST Act, 1959 to revise the fees payable for registration and the dates for renewal. For the year 2002-2003, the dates will be 30th April without fine and 31st August with fine.

135. To meet a long voiced request of works contractors, a centralised circle for deducting tax at source (TDS) will be started at Chennai this year on an experimental basis, and if found satisfactory, it will be extended throughout the State.

136. **The Government also proposes to introduce a 'Samadhan Scheme 2002' for a period of three months and also set up for a limited period a 'Settlement Commission' to deal with specified categories of arrears. The Samadhan Scheme will require the dealer to withdraw the appeal on Samadhan and all pre-deposits against the disputed amount will be given credit.**

137. The Settlement Commission will deal with arrears of taxes of dealers who have stopped business prior to 1.4.1995 without appeal pending on the 28.2.2002, arrears of lottery dealers prior to 1.4.1996, disputes relating to autonomous Corporations/ Boards of the Government of Tamil Nadu, Public Sector Oil Companies of Government of India including Chennai Petroleum Company Ltd.

(CPCL) on the notified date, and pending requests of waiver of tax for periods prior to 1.4.1999 and not on appeal on 28.2.2002. These items will not form part of the Samadhan Scheme.

138. **The Government has reviewed the present dispensation for self-assessment.** With effect from the year 1999-2000, the previous Government had permitted self-assessment upto a turnover of Rs. one crore with the only condition that assesses of turnover exceeding Rs.20 lakhs have to obtain a Certificate from a Chartered Accountant. A study of the self-assessment schemes of other States and the representations received in respect of certification have led to a decision to revamp the self-assessment scheme. With effect from the assessment year 2001-2002, the facility of self-assessment will be extended to only dealers who satisfy certain compliance criteria, and the certification by a Chartered Accountant or a Cost Accountant will be necessary only if the turnover exceeds Rs.40 lakhs per annum. The scope of the self-assessment will be extended to dealers having an annual turnover upto Rs.10 crores subject to fulfilment of certain additional criteria, including 15% increase in tax paid over the previous year. It will also be deemed that dealers who do not file their annual returns by 31<sup>st</sup> October have not opted for self-assessment, and regular assessments will be done in their cases.

139. It is also proposed to clear the backlog of back-year assessments upto the year 1998-1999 in the case of assesseees. All uncontested back-year assessments upto 1998-1999 will be completed without check of accounts if a dealer has submitted all returns, paid tax as per returns, and files all remaining declaration/ certificates to claim concession before 30.9.2002. In case of dealers who are unable to produce 'C' / 'D' Form, a 2% condonation fee may be paid over and above the prescribed CST rate and alternate proof required by the department submitted.

140. In the case of non-assessees who have not filed returns and file annual returns upto and inclusive of assessment year 2000-2001, a special dispensation will be made to file the annual return by 30.9.2002. In case the return is not filed by that date, after the issue of such notice to file the return, the registration will be cancelled apart from such measures as are considered necessary.

141. We invite the dealer community to avail of this opportunity to set at rest long pending issues and at the same time to contribute to the revenues of Government. This Government intends to discriminate between compliant dealers and non-compliant dealers appropriately, encouraging the former and discouraging the latter.

142. In the Central Budget, certain changes to the Central Sales Tax Act have been proposed. Declaration Forms will become compulsory on enactment. Necessary alterations to notifications will be made thereafter.

143. There has been a persistent demand from consumers of Indian Made Foreign Liquor that they do not find a suitable place to sit and drink. **It has therefore been decided to permit bars in the IMFL retail shops in Corporations, Municipalities and Town Panchayats by levying a license fee of Rs.3 lakh, Rs.2 lakh, and Rs.1 lakh respectively.**

144. The cheap liquor scheme was introduced with effect from 1.1.2002 with a view to preventing the distillation and consumption of illicit liquor which took many lives, especially in the rural areas. Our experience in the last 3 months has shown that the objectives for which the scheme was introduced have not been fulfilled. This scheme has only resulted in a sharp reduction in the State's revenue, which in the present precarious financial position, the State can ill-afford. There have been widespread representations from various quarters to do away with the scheme. **The Government has**

**therefore decided to discontinue the sale of cheap liquor with effect from 14th April 2002.** The two weeks time is required to get over the procedural difficulties in effecting the changeover. The Government reiterates its resolve to continue its drive against illicit distillation.

### **FISCAL MANAGEMENT**

145. The overall deficit in the Budget Estimates will come down to Rs.640.24 crores after taking into account the proposed changes in taxes. This gap would be bridged by stepping up the collection of arrears of taxes and continuing our agenda for Fiscal Reforms targeted towards freeing resources locked up in unproductive programmes or schemes which have outlived their utility. We propose to continue the Zero Base Budgeting exercise in full earnest.

146. Hon'ble Members are aware that the State Government is going through a very critical phase financially. This situation calls for some difficult decisions. **The Government has decided to constitute a Tax Reforms and Revenue Augmentation Commission under the Chairmanship of the eminent economist Dr. Raja J.Chelliah.** Our Government also seeks the fullest support of the Members of this august House and the people of Tamil Nadu in bringing the State Finances back on the rails. I take this opportunity to invite suggestions for enhancing revenues and reducing non-productive expenditure.

147. I express my deep sense of gratitude to the Honourable Chief Minister, Selvi J Jayalithaa for her total involvement, valuable guidance and constructive suggestions in the formulation of the Budget.

148. Our Honourable Chief Minister is committed to solving the serious problems of poverty and unemployment prevailing in both the urban and rural areas of the State. Puratchi Thalaivi is determined to put Tamil Nadu back on the road to development and prosperity