BUDGET

2003 - 2004

SPEECH OF

THE MINISTER FOR FINANCE

Thiru C. PONNAIYAN

Panguni 7, Thiruvalluvar Aandu 2034
21st March 2003

Speech of Thiru C. Ponnaiyan, Minister for Finance, Government of Tamil Nadu, presenting the Revised Estimates for 2002-2003 and the Budget for 2003-2004 to the Legislative Assembly on 21st March, 2003.

Honourable Speaker Sir,

I rise to present the Revised Estimates for the year 2002-2003 and the Budget proposals of the Government of Tamil Nadu for the year 2003-2004 before this august House. The people of Tamil Nadu have once again reaffirmed their immense faith and trust in the dynamic leadership of our visionary leader Puratchi Thalaivi J Jayalalithaa. The resounding victory in the recent Sathankulam by-election amply demonstrates that our people stand solidly behind our Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa in her bold efforts to set right complex and seemingly insurmountable problems and forge a brand new development path, which will take the State to the Number One position in the country.

2. Hon'ble Members are well aware of the difficult problems that this Government had to face after it assumed office in May, 2001. We have had to contend with an extremely serious fiscal situation with no easy solutions and widespread drought conditions, following successive failure of monsoons and non-release of water by Karnataka, leading to the failure of crops in the Cauvery delta region. These adverse conditions would have broken the will of any other Government and completely paralyzed the entire development process. It is only because of

the steely resolve and indomitable will of the Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa that despite extreme odds, this Government has been able to chart out a new development agenda and take resolute steps for achieving the development goals.

DROUGHT RELIEF MEASURES

3. Tamil Nadu is reeling under one of the worst droughts in its history. The State experienced a deficit rainfall of (-)45.8% during the southwest monsoon season. Though the northeast monsoon began well, the rainfall deficit in this monsoon by December 2002 was (-) 14.7%. The overall deficit in the year 2002 was (-) 25.4%. The successive failure of monsoons has created conditions of severe scarcity of water for irrigation and drinking purposes. Non-release of Tamil Nadu's share of water from the Cauvery river to the Mettur Dam by Karnataka Government has further compounded the problems. Having left the Kuruvai crop unsown, the farmers have now lost the Samba and Thaladi crops as well.

4. This Government responded promptly to the emerging situation by declaring 28 districts, except Chennai district, as drought-affected. Relief measures aimed at providing gainful employment through construction of durable community assets, provision of supplementary nutrition, drinking water and relief to farmers among others, have been taken up. I may be permitted to briefly touch upon the specific measures undertaken by the Government to provide succour to the affected people.

139. The Budget supports a total Plan outlay, which has been tentatively arrived at Rs. 7000 crores and will be finalised after discussions between the Hon'ble Chief Minister and the Deputy Chairman of the Union Planning Commission.

140. Both the revenue deficit and the overall deficit for the year 2003-2004 are still a matter of concern. This Government will follow a policy of fiscal consolidation in the year 2003-2004 with a view to further improving the revenues and controlling the expenditure so that the situation can be turned round by the end of 2003-2004. We are hopeful of doing so. I would like to enlist the co-operation of the House in this process of fiscal consolidation. I would now like to turn to some measures that I wish to propose to improve the revenues of the Government.

COMMERCIAL TAXES

141. The introduction of Value Added Tax (VAT) has been on the national agenda for a long time. VAT has been advocated as a part of the economic reforms programme and the need for simplification of the sales tax structure. The ultimate objective is to create a uniform common market within the country that would enable Indian producers of goods to reduce costs and be competitive both in the domestic and international markets. While industry is expected to be more competitive in a VAT regime, the benefit to trade is that the tax has to be paid only on the value added portion. From the point of view of the consumers and the general public, VAT is expected to make the sales tax structure in the country more transparent.

142. After prolonged discussions at the national level, all the States and Union Territories are now in a position to introduce VAT in 2003-2004. In Tamil Nadu, the Value Added Sales Tax

Bill has already been notified in the Government Gazette on 13.3.2003 under Rule 130 of the Tamil Nadu Legislative Assembly Rules. The Bill has also been sent to the Central Government for obtaining the previous sanction of the President for introducing the Bill. The entire text of the Bill has also been put on the website of the Commercial Taxes Department (www.tnsalestax.com). This has been done in order to ensure advance knowledge and preparation among trade and industry. The draft VAT Rules are under preparation and will also be released in the departmental website very shortly. Once the sanction of the President of India is received, the Bill will be taken up for consideration in the Legislative Assembly. On passage of the Bill by the Legislative Assembly, the Act will be notified and the new law given effect to. Tamil Nadu will thus implement the Value Added Sales Tax from 2003-2004 and I seek the co-operation of this august House for its early implementation. To facilitate smooth transition to VAT, the dealer registrations renewed in March 2003 or renewed earlier for five years will be valid under VAT.

143. As a part of our preparation for VAT, the Commercial Taxes Department has undertaken 100% computerisation of the Department. The scheme involves online connectivity from check posts right up to the Office of the Commissioner of Commercial Taxes. Besides, massive training has also been imparted to the departmental staff and several training programmes have also been arranged for industry and trade at various locations in Tamil Nadu. These training programmes have afforded opportunity for industry and trade to interact with the department officials and get the required familiarisation with VAT.

144. The classification of commodities and the tax rates under VAT will be common in all the States and Union Territories.

The list of goods and the tax rates under the various Schedules of the VAT Bill will be placed in the Legislative Assembly at the time of its consideration. As per the agreement at the All India level, there would be broadly two tax rates under the VAT Act, viz. 4% for industrial inputs and items of daily and common use; and 12.5% rate for all other goods. Apart from the above, there will be a list of exempted goods; 1% tax rate for bullion and jewellery; and special rates of taxation exceeding 20% for petrol, diesel, IMFL etc. Items under the 1% rate slab and those under special rates will be outside VAT. Tax on works contract, leasing as well as tax on food and drinks in hotels will also be outside VAT.

145. The Bill contemplates providing tax rebate or set off for goods purchased in Tamil Nadu by paying tax to the State Government. This set off will be available against goods sold in Tamil Nadu by paying the Value Added Tax or the Central Sales Tax up to the extent of tax paid. The set off for capital goods will be spread over three years. As regards exports, the export sales will continue to be exempted while the tax paid on inputs will be refunded. That is to say, exports will be zero rated. No set off will however be available for branch transfers to other States. In order to maintain the VAT chain of tax set off, all units availing of sales tax waiver will be converted into sales tax deferral.

146. Since VAT seeks to simplify the sales tax structure and avoid multiple tax laws, the resale tax, the existing Additional Sales Tax and Infrastructure Surcharge will stand withdrawn with the introduction of VAT. However, the Additional Sales Tax on IMFL and foreign liquor, which are outside VAT, will continue. In the case of petrol, diesel etc., Additional Sales Tax and Surcharge will be merged with the basic tax rate.

147. Hon'ble Members may be aware that Entry Tax on goods was introduced in order to prevent trade diversion and plug

tax evasion. The basic objective was to track the unaccounted transactions in the unregistered route. Since the above problems are likely to continue till the full stabilisation of VAT, it has been decided that entry tax on goods and motor vehicles will be retained. However, full set off will be given for entry tax paid against local VAT sales or CST sales. This will ensure that while the goods entering into Tamil Nadu are monitored through the entry tax, they are not subject to double taxation.

148. It is expected that VAT would eventually result in revenue gain to the State Government. However, in the initial years, there is likely to be revenue loss till the entire value addition in the VAT chain is fully captured by taxation. It has been estimated that the initial revenue loss may exceed Rs.2500 crores per annum. On the insistence of all the States including Tamil Nadu, Government of India has come forward to compensate the revenue loss at the rate of 100% in the first year, 75% in the second year and 50% in the third year. In the case of revenue loss due to phasing out of CST announced in the Union Budget 2003-2004, Tamil Nadu and a few other States had already insisted upon 100% compensation on a permanent basis. The Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa has specifically written to the Union Finance Minister on this. It is heartening to note that the Government of India has accepted our argument that compensation for CST loss should be under a different formula. We urge the Central Government to ensure 100% compensation for CST loss not only in the initial years but on a permanent basis.

149. Among the measures for revenue loss compensation, Government of India has indicated its willingness to amend the legal provisions so as to enable the States to collect and retain the tax on certain services. A Bill to provide for this has been introduced in Parliament. We urge the Government of India

to give a meaningful list of services with good revenue potential for the States to collect and retain. Similarly, the Government of India has also announced that States will be enabled to levy sales tax even on goods subject to Additional Excise Duties like sugar, textiles and tobacco. An assurance has been given by the Government of India that relevant legislation in this regard will be carried through in the current Budget session of the Parliament.

150. In moving towards the VAT system and doing away with Additional Sales Tax and Surcharge, we have decided to correct the rates in respect of certain items. In the case of petrol, the existing tax rate of 29.4% including Surcharge will be rounded off at 30%. For High Speed Diesel and Light Diesel Oil, the current rates of tax are 23.1% and 21.9% including Additional Sales Tax and Surcharge. It has now been decided to charge a common combined rate of tax for both High Speed Diesel and Light Diesel Oil at 25%. In recent months, there have been widespread reports about the use of white Kerosene as a substitute for Diesel Oil. Besides causing more pollution, it can also damage the engines. In order to curb this practice, it has been decided to increase the tax rate for white Kerosene from 4% to 25%. The tax rate for PDS Kerosene i.e. Blue Kerosene will however continue to remain at 4%.

151. A recent judgement of the Supreme Court of India has enabled the States to levy tax on telephone rentals. The Supreme Court has held that telephone rentals satisfy the requirements of transfer of the right to use the goods. Accordingly, the State Government has decided to levy a tax of 12.5% on telephone rentals collected by BSNL and other private operators including the rentals on mobile telephones.

152. The above taxation measures which will come into effect from today are expected to yield an additional revenue of

Rs.200 crores per annum. As regards Entry Tax, I have to state that the measures announced by the State Government in the last two Budgets have yielded good results both in terms of checking unaccounted transactions and mobilising tax revenues. With the same objective in view, it has now been decided to levy Entry Tax on Washing Machines at 12.5% and on Low Density Polyethylene and Polypropylene in all forms including granules, tapes and wastes at 4%. In order to make the process of assessment simpler, it has been decided that the Assessing Officer for individual dealers will be the same both under the Entry Tax Act as well as under the VAT Act. It has also been decided that paper used in job work entrusted to printers in Tamil Nadu by agencies and departments of other State and Union Territory Governments will be exempted from Entry Tax on production of proof for job work.

153. While undertaking this exercise, the Government has taken into consideration the unprecedented drought conditions prevailing throughout the State. Hence, rice will continue to be exempted from tax even upon introduction of VAT.

154. Hon'ble Members are aware that jewellery of gold, silver and precious metals are highly prone to tax evasion. In order to check this trend, 1% Luxury Tax on jewellery was announced in the last Budget. It has now been decided to increase the Luxury Tax on jewellery stocks from 1% to 3% along with the implementation of VAT under which the tax rate on jewellery would come down from 2% to 1%. Further, the Government has also decided that the tax rate of 1% on jewellery under VAT will be applicable to all the dealers irrespective of turnover. Consequently, the existing compounding system of taxation for dealers having annual turnover up to Rs.50 lakhs will be cancelled.

155. Hon'ble Members are aware that the Entertainment Tax on Cable TV connections is being levied and collected by the local bodies at present. It is however noticed that there is large scale under reporting of the number of Cable TV connections with the operators. Local Bodies have not been able to verify and ensure that all the connections are brought into the tax net. There are also practical problems in doing street survey to enumerate all the Cable TV connections. Consequently, the total revenue collected by all the Local Bodies in the State has been very low. In order to get over these problems, the Government has decided to introduce a compulsory compounding system of taxation for Cable TV operators in place of the existing tax on Cable connections. The compounding rate of tax per operator in a year will be Rs.12,000 in Village Panchayats; Rs.18,000 in Town Panchayats; Rs.36,000 in Municipalities; and Rs.72,000 in Municipal Corporations. The power to levy and collect this tax will be transferred from the Local Bodies to the Government. The local bodies will, however, be compensated by way of annual grants equivalent to their actual tax collections from Cable TV in 2002-2003. Simultaneously, the existing security deposit of Rs.10,000 paid by the operators will be reduced to Rs.5,000 per operator in Municipal Corporations and Municipality areas and Rs.2,500 per operator in other areas. Necessary amendments in this regard will be made in the Tamil Nadu Entertainments Tax Act, 1939. A Bill for this purpose will be introduced in the current session. We expect to get an annual yield of Rs.30 crores by this measure.

ELECTRICITY TAX

156. A comprehensive review of the existing legislation on Duties and Taxes on Electricity has been undertaken by the Commission on Tax Reforms and Revenue Augmentation under the Chairmanship of Dr. Raja J. Chelliah. The Commission has