

Budget Speech 2002-03

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.

FISCAL POSITION

3. Tamil Nadu has enjoyed the distinction of being a financially well-managed State with a very impressive performance in the economic and social sectors when compared to the all-India standards. However, there has been a steady deterioration in the finances of the Government in the last few years, which now threatens to derail the fiscal stability enjoyed in the past.

4. The growth in receipts of the Government comprising Central resource transfers and our own tax and non-tax revenues have failed to keep pace with the unprecedented rise in revenue expenditure since 1998 mainly towards employee compensation (salary and pension), interest payments and subsidies. In order to cover this mismatch, the Government in the past resorted to heavy borrowing to finance the revenue gap. The net result is an alarmingly high and unsustainable revenue deficit and fiscal deficit.

5. An analysis of the sectoral distribution of Government spending shows that over the years, there has been a perceptible decline in the shares of expenditure on social and economic services as against general services comprising basically interest payments and administration. This skewed nature of resource allocation in favour of current expenditure has unwittingly crowded out Government investments in asset creating ventures. The poor performance of the Public Sector Undertakings has further compounded the problems.

6. The current year has posed one of the toughest challenges to the Government. Honourable Members are aware that the State is suffering a loss of Rs.2946 crores over the five-year period 2000-2005 because of the injustice meted out to the developed States, including Tamil Nadu, by the Eleventh Finance Commission. When we

presented the Budget in August last year, we explained the state of Government finances through the White Paper and invited suggestions from the Honourable Members and the public. Based on the valuable input given by the Honourable Members during discussions within the House and outside and the suggestions given by innumerable members of the public and also taking into account the fast deteriorating state of finances, the Government announced a series of measures to augment revenues and cut non-plan expenditure. However, these efforts proved to be insufficient. The decision of the Union Government to reduce our share in central taxes in 2001-2002 by Rs.512 crores over and above the reduction already suffered on account of the implementation of the Eleventh Finance Commission's recommendations was an additional burden which could not be foreseen. The general recession in the national economy, particularly in the manufacturing sector, also had a very adverse impact on the tax collections of the State Government.

7. Given the unprecedented resource constraints, this Government was forced to scale down the approved plan outlay for the current year to a realistic level of Rs.5200 crores. The details of the aggregate Plan outlay of Tamil Nadu for the Tenth Plan Period (2002-2007) and also for the next financial year will be announced after discussions with the Union Planning Commission.

8. Honourable Members are well aware that despite the federal nature of our Constitution, the powers of the State Government in raising resources are very limited and we have to always look to the Centre for financial support. But when the Union Government fails to maintain the committed budgetary devolutions to the State and also does not adequately compensate us for this loss, we have nobody to look up to. Perarignar Anna, while speaking on the floor of the Rajya Sabha, had very clearly summed up the dilemma as follows:

“The working of the federal structure all these years has created a frustration in the minds of the States. They feel that States are fast becoming dole-getting corporations.”

The Central Government should come forward and devolve more financial powers and resources to the States. Almost all the States in the country are facing resource constraint of an unprecedented magnitude. Consequently many States have been forced to cut their plan outlay in the current year resulting in a slowdown in the pace of development. Only when the States are financially strong will India, as a nation, prosper. **Given the serious situation, our Honourable Chief Minister has taken the lead and requested the Honourable Prime Minister to evolve a one-time assistance package for all the States to enable them to come out of this crisis. Tamil Nadu's requirement in this regard has been assessed at Rs.3000 crores and we hope that our Honourable Chief Minister's request for this assistance in the form of a grant to put Tamil Nadu back on the road for development will be considered favourably by the Government of India.**

9. The Union Finance Minister, Thiru Yashwant Sinha, while presenting the Central Budget for 2002-2003, announced that the rate of interest at which the Government of India extends loans to the States would be reduced from the next financial year. We welcome this announcement. The decision to pass on the entire small savings collections to the States may not translate into real and tangible benefits because of a sharp reduction in the rate of interest on small savings instruments.

10. We strongly oppose the Union Government's decision to impose a 5 percent surcharge on all taxes for meeting the defence requirements. National defence is a core subject of the Central Government and has to be met from its revenue receipts. We hope that the Union Finance Minister will rescind the implementation of the

surcharge as this would eat into the limited resources likely to be devolved to the States during the next financial year.

11. Without a visible improvement in the State's finances, no Government can honour its mandate and fulfill the aspirations of the people. The pace of fiscal recovery will depend on how fast we are able to restrict the alarming pace of growth of the revenue expenditure, without jeopardizing the interests and welfare of the vulnerable sections of our society. I would like to begin by outlining the fiscal and budgetary reform programme to be pursued by the Government in the next financial year. The main objectives of these reforms include the following:

- **Slowing down the pace of growth in revenue expenditure.**
- **Enhancement of receipts to the Government.**
- **Reining in the unsustainable revenue deficit and fiscal deficit.**
- **Reprioritization of resource allocation in the State Budget from non-productive areas to production oriented sectors like agriculture, industry, infrastructure development, health, education etc., so that the Government's investments translate themselves into real benefits for the people.**

FISCAL AND BUDGETARY REFORM PROGRAMME

12. *Medium Term Fiscal Reform Programme:* The State Government has prepared a Medium Term Fiscal Reform Programme, aimed at bringing down the revenue deficit to zero and fiscal deficit to 2 percent of the Gross State Domestic Product (GSDP) over a period of five years. **A Memorandum of Understanding is to be signed with**

the Union Government to enable us to access funds to the tune of Rs.402 crores over the next five years, from the Fiscal Reform Facility, constituted on the basis of recommendations of the Eleventh Finance Commission.

13. *Administrative Reforms:* The salary and pension liabilities comprise a major component of the total revenue expenditure of the State Government. We have already announced our commitment to a need-based reduction in the staff strength in a phased manner. Guidelines for rationalization of the staffing pattern in the Government are being evolved to ensure optimal utilization and deployment of manpower.

14. Tamil Nadu has the highest pension-related commitments when compared to other States in the country. It is also one of the fastest growing components of the total revenue expenditure. It has already been announced that all employees recruited from December 1, 2001, will be governed by a new contributory pension scheme similar to the one being formulated by the Union Government.

15. The Government has constituted the Staff and Expenditure Review Commission under the chairmanship of Thiru A.M. Swaminathan (IAS ret'd.). The Commission has already submitted three interim reports. The Government has taken decisions in respect of two of these reports pertaining to reorganisation of departments in the Secretariat and measures to control administrative expenditure. Orders in respect of these decisions are being issued.

16. *Zero-Base Budgeting and rationalization of subsidies, block grants and grants-in-aid to institutions:* All administrative departments have been instructed to undertake a Zero-Base Budgeting exercise to weed out schemes that have outlived their purpose. Such

an exercise will enable the transfer and relocation of resources from non-productive schemes to the productive ones.

17. Untargeted and open-ended subsidy schemes have played havoc with the finances of the State Government. All the departments have been instructed to re-calibrate the existing schemes suitably to ensure that the intended benefits are targeted to the needy and most deserving sections of the population.

18. Block grants or grants-in-aid being given to various institutions are being reviewed. The financial support to private and aided institutions, receiving grants-in-aid from the School Education Department, will be frozen at current year levels. The financial support to Universities and aided colleges will be gradually phased out and they will be encouraged to focus on internal resource generation through consultancies, economizing expenditure and collection of nominal user charges, protecting the interests of poor students.

19. **Reforms in the Public Distribution System:** With a view to weeding out bogus family cards in circulation, it has been decided to introduce a "Coupon System" for drawal of rice under the Public Distribution System from 1st July, 2002 onwards. Under this coupon system, 'rice drawal coupons' for one year will be distributed to the rice cardholders. Payment for rice need not be made while collecting the coupons. These coupons will have to be presented together with the ration card while buying rice from the fair price shops. This system is expected to prevent bogus billing and consequent large-scale diversion.

20. **Government Guarantees:** The State Government has been providing guarantees to lending agencies for loans taken by statutory corporations, public sector institutions, co-operative institutions etc. This implies that in case the borrowing institutions fail to meet their repayment commitments, the Government will clear the guaranteed dues.

21. The Government is viewing the outstanding guarantee liabilities with concern and will be introducing legislation aimed at restricting the total guarantees authorized by the State Government to a specific percentage of its revenue receipts. The guarantees will be given based only on the viability and bankability of the projects, as per Reserve Bank guidelines. **We propose to constitute a Guarantee Redemption Fund to ensure prompt payment of the guaranteed liabilities in cases of invocation by lending agencies.** In cases of institutions, which fail to honour their repayment liabilities for loans taken against a State Government guarantee, renewal or issue of fresh guarantees will not be permitted.

22. **Debt Management:** Long-term loans such as those extended by the Central Government and other internal debt sources comprise nearly two-thirds of the fiscal deficit of the State Government. The rest is financed through public account balances, which include small savings and State Provident Funds. The Government is very concerned over the unprecedented growth in the outstanding public debt and interest payment liabilities over the last few years.

23. We welcome the announcement of the Union Finance Minister permitting the State Governments to go in for debt substitution so as to replace the high-interest outstanding loans from the Government of India and other financial institutions, with low-interest loans. The Union Planning Commission will also be requested to increase the annual allocation of open market loans for Tamil Nadu mobilized through the Reserve Bank of India so that the State can benefit from the currently prevailing low interest rate regime.

24. **Reforms in the Public Sector and Co-operative institutions:** The Government has announced its decision to disinvest its stake in profit making State PSUs and also go in for an outright sale of loss making units. **A Disinvestment Commission will be constituted to frame the guidelines for the disinvestment in the profit making**

and privatization of loss-making State PSUs and co-operative institutions. A Public Sector Reform Programme, which includes an attractive Voluntary Retirement Scheme (VRS) for Government employees and those in the PSUs and co-operative institutions, is being formulated and will be posed to external agencies for funding.

25. ***Reforms in the Transport Sector:*** Honourable Members are well aware of the poor financial position of the State Transport Undertakings (STUs) in Tamil Nadu. This Government has decided to go in for a phased privatization of select routes, services and operations currently under the control of STUs. A High Level Committee will be appointed to work out the modalities for phased privatization on the above lines and restructuring of STUs, which will be required to submit its report within three months.

26. ***Power Sector Reforms:*** The Government is committed to making the Tamil Nadu Electricity Board (TNEB) a self-supportive and commercially viable enterprise while protecting the interests of our people. The State Government has signed a Memorandum of Understanding (MoU) with the Government of India on 9.1.2002 that envisions far-reaching reforms in the power sector. The salient features of this MoU are as follows:

- **It has been decided to securitise the outstanding dues of TNEB wherein the Government of Tamil Nadu will float tax-free bonds with an interest rate of 8.5 percent to fund a one-time settlement of dues with the Central utilities.**
- **The State Electricity Regulatory Commission (SERC) will be activated by the State Government.**
- **Comprehensive metering of all electricity connections provided by the TNEB in the State will be taken up and this exercise will enable the TNEB to check power**

theft and calculate transmission and distribution losses.

In turn, the Government of India has promised us financial assistance to renovate, modernize and upgrade transmission and distribution networks and also the old thermal/ hydel power stations by making available funds under the Accelerated Power Development Programme.

27. ***Budgetary Reforms:*** The process of fiscal reforms will be incomplete without adequate reforms in procedures relating to the process of Budget formulation and its execution. This Government will take necessary action to solicit views from all – experts, interest groups and the people – while taking budgetary decisions. **[The official website of the Government of Tamil Nadu](#), will be upgraded and made interactive.**

28. The process of Budget formulation is being further streamlined in consultation with the Estimates Committee of the Legislative Assembly. We will be moving into a system of Heads of Department-wise Budgeting from this year. Necessary action is being taken to simplify the procedures, strengthen cash management and to ensure flexibility and dynamism in the implementation of the Budget.

29. We have a difficult task of blending hard decisions on account of economic compulsions with those necessary to protect vital interests of the vulnerable sections of society. There cannot be two opinions on the urgent need to rectify the fiscal imbalance before it completely paralyses the functioning of the Government. Fiscal recovery is in the best interests of the State and has to be above political differences, compulsions and expediency. We have tried to be as open as possible in this endeavour and would welcome constructive suggestions on other better ways of dealing with this serious problem.

STRENGTHENING LOCAL SELF GOVERNMENT

30. I take this opportunity to announce the devolution formula to be adopted by the Government for devolving resources to urban and rural local bodies based on the recommendations of the Second State Finance Commission for the award period 2002-2007. A detailed action taken report on the recommendations of the Second State Finance Commission will also be placed on the table of the House.

- **The rural and urban local bodies will receive 8 percent of the States Own Tax Revenues after excluding the Entertainment Tax receipts. The vertical sharing of resources between rural and urban local bodies will be in the ratio of 58:42.**

- **Of the total devolutions to the urban local bodies, the resources will be shared between the Corporations, Municipalities and Town Panchayats in the ratio 31:34:35. The devolution to rural local bodies will be shared among the Village Panchayats, Panchayat Unions and the District Panchayats in the ratio of 47:45:8.**

31. We are aware of the hardship being faced by the local bodies because of the inability of the Government to release the State Finance Commission grants on a regular basis in the current year. A sum of Rs.1505 crores has been earmarked towards the State Finance Commission devolutions during the next financial year. **I am happy to inform the Honourable Members that this Government has decided that the State Finance Commission grants will be released to the local bodies on a monthly basis during 2002-2003.**

THE HONOURABLE CHIEF MINISTER'S 15-POINT PROGRAMME

32. Our Honourable Chief Minister Selvi J Jayalithaa has announced her commitment to make Tamil Nadu the best State in the country in all spheres with socio-economic indicators comparable to the best in the world. The Honourable Chief Minister's 15-point programme announced by His Excellency the Governor, in his recent address to the Legislative Assembly, would be the guiding spirit and the road map for this Government during the next four years. The Budget for the next financial year incorporates programmes and policies necessary to achieve the goals enshrined in the Honourable Chief Minister's 15-point programme.

EVERGREEN REVOLUTION

33. During 1996-2001, the growth rate of the Gross Domestic Product of Tamil Nadu was only 6.22 percent mainly because of the poor performance of the agriculture sector where the growth was a meagre 2.72 percent. **Given the fact that this sector provides employment to a large portion of the total population of the State, this Government will endeavour to achieve a growth rate of at least 4 percent in the agricultural sector during the Tenth Plan Period (2002-2007).** A broad-based agricultural policy involving small and medium farmers, which is driven by technological change and appropriate marketing facilities is a necessary precondition for an evergreen revolution.

34. Our approach, therefore, will entail increasing the area under cultivation through wasteland development, expanding and modernizing irrigation facilities and improving agricultural output. The necessary meteorological, marketing and management data to enable proper production planning and ensuring remunerative returns would be made available to the farmers.

35. Tamil Nadu has taken the lead in integrating wasteland reclamation with watershed development and rainwater harvesting. Our endeavour will be to maximize the land area under cultivation with an appropriate cropping pattern with high market demand and increase water availability for cultivation purposes. A sum of Rs.40 crores has been allocated for the Wasteland Development Programme during the next financial year. **In order to encourage private sector participation for bringing wasteland to productive use, the Government will be prepared to lease out large tracts of fallow and degraded land on a long term basis.**

36. Given the fact that horticulture is becoming a growth engine for the agricultural sector, the Government has decided to set up a Mission for Horticulture Development to harness the comparative advantage of the State in the production of fruits, vegetables and floriculture. The Mission approach will pay attention not only to cultivation but also to post-harvest management and storage. The main aims of the Mission would be to achieve the following objectives:

- Improving production through balanced nutrition management.
- Evolving suitable mechanism for regulating quality planting material and giving impetus to need-based research.
- Providing adequate infrastructure for post-harvest management and marketing.
- Encouraging active involvement of farmers associations in adoption of modern technological practices.

37. A new scheme, Water Resources Consolidation Project-II, aimed at modernizing and upgrading irrigation systems in Tamil Nadu at an ultimate cost of Rs.2900 crores is being posed to the

World Bank for funding. Funds to the tune of Rs.250 crores for modernization and upgradation of minor and medium irrigation projects are likely to be sourced from NABARD in the next financial year.

38. In the Budget last year, the Government announced the waiver of interest and penal interest amounting to Rs.310.50 crores on outstanding overdue loans given by co-operative banks to farmers. I am happy to inform the Honourable Members that 6,11,193 farmers have availed themselves of this facility amounting to Rs.226 crores. The Government has so far disbursed Rs.80 crores in the current year to the co-operative banks towards this scheme. An allocation of Rs.146 crores has been made in the Budget for 2002-2003 towards reimbursement of the balance of the dues towards waiver of interest and penal interest from the Government to the co-operative banks.

39. The Government has received several representations that some relief should be provided to the farmers and other borrowers who were not covered by the above scheme. **I am happy to announce that a one-time settlement scheme will be introduced to provide relief to the borrowers from the co-operative sector, both urban and rural, and to facilitate the recovery of long pending overdues. Under this scheme, waiver of penal interest and freezing of the outstanding balance in the account inclusive of interest as on 31st March, 1998, will form the basis of the settlement. The amount of settlement arrived at would preferably be recovered in one lumpsum or within a maximum period of 3 months. It is hoped that about 4.5 lakh borrowers would be benefited under this scheme and the relief would be to the tune of Rs.110 crores. The co-operative banks have agreed to bear this burden. The scheme will come into operation immediately and will be in force till 30th June, 2002.**

FOOD SECURITY

40. Tamil Nadu has already established a lead in the country by taking laudable steps for improving access of children and expectant mothers to nutrition. Our aim now is to consolidate this position and become the first State in the country to provide a 'Whole Life Cycle Nutrition Security Programme' for those below the poverty line with special focus on nutrition for expectant mothers, infants and the aged. A sum of Rs.286 crores has been earmarked for this purpose in the Budget.

41. I am happy to announce that the issue price of rice through the Public Distribution System would continue to be Rs.3.50 per Kg and an allocation of Rs.1240 crores has been made in the Budget towards food subsidy.

42. The objective of the Sampoorna Grameen Rozgar Yojana (SGRY) is to create durable community assets and provide essential infrastructure in rural areas. This scheme also focuses on providing food security, by distributing 5 kg of food grains per man-day to the workers as part wages. During 2002-2003, the outlay for this programme will be Rs.292 crores out of which the State's share will be Rs.58 crores.

LIVESTOCK SECURITY AND FISHERIES DEVELOPMENT

43. We will encourage people in rural areas to take up additional avocations like cattle and poultry rearing and ostrich farming to increase their supplementary income. The Government is also exploring the possibilities of establishing community feed and fodder banks through local self-help groups to enable landless families and poor farmers to take to animal husbandry.

44. The Cattle Protection Scheme would be further strengthened and an allocation of Rs.2.31 crores has been made in the

Budget for this purpose. **A new scheme for Cattle and Buffalo Breeding would be implemented during the Tenth Plan Period and an allocation of Rs.2 crores has been made for the next financial year.**

45. In order to improve the employment potential in the dairy sector, a new programme for the formation of 145 Milk Producers Co-operative Societies for 10,000 women in the districts of Dharmapuri, Salem, Erode, Coimbatore, Vellore, Villupuram and Trichy would be implemented during 2002-2003 and Rs. 6.50 crores has been earmarked for this purpose.

46. A Fisheries Development Mission is being constituted by the Government with the objectives of increasing employment potential in this sector and enhancing the returns to the fishing community. This Mission will seek to integrate various facets of fisheries development such as increasing marine and inland fish diversity and density, improving fishing technology and establishment of subsidiary industries for value addition. A provision of Rs.1 crore has been made in the Budget for the next year.

WATER SECURITY

47. Tamil Nadu has virtually exhausted its entire surface water and much of the ground water potential. It is necessary that we take urgent steps to augment and conserve the water resources in the State for domestic, agricultural and industrial use.

48. I am happy to announce that 4389 mini-pumps fitted with ground level service reservoir (GSLR) have been installed in water deficient rural areas during 2001-2002 in accordance with the promise made in the Budget last year. **Given the enthusiastic response of the womenfolk in the rural areas to this scheme, 8000 hand pumps in the rural areas will be replaced with mini power pumps and 6500**

rural habitations will be provided with protected drinking water during the next financial year.

49. A major project aimed at establishing ground water recharge structures in over 13,000 locations in the State by employing remote sensing technology is being undertaken. Necessary work for setting up low cost on-site treatment plants at 50 locations in consultation with National Environment and Energy Research Institute (NEERI) and other technical institutions has been taken up.

50. The present availability of water in the reservoirs of Chennai city is about 45 percent of the total capacity. Though the position has improved when compared to last year, there is need to utilize the available water carefully to prevent another crisis in the ensuing summer months. The preliminary investigations for construction of check dams, percolation tanks etc., under the Chennai Water Supply Augmentation Project-II have been taken up and desilting works commenced in Ambattur, Korattur, Erattai Eri and Madhavaram lakes.

51. A 50 mld Tertiary Treatment Reverse Osmosis Plant for supplying treated sewage water to industries is being set up and it is hoped that the future water requirements of industries in Chennai will be met entirely from this project. **Another 530 mld water treatment plant at Chembarambakkam will be taken up for execution and this is likely to improve the overall drinking water situation in the megapolis.**

52. An allocation of Rs.77.38 crores has been made for the equity contribution of the State Government to Metro Water for the Chennai Water Supply Augmentation Project-I (New Veeranam Project) in the next financial year.

53. The Avinashi-Athikadavu Drinking Water Project has been formulated at a cost of Rs.270 crores. The Government proposes

to take up this project for implementation in phases by availing of assistance from financial institutions.

54. I am happy to inform the Honourable Members that Coimbatore and Vellore districts have been rated as the best performing districts by the Government of India under the Sector Reforms Programme implemented at a cost of Rs.40 crores. The objective of this programme is to institutionalize community participation in rural water supply schemes. **Encouraged by this enthusiastic response, the Government proposes to extend this programme to the districts of Kancheepuram, Ramanathapuram and Karur in the next financial year.**

HEALTH SECURITY

55. We are aiming to reduce the birth rate from 19.3 per 1000 to 15 per 1000, Infant Mortality Rate (IMR) from 52 per 1000 to 28 per 1000, Maternal Mortality Rate from 140 deaths per one lakh births to less than 100 per one lakh births and the death rate from 8 per 1000 to 6 per 1000 by the end of the Tenth Plan Period. These objectives would be achieved by appropriate policy interventions aimed at providing affordable and quality health care to the people of Tamil Nadu.

56. We believe that referral units such as Taluk and non-Taluk hospitals need to play a more active role in health-care delivery to the people. This will not only enable access to quality health care facilities locally to the people but also prevent over-crowding of city hospitals. **It has been proposed to construct 200 new Health Sub-Centres at a cost of Rs.11 crores and 25 Primary Health Centres will be upgraded to 30-bed hospitals at a cost of Rs.8 crores. Taluk and non-Taluk hospitals in rural areas will be upgraded to 30-bed hospitals with operation theatres and X-ray facilities.** Such

hospitals, if located near National or State highways, will also serve as Trauma Care Centres.

57. The Government Hospital for Thoracic Medicine at Tambaram, which has been playing an important role in providing treatment and counselling to patients suffering from HIV and AIDS, will be strengthened at a cost of Rs.4.7 crores during the next financial year. The Government of India is being requested to convert this institute into a Regional Institute for AIDS Prevention and Counselling. The Institute of Child Health at Egmore in Chennai will be modernized and upgraded at a cost of Rs.21 crores with financial assistance from Japan.

58. Our Government is concerned about the inflationary impact on the cost of allopathic medicines after the introduction of the product-patent regime as ordained under the WTO from 1.1.2005. We realize the need to further strengthen the Indian Systems of Medicine especially Siddha, Unani, Ayurveda etc., to provide holistic and affordable health care with special focus on the needs of the poor and the deprived. **While existing infrastructure in District Government hospitals on the Indian Systems of Medicine would be upgraded during 2002-2003, it is proposed to prepare a comprehensive project for obtaining domestic and international funding for giving an impetus to the development of Indian Systems of Medicine during the Tenth Plan Period.** It has also been proposed to create 30 new payment seats in the Government Siddha Medical College after obtaining the clearance of the Central Council of Indian Medicine.

59. The Government proposes to set up a world-class Hospital based on the Indian Systems of Medicine with public-private partnership in Chennai. The Government will provide the land for construction of the hospital and the land value would be our equity contribution in the project. A Steering Committee is being constituted

to finalize the modalities. This project will be the first of its kind in India.

60. The Government has formulated a 'State Policy for the Aged' to secure a life of dignity and respect for our senior citizens. Voluntary organizations will be encouraged to implement non-institutionalized services for the aged. **In order to provide specialized health care to senior citizens living below the poverty line, this Government proposes to introduce a Health Card to enable them to have access to quality medical facilities in super-speciality Government hospitals.**

61. It is proposed to implement the National Programme for Rehabilitation of Persons with Disability in four districts of Tamil Nadu namely Kancheepuram, Tiruvannamalai, Theni and Ramanathapuram through NGOs to provide comprehensive community-based rehabilitation services to the disabled. It is also proposed to establish a State Resource and Training Centre at Chennai. The scheme will be implemented at a cost of Rs.3.8 crores.

LIVELIHOOD SECURITY

62. Livelihood security can be enhanced through value addition to agricultural produce in the rural areas. Considering the important role that agro-based industries can play in the development of the rural economy, it has been decided to give special attention to such industries in order to ensure remunerative returns to the farmers and high wages to agricultural labourers. An allocation of Rs.1 crore has been made for the Village Fair Development Scheme for 2002-2003 in the Budget. National Bank for Agriculture Development (NABARD) assistance will also be sought for this scheme.

63. This Government proposes to launch a new project for training one lakh farmers over a period of three years on the methods of high-profit commercial crop production. Necessary infrastructure for

ensuring continuous technical support to the farmers would also be put in place. This project will generate 1000 agro-based rural industries such as biomass power plants, oil extraction units of Jatropha and Paradise Tree, and Ethanol Plants thereby creating new opportunities for employment in rural areas.

64. The Government has decided to restructure the existing Anna Marumalarchi Thittam with the aim of giving a special thrust to agro-based rural industries in the State. As announced in the Governor's address, one agro-based economic activity with a minimum capital of Rs.1 crore with the capacity to generate employment would be encouraged in each of the 385 blocks in the State under the 'New Anna Marumalarchi Thittam' and resources would be made available for this programme. A sum of Rs.20 crores has also been allocated for the Village Self-Sufficiency Programme, which enables community participation in resource planning, mobilization, execution and maintenance of assets.

65. We firmly believe that accelerated industrial growth and infrastructure development leads to creation of new employment opportunities for the people. The Government has formulated a 'New Industrial Policy', the highlights of which are as follows:

- Rationalization and restructuring of incentives.
- Introduction of an effective result-oriented single window mechanism with common application form.
- Simplification of procedures and introduction of self-certification.
- Priority to infrastructure development aimed at creating conducive environment for greater private sector participation.

66. Public-Private partnership for maintenance of infrastructural facilities in the industrial estates, business development services, common facility centres etc., would be encouraged by this Government. Necessary steps for strengthening Small-Scale industries in Tamil Nadu would be taken by the Government as Small-Scale industries play a vital role in increasing industrial production, exports and generation of employment. **The District Industries Centres will be suitably restructured to enable them to also function as Export Guidance Cells at the district level.** An Entrepreneurship Development Institute has been established in Chennai with the objective of promoting business enterprise in the State. A scheme for online registration of Small-Scale industries is being implemented from this year in a phased manner. An entrepreneur can file an application for provisional Small Scale Industries certificate through the Internet. This is the first time in the whole country that provisional Small-Scale industries certificates can be obtained through online application by entrepreneurs.

67. This Government is concerned about the problems faced by the tea growers in The Nilgiris district in the last two years. **Appropriate steps will be taken to enable the growers to get a remunerative price and to protect the revenues of the State.**

SHELTER SECURITY

68. Honourable Members are well aware that Tamil Nadu is a rapidly urbanizing State and the distinction between rural and urban areas is increasingly getting blurred. There is a need for major investments in the housing sector and in the provision of basic amenities so as to improve the quality of life of the people.

69. To support the rural and urban housing programme, the Tamil Nadu Co-operative Housing Federation has earmarked Rs.337 crores to fund the activities under this sector. **Housing for the**

Adi- Dravidas has been of prime concern for this Government. During 2002-2003, the Government will construct 31,000 new houses for the Adi-Dravidas and others and 15,000 existing kutcha houses will be upgraded at a cost of Rs.57 crores.

70. The Government will be implementing a massive programme for slum improvement in Chennai, Madurai and Coimbatore in the next financial year and a sum of Rs.20 crores has been earmarked for this purpose.

71. A new scheme for special repairs and upgradation of slum tenements in Chennai will be taken up in 2002-2003 at a cost of Rs.25 crores. Efforts to improve the basic infrastructure like roads, streetlights, storm-water drains etc., in existing slums will be made through beneficiary participation and contribution.

ECOLOGICAL SECURITY

72. Environment protection is the key to ensuring a healthy life for the people. Under the Tamil Nadu Afforestation Project, it has been proposed to bring 108 villages under joint forest management in 2002-2003, wherein plantation works in 86240 acres of degraded reserve forest areas will be taken up at an estimated cost of Rs.82.99 crores.

73. The Government has formulated the 'Tamil Nadu Natural Resources Management Project', which aims at restoring green cover to 6.17 lakh acres of land. This project, to be implemented at a cost of Rs.779 crores, has been sent to the Government of India for posing it before international financial institutions for funding.

74. Only 11 percent of our rural households have proper sanitation facilities and this is even below the 15 percent national average. Keeping this in mind, this Government has been implementing a scheme for construction of integrated sanitary complexes for women

in rural and urban areas. During 2002-2003, a total of Rs.183 crores will be spent towards this project. The Government will also encourage private participation in improving sanitation facilities, especially in the urban areas.

ENERGY SECURITY

75. Availability of adequate and uninterrupted power supply constitutes a major component of energy security and has an important impact on the overall development of the State's economy. The proposed outlay for the power sector in Tamil Nadu during the Tenth Plan Period is likely to be Rs.7000 crores. For the next financial year, the plan outlay has been fixed at Rs.1209 crores.

76. In order to augment the availability of power in the State, a 100 MW gas-based State sector power project is likely to be commissioned in Valuthur, Ramanathapuram District, in 2002-2003. Another 250 MW lignite based power project in the private sector is expected to be commissioned by November 2002. I am happy to inform this august House that the Nuclear Power Corporation will be setting up a nuclear power plant at Kudankulam with a capacity of 2000 MW.

77. Apart from enhancing the generating capacity of thermal power projects in Tamil Nadu, the Government will focus on increasing the availability of power from non-conventional energy sources like solar energy, wind energy, bio-energy etc., through appropriate policy interventions.

INFRASTRUCTURE FOR DEVELOPMENT

78. Availability of adequate and quality infrastructure is a prerequisite for rapid industrial development, which in turn leads to creation of gainful employment for the people. **The Government will give a special emphasis to infrastructure development in Tamil Nadu during 2002-2003 through public-private participation.**

79. We have already announced our intention to provide total connectivity in the rural areas by providing all-weather roads in habitations with population above 500 before 2004. A massive programme to achieve the aforesaid objective has been taken up and Rs.245.50 crores has been earmarked for this purpose during 2002-2003.

80. The State Government is very concerned about the increasing strain on the urban transport infrastructure, especially in Chennai. The work on the Mass Rapid Transport System Phase-II from Thirumylai to Velachery at an estimated cost of Rs.689 crores is likely to be completed by December 2002. The Government of India has been addressed for its in-principle consent for extending the MRTS Phase-II up to St. Thomas Mount to complete the rail loop with the Chennai Beach-Tambaram suburban line under Phase III.

81. Given the growing number of over-aged buses in the fleet of State Transport Undertakings, the Government has decided to purchase 2275 buses at a cost of Rs.227.50 crores in 2002-2003.

82. I am happy to announce that the Tamil Nadu Road Development Company Ltd. (TNRDC), a 50:50 joint venture between TIDCO and IL&FS, has recently completed upgrading the stretch from Chennai to Pondicherry in the East Coast Road to world-class standards within the stipulated cost and time. The stretch of East Coast Road between Tiruvanmiyur and Sholinganallur from km 11/8 to km 22/3 has been taken up for four-laning and the work will be completed in 18 months.

83. A proposal to develop Colachel port as a Container Transshipment Port has been under consideration for a long time. Following the recent discussions that the Honourable Chief Minister had with the Honourable Minister for Works, Government of Malaysia, I am happy to inform that the Government has decided to implement

the project on a Government-to-Government basis in stages. The first phase would cost Rs.2772 crores and the details are being worked out.

84. The Government has stepped up its efforts to re-design the tourism industry in Tamil Nadu to generate high levels of socio-economic output, especially employment. Steps are being taken to convene International and National Tourism Conventions to establish Chennai as a 'tourist hub and must visit-must stay' destination in southern India. Memorandum of Understanding has also been signed with Government Tourism Undertakings in Karnataka and Andhra Pradesh for tourist exchange packages and mutual marketing and publicity. The allocation for the tourism sector has been increased to Rs.25 crores for the year 2002-2003.

LITERACY AND TECHNIRACY

85. We have identified certain key interventions necessary to upgrade the elementary and school education system in the State. These include implementation of early childhood enrolment through special drives to ensure complete enrolment of all children, checking mid-way dropouts, qualitative upgradation of curriculum, improvement in physical infrastructure, teacher training and motivation, minimum levels of learning and greater involvement of parents in management of schools.

86. The 'Education Guarantee Scheme' involving the opening of 252 educational centres in specific habitations in 17 districts will be implemented in the next financial year. It is estimated that more than 6000 children will be benefited under this scheme. Another scheme, 'Alternative and Innovative Education' aimed at reducing dropouts by establishing 1622 educational centres across 21 districts will also be implemented. This scheme is likely to benefit 61,305 children across the State.

87. As announced in the Governor's Address, Vocational Training Schools will be started in all the districts next year.

A provision of Rs.1 crore is being made in the Budget initially for 2002-2003. The School Education department will prepare a detailed project proposal to assess the infrastructural support necessary for these institutions and also work out the modalities for financing them over the next four years.

FOLK, CLASSICAL AND MODERN ARTS, CULTURE AND DRAMA

88. The Government proposes to establish a 'Garden of Peace' on the outskirts of Chennai city depicting communal, cultural and religious harmony in the State. A token provision of Rs.50 lakhs has been made in the Budget for this purpose and the work is likely to begin by mid-2002 after finalization of design and location of this monument.

89. Tamil Nadu boasts of a rich cultural diversity, which needs to be protected and conserved. The Government has earmarked a sum of Rs.4 crores for various schemes to be implemented for heritage protection in the State.

GENDER EQUITY

90. Socio-economic empowerment of women through provision of opportunities for education, self-employment and training will receive the special attention of the Government during the next financial year. The unique 'Cradle Baby Scheme' has received wide acclaim across the country. We will intensify our multi-pronged campaign against the evil practice of female infanticide. Similarly, the vastly improved, 'Girl Child Protection Scheme', will be implemented with renewed vigour and an allocation of Rs.22.07 crores has been made for this purpose. The programme for training women in different

avenues of self-employment will be further strengthened in the next financial year.

91. Honourable Members will be pleased to know that nearly 1.02 lakh self-help groups benefiting more than 17.5 lakh women have emerged as important sources of cheap credit and savings amongst beneficiaries. **This Government will give a fillip to the process by forming federations of such self-help groups at the level of every Block in the State.**

92. The Government will formulate a comprehensive policy for women's development in all Government and private initiatives. Gender-equity will be encouraged by empowering women and enabling them to participate in the decision making process on an equal footing. **The Government has decided to constitute two Magalir Courts, one at Chennai and the other at Coimbatore, to deal exclusively with offences against women during the next financial year.**

NEW DEAL FOR THE OPPRESSED CLASSES

93. Socio-economic development of the people belonging to the Adi-Dravida and tribal communities is one of the main priorities of the Government. We have kept our promise of providing free education up to the post-graduate level in Government institutions for girls from these communities. **The scheme for providing free bicycles to girls studying in plus one and plus two in Government schools belonging to the Adi-Dravida and tribal communities will be continued in the next financial year with an allocation of Rs.6 crores. An amount of Rs.45.05 crores will be spent for the construction of hostels for students belonging to these communities.**

94. The review of the implementation of the Special Component Plan and Tribal Sub Plan for the welfare of the Adi-Dravidas and tribals reveals discrepancies in the actual allocation of resources for the welfare of people belonging to these communities.

A High Level Committee has been formed to prioritize schemes based on specific requirements of the Adi-Dravidas and Tribals under the Special Component Plan and Tribal Sub Plan.

95. TAHDCO is being revamped in order to make it more responsive to the needs of the people from Adi-Dravida and Tribal communities. There will be a special focus on employment generation and job-oriented training schemes for those living below the poverty line.

96. The Government will keep up its endeavours to ensure educational and economic empowerment of people belonging to the Backward Classes, Most Backward Classes, Denotified Communities and the Minorities. The functioning of the Tamil Nadu Backward Classes Economic Development Corporation will be further streamlined to enable quick availability of cheap credit for increasing avenues of self-employment for people belonging to these communities.

97. The State Government has taken up an extensive programme of constructing hostels for students belonging to these communities at a total cost of Rs. 36.99 crores. The Government has also taken up a special programme for providing basic infrastructural facilities like streetlights, drainage, water supply etc., at places where house-site pattas have been issued to people belonging to these communities and this will be continued in the next financial year.

98. As announced in the Governor's address, a token provision of Rs.50 lakhs has been made in the Budget for the next financial year for the establishment of the Thiruvalluvar University at Vellore for the benefit of the depressed sections of society.

99. Honourable Members may recall that Hon'ble Chief Minister Selvi J Jayalithaa had sanctioned a grant of Rs.1 crore in 1994 to the Wakf Board. This year Rs.40 lakhs has been sanctioned to the Board for constructing its own office building. **This Government**

now proposes to amend the Public Premises Act to include the Wakf properties within its ambit and also bring about suitable State amendments to the Wakf Act, 1995, on the lines of the HR&CE Act for improving the financial position of the Wakf Board and to give greater teeth to the provisions relating to eviction of unauthorized occupants.

TECHNOLOGICAL LEAPFROGGING

100. Honourable Members will be happy to know that Tamil Nadu is emerging as an important destination for foreign investments in the country. According to the Secretariat for Industrial Assistance, Government of India, the total foreign investments approved for our State till September 2001 was Rs.22493 crores and Tamil Nadu ranked third in terms of Foreign Direct Investment (FDI) flows into the country. A number of major industrial projects are to come up shortly in the State.

101. A special thrust will be given to research in the frontier areas of science and technology like bio-technology, information technology etc., with the objective of increasing the employment and investment potential and improving the quality of life of the people.

102. TIDCO is setting up a Bio-technology Park at Chennai which will be equipped with a Bio-resource Centre and customized labs and this project is expected to attract an investment of Rs.1000 crores to the State. A state-of-the-art Bio-informatics and Genomics Centre is also being established at a project cost of Rs.20 crores which will develop and commercialize advanced laboratory technology for DNA sequencing.

103. The IT-highway at Chennai will be provided with world-class infrastructure and Knowledge Industry Townships (KITs) aimed at addressing the basic concerns of knowledge-oriented industries in this sector will be set up with public-private partnership. **The work on**

the laying of two separate submarine optic fibre cable network projects aimed at providing 11 terabits per second connectivity from Chennai is progressing well. Upon completion, Chennai will emerge as an important Internet Gateway to India. An International Research and Development Knowledge Park will be established in Chennai through the IIT-Chennai.

104. The Government is also exploring the possibilities of setting up a special purpose vehicle to develop and promote, besides Chennai, Coimbatore, Madurai and Trichy as preferred hubs for investments in IT-enabled services. I am happy to announce that broad band optic fibre network of over 5000-Km aimed at enhancing the e-traffic handling potential has been laid in Tamil Nadu and this will be expanded further. **The Sustainable Access in Rural India Project (SARI), which aims at deploying wireless in local loop technology will be extended so that IT interface can be provided in rural areas with the objective of bridging the rural-urban Digital Divide.**

105. The Highways Department will soon be launching a website www.tnhighways.org, highlighting the key activities of the Department, letters of invitation to consultants, bid documents etc., with the aim of improving the quality of bidding and increasing transparency in the tender process.

ADMINISTRATION

106. Maintenance of Government buildings has not received due attention in the last few years. The Government proposes to undertake special repairs of important Government buildings in Chennai and in all district headquarters at a total cost of Rs.110 crores during the next financial year.

107. The Government has decided to give a fillip to information technology, its enabled services and computerization of administrative process in the State Secretariat and the district

headquarters. An allocation of Rs.10 crores has been made in the Budget for this purpose.

108. 'Administration at the door-steps of the people' is the slogan of this Government. In order to achieve this objective, the scheme for construction of VAOs office will be continued in the next financial year with an outlay of Rs.9.90 crores.

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 31st 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 Jayalalithaa 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 with the objective of making it the number 1 State in the country. This Budget is an attempt at translating her vision into concrete action.

149. I also express my heartfelt thanks to the Finance Secretary, Thiru R.Santhanam, I.A.S, and his dedicated team of officials in the Finance department who rendered all assistance in preparing this Budget.

150. With these words, Honourable Speaker Sir, I commend the Budget Estimates 2002-2003 for the approval of the House.

Vanakkam

C. PONNAIYAN,

MINISTER OF FINANCE AND
INFORMATION TECHNOLOGY

Chennai,
27th March 2002,
Panguni-13 ,
Thiruvalluvar Aandu 2033.