



B U D G E T

2004 - 2005

SPEECH OF
THE MINISTER FOR FINANCE AND FOOD
Thiru C. PONNAIYAN

Thai 28, Thiruvalluvar Aandu 2035
11th February, 2004

Speech of Thiru C. Ponnaiyan, Minister for Finance and Food, Government of Tamil Nadu, presenting the Budget for 2004-2005 to the Legislative Assembly on 11th February 2004.

Honourable Speaker Sir,

**இடும்பைக் கிடும்பை படுப்பர் இடும்பைக்
கிடும்பை படாஅ தவர்.**

(A person who does not meekly succumb to adversity but who faces it with unfailing heart will be able to cause the adversity itself to suffer its own weakness and quietly depart.)

I rise to present the Revised Estimates for 2003-2004 and the Budget Estimates of 2004-2005 with the blessings of my leader Hon'ble Chief Minister Puratchi Thalaivi J Jayalalithaa, who, with great vision, grit, foresight and dynamism, has put Tamil Nadu back on the highroad to development and prosperity.

2. The people of Tamil Nadu voted the Hon'ble Chief Minister Puratchi Thalaivi J Jayalalithaa back into office with a landslide victory in May 2001 in the fervent hope that their State will see a return to its erstwhile glory, all round development and prosperity. Today, their hopes and dreams stand fulfilled. Tamil Nadu has left behind its troubled past of the late-1990s characterized by a debilitating fiscal decline leading to a total development collapse. The Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa, has made a supreme effort to set right the Government's finances with firm resolve, total dedication and absolute clarity in the face of extreme adversity. The results of this effort have been spectacular. Tamil Nadu has made a remarkable fiscal turnaround. The development agenda has been brought back to the centre stage. This has been achieved in a short span of less than three years. This is a remarkable

achievement of this Government under the able and dynamic leadership of our leader, the Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa.

3. Hon'ble Members may recollect the seemingly intractable fiscal situation prevailing in May 2001. Failure of Monsoons for three years in succession leading to the drought in 2002-2003 made the fiscal adjustment process even more difficult. The Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa, like a true leader, led the State from darkness to light overcoming these crippling adversities.

4. The Hon'ble Chief Minister has always believed that ensuring real improvements to the quality of life of the people is the ultimate purpose of governance. The Chief Minister's 15 point programme incorporates this vision and outlines the development goals of the State. These are being achieved through a comprehensive economic reforms programme consisting of fiscal reforms, improvements to the investment climate, good governance leading to better service delivery and reduction of poverty.

5. New growth momentum cannot be generated without an assurance of perfect maintenance of law and order. It is only due to the strong leadership and the personal attention to every aspect of law and order administration by our Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa, that the State is rightly hailed as a haven of peace and tranquillity. This has provided an excellent foundation enabling us to set right the financial position and restructure the economy.

Medium Term Fiscal Plan

6. Tamil Nadu's experience during 1996-2001 shows that unless the Government is committed to proper

done to provide relief to all farmers. The loss of revenue on account of this support extended to farmers is estimated at Rs. 60 crores.

Agricultural Income Tax

115. Over the last few years, the plantation industry has been continuously incurring losses due to falling prices and increasing production costs. Consequently, the Agricultural Income Tax, which contributed Rs.39.40 crores to the State Exchequer in 1997-1998, dropped to Rs.1.6 crores in 2002-2003. In 2003-2004, the estimated tax yield is Rs.1.35 crores, while the expenditure on the tax collection machinery is Rs.1.6 crores. Thus, the collection costs now exceed the tax yield.

116. Taking into consideration the need to revive the plantation industry, giving the tea growers better prices and taking stock of the fact that collection costs now exceed the collections, the Government has decided to abolish the Agricultural Income Tax with effect from 1st April 2004.

Commercial Taxes

117. At present, if any Sales tax payment is in default, an interest on the tax amount due at 2% per month, that is, at an annual rate of 24% is being levied. This rate was fixed at a time when interest rates were very high. Since interest rates have come down, it is proposed to change the interest rate to a new pattern which shall be 1.5% per month on the tax amount due for the first 90 days and 2% per month thereafter. This will enable prompt payment. Necessary amendment will be made to the TNGST Act 1959 to give effect to this change.

118. Wet Dates are taxed at 12%. Generally food products are classified under the 4% rate schedule. Other items,

which are in the 4% slab are milk powder, sweets, confectionery, pickles, chocolates etc. It is therefore proposed to bring the sales tax rate on wet dates down to 4% as it is a food product.

119. The Sales Tax rate for computer peripherals and spares is 4% and the Central Sales Tax rate is also at 4%. As part of our plan to establish Tamil Nadu as a hardware base, the rate under CST will be reduced from 4% to 2%.

120. A problem has arisen because of the amendment to the Central Sales Tax Act in 2002, which has made filing of 'C' form mandatory. Under this, if sales are made to unregistered dealers, C.S.T. at 10% has to be compulsorily collected. This has caused problems to the hosiery industry in Tamil Nadu which despatches goods to small buyers up country. The Hon'ble Chief Minister has also addressed the Union Finance Minister to find a solution. As this requirement is now statutory, we have decided to introduce a scheme by which tax will be collected at 10% and 9% will be refunded on inter-state sales of hosiery products as a specific industrial incentive so that the effective rate will be 1%. This will be subject to the condition that there will be no branch or consignment transfer of Hosiery goods by the dealer in a year.

121. Life Saving drugs have already been exempted from tax. It is proposed to include Continuous Ambulatory Peritoneal Dialysis (CAPD) fluids used for treatment in renal failure cases in the list of life saving drugs and exempt it from tax. The following 10 drugs are used for the treatment of AIDS patients.

- i. ZIDOVUDINE
- ii. LAMIVUDINE
- iii. STAVUDINE
- iv. DIDANOSINE

- v. NEVIRAPINE
- vi. EFAVIRENZ
- vii. NELFINAVIR
- viii. INDINAVIR
- ix. SEQUINAVIR
- x. RETONAVIR

We will include these drugs in the list of life saving drugs and exempt them from Sales Tax.

122. Natural gas is produced in Tamil Nadu from gas wells by ONGC, which is a Government of India organisation and then sold to Gas Authority of India Limited (GAIL), which is also a Government of India organisation for marketing. As per the current practice, the gas will suffer tax at the first sale that is between the ONGC and GAIL at 8% and then between GAIL and TNEB at the second sale at 1%. The TNEB is, however, specifically entitled to pay tax at 4% on all its purchases. However, in the case of Natural Gas, this is not possible as TNEB pays tax only at the second point as gas has already suffered tax at the first point at 8%. It is therefore proposed to allow a reduced rate of tax of 4% on the sale made by ONGC to GAIL for supply to TNEB alone. Further, the resale tax payable by GAIL on the sales to TNEB will be exempted. This will be applicable to sales to TNEB only.

123. In order to provide an incentive to install pollution control equipment, it is proposed to rationalise the tax rate on equipment used for Pollution Control measures and bring them to a common rate of 4%. The list of such items obtained from the Pollution Control Board will be modified separately..

124. As an incentive to artisans producing handicrafts, it is proposed to reduce the rate of tax on handicraft articles from 4% to 2%.

125. As a gesture to artistes, I propose to fully exempt the tax on Indian Musical Instruments. The present rate of tax is 4%.

126. At present, poultry feed is exempted from tax. Limestone is mixed in a very small proportion in the manufacture of poultry feed. Limestone is charged at 12%. The tax on limestone used in the manufacture of poultry feed will be reduced from 12% to 4%.

127. Resale tax at 1% is being levied on sales of consumer goods effected by co-operatives. In order to benefit consumers who make purchases of consumer goods from co-operatives, exemption will be granted to the co-operative stores functioning under the control of Registrar of Co-operative Societies, which are dealing in purchase and sale of consumer goods from the resale tax under section 17 of the TNGST Act. 1959.

128. All the changes that I have proposed except those requiring amendments to the Acts will take effect from the date of notification.

STAMP DUTY

129. This Government has already brought down the rates on stamp duty and transfer duty for conveyance of properties based on the recommendations of the Tax Reforms and Revenue Augmentation Commission headed by Dr.Raja J.Chelliah. This has been widely welcomed. This Commission has also recommended simplification and reduction of rates in respect of several other instruments in order to facilitate better compliance and easier transactions. We have examined these recommendations in detail. We propose to introduce the following measures.