

Revised Estimates 2004-05

While presenting the budget in May last year for the year 2004-2005, an uncovered deficit of Rs. 7,303.35 crore had been indicated. The Revised Estimates reveal a deficit of Rs. 298.84 crore. After taking into account the actual opening *minus* balance of Rs. 316.93 crore, the deficit at the end of the year will be of Rs. 615.77 crore.

Budget Estimates 2005-06

The Budget Estimates, 2005-2006 anticipate a surplus of Rs. 40.16 crore as shown below :—

(Rs. in crore)

(A) Revenue Account—		
Receipts	...	50,429.82
Expenditure	...	50,163.96
Surplus	...	265.86
(B) Capital Account—		
Receipts	...	10,919.01
Expenditure	...	12,620.35
Deficit	...	1,701.34
(C) Public Account (Net)	...	4,674.77
(D) Total—		
Receipts (A) + (B) + (C)	...	66,023.60
Expenditure (A) + (B) and unbudgeted outlay of Rs. 2,583.36 crore.	...	62,784.31
Surplus	...	655.93
Opening Balance	...	(–) 615.77
Surplus	...	40.16

As per the discussion with the Planning Commission for the Annual Plan 2005-2006, an outlay of Rs. 11,000 crore has been fixed. Out of the total Plan outlay of Rs. 11,000 crore, Plan outlay of Rs. 8,416.64 crore has been budgetted, since requisite resources are available in the Budget, balance outlay of Rs. 2,583.36 crore would be budgetted during the year.

Introduction of VAT

States in India had decided in 2003 to introduce Value Added Tax system in place of the existing Sales Tax System. The Honourable members are aware that due to the circumstances prevailing at that time, the introduction

of VAT came to be postponed. However, the focus on VAT was not lost. The Empowered Committee of State Finance Ministers continued to meet to find out ways of resolving the differences amongst the States. Since the last general elections, the Union Government has again reiterated its commitment to support the states in their efforts to introduce VAT. VAT will now be introduced with effect from 1st April 2005.

The Indian Economy and VAT

The Indian economy has shown a sustained high rate of growth. It is necessary to remove the identifiable constraints to make the growth truly self-sustaining. The high rate of indirect taxes is one constraint. Another constraint is the absence of a common national market. In addition to these, other major obstacles are the disparity in tax rates and the inefficient tax collection systems. It is universally accepted that the introduction of the VAT system in place of the present sales tax system will enable the Indian economy to overcome these handicaps. Consequently, the economy and fiscal administration of the State will be strengthened.

Background of VAT

Preparatory to the introduction of VAT, the State Governments have discontinued from January 2000 the grant of sales tax based incentives for promotion of industries. The states have also implemented uniform floor rates of sales tax in respect of over two hundred important commodities. The Maharashtra Value Added Tax Bill which was passed by both Houses of the Legislature in March 2003 has now received the Presidential assent. Accordingly, we are now ready to introduce VAT with effect from 1st April 2005.

Merger of different Acts

With a view to simplifying procedures, different sales tax laws will be repealed and replaced by the new VAT Act. Thus, the existing Bombay Sales Tax Act, the Works Contract Tax Act, the Lease Tax Act and the Motor Spirit Tax Act will be replaced by the Maharashtra Value Added Tax Act, 2002. However, the Sugarcane Purchase Tax Act will retain its identity.

Rationalisation of tax rates

Under the new system, the threshold limit of registration for the resellers and manufacturers will be a turnover of Rs.5 lakh and for importers the limit will be Rs. 1 lakh. The rates of tax for various commodities will be as per the national consensus. Additional excise duty in lieu of sales tax is leviable on sugar, tobacco and textiles by the Union Government. Accordingly, they remain outside the purview of VAT. Besides, foodgrains and pulses will

continue to be exempt from VAT for the present. The 4 per cent rate of tax will apply to important industrial raw materials and some items of daily consumption. Precious metals, precious and semi precious stones, pearls and jewellery thereof will be taxed at the rate of 1 per cent. The tax rate on liquor and motor spirits will remain unchanged. All other commodities will be taxed at the standard rate of 12.5 per cent. At present, the effective tax rate on most commodities is 17.5 percent. Since the standard VAT rate is lower than that, the effective tax incidence under VAT will generally be lower.

Input Tax Credit

The one universal feature of value added tax is the grant of full rebate of the tax paid on inputs, i.e., purchases. For a very limited number of transactions, the input tax credit will be partly curtailed. Thus, the input tax credit on manufacture of tax free goods and for goods sent on consignment transfers will be allowed only in excess of 4 per cent. There will be no input tax rebate on passenger vehicles, on petrol and diesel consumed for whatever purpose and on crude oil used by petroleum refineries. Traders will be entitled to claim full input tax credit on the goods held in stock by them at the close of business on the 31st of March 2005. All of such credit can be claimed immediately after the introduction of VAT.

Administration of VAT System

The present system of annual assessment will be replaced by a system of scrutiny of returns and audit of the business. The Sales Tax Department is being retrained and will be reorganised to cope with the requirements of the new system. In the new system, the returns filed by the dealers will generally be accepted. Assessment will be done only in exceptional cases. This is a significant qualitative improvement over the present system.

Package Scheme of Incentives

The industrial units which have been granted sales tax based incentives prior to January 2000 will continue to enjoy their benefits. The facility of tax free purchases of raw materials will, however, be replaced by the scheme of grant of refund of the tax paid on purchases. The units will continue to enjoy the present incentives of exemption or deferral of sales tax on their sales under the VAT system. However, when goods manufactured by exemption units are sold through trading channels, tax will be collected in respect of such resales only on the value added, net of the sale price of the exempted unit.

Composition Scheme

Looking to the nature of their business, it is necessary to provide relief to certain categories of dealers from too much of paper work. Accordingly, there will be a new composition scheme for retailers. The retailers who sell to numerous consumers will be required to pay tax only on the difference between their sales and purchases at a flat rate. They will be required to file six monthly returns. They will not be required to recover tax separately or claim input tax credit. Simple composition schemes will also be made available to restaurants, bakeries and works contractors.

Revenue under VAT

The Government of India has agreed to compensate the State Government towards any revenue loss on account of introduction of VAT system. The compensation will be to the extent of 100 per cent, 75 per cent and 50 per cent of the revenue loss in the first, second and third years of VAT respectively. In the meanwhile, the State Governments are also to get the authority to levy tax on sugar, tobacco and textiles. A proposal to enable the states to tax services is under discussion. The states have also represented to the Union Government that VAT should be levied on imports for the exclusive benefit of the states. It is hoped that in the long run, the loss of revenue on account of introduction of VAT will be compensated by these measures. I should add that in the first year of VAT, there will be no change in the present system of collecting Central Sales Tax.

Amendments To present Acts

In the meanwhile, it has become necessary to carry out certain amendments to various tax laws before their repeal by the Value Added Tax Act. Thus, it is proposed to extend up to 5 years the time limit available for completion of assessments under the Bombay Sales Tax Act for all periods up to the 31st March 2005. A small correction is proposed to be made to the provisions relating to revision in consonance with other provisions in the Act. Some technical corrections are being proposed to the Lease Tax Act, the Entry Tax Act for Motor vehicles and the Works Contract Tax Act. One provision under the Maharashtra Tax on the Entry of Goods under the Local Areas Act, 2002 had been struck down by the Mumbai High Court in one case. In view of the decision of the Supreme Court in appeal in that case, it has become necessary to revive the earlier position. and accordingly, an amendment will be introduced in the Legislature.

Amendments of VAT Act.

The Maharashtra Value Added Tax Bill was passed by the Legislature in March 2003. There after, Government of India has made certain observations on the VAT Bills of the various states. The Empowered Committee of State Finance Ministers also has been reviewing the issues involved in the introduction of VAT. Besides, suggestions and objections have been received from various quarters including chambers of commerce, tax practitioners and technical consultants appointed by the State Government . Based on these recommendations and inputs, a comprehensive draft amendment bill is prepared to amend the Maharashtra Value Added Tax Act, 2002.

Consultative Commitee

VAT system is not only a new way of collecting tax, it also involves a new approach to tax administration. During the first few months of VAT administration, the dealers will no doubt be required to get acquainted with and follow different procedures. It is, therefore, important and necessary to address all teething problems as and when they arise and try to find appropriate solutions. I, therefore, propose to set up a consultative committee of trade and industry to deliberate on operational problems and issues and recommend appropriate solutions.

Bulk Drugs

Lease and sale of copyrights are liable to tax under the Lease tax Act and the Bombay Sales Tax Act. Looking to the fact that cinematographic films and video films is a booming industry in Mumbai and other places in Maharashtra, suitable administrative relief is proposed to be given towards the copyrights of cinematographic films and video films with effect from the 1st May, 2000.

Bulk Drugs

In some of the neighbouring States, the applicable rate of sales tax on inter-State sales of bulk drugs is 2 percent. This causes significant loss of revenue to the State Government. I, therefore, propose to prescribe the same rate of 2 percent in Maharashtra for inter-State sales of bulk drugs.

Stamp Duty on Property Transaction

In the last budget for 2004-05 the Government took a decision to reduce maximum rate of stamp duty on property transactions from 10 percent to 5

percent. I am happy to inform you that the reduction had a very positive impact both in terms of increased compliance and realization of stamp duty. For the year 2004-05 , the realization of revenue from stamps and registration will reach Rs.4,000 crore, which represents an increase of about 20 percent over the year 2003-04. We are committed to reduce and rationalize stamp duty for other segments as well with a view to making it more affordable to the people and encourage compliance across different segments of instruments and transactions.

Reorganization of General stamp office

The Government will take steps to reorganize the General Stamp Office , Mumbai so as to improve efficiency and reduce delays in all types of adjudications. Special attention will be given to ensure better realization of stamp duty revenue from the financial markets, inclusive of stock, debt and commodities markets. We propose to set up two monitoring units headed by Collectors of Stamp especially for financial and real estate markets, which would streamline realization of stamp duty revenue from these markets.

The Government will endeavour to introduce a computerized sale, supply and verification system for stamps. This will eliminate frequent shortages of stamps and reduce the possibility of malpractices such as use of fake stamps and consequent manipulation of documents. The Government will set up a system known as Computerized Stamp Duty Administration System (C-SAS) through a computer-based network, which will authorize designated banks and financial institutions to sell stamps and provide information on all the transactions to the stamp and registration authorities on a continuous basis.

Stamp duty on Housing loan

To encourage home ownership for common man, the Government will declare tax holiday of stamp duty for the housing loans of up to rupees 1 lakh. Also, the stamp duty for the housing loans of up to Rs. 10 lakh will be reduced by 50 per cent

VAT stamp duty system

In view of the rising cost of education, students need to obtain loans from one source or the other. To make it easier for the students, the Government has decided to give a tax holiday of stamp duty on all educational loan documents executed by students for pursuing studies within the country.

Stamp duty on commodity Market transactions

The Government will endeavour to introduce Value Added Tax based stamp duty system for two stages i.e. Development Agreements and Conveyance related to property development. It will help to protect the interests of investors and potential buyers of real estate by encouraging them to register all documents relating to these transactions.

The Government considers functioning of a strong and vibrant capital market as critical to growth and investment. Mumbai is the hub of financial and capital markets in the country, and we are committed to retain its leading position in this sector. With a view to encourage the growth of capital markets, the Government has decided to reduce and rationalise duty on futures and forward trading. Accordingly, the Government has decided to reduce stamp duty on commodity market transactions by 90 per cent and on sale or purchase of Government securities by 95 per cent. The Government is also keen to keep pace with emerging market concepts and has, therefore, decided to restructure the provisions related to market transactions.

Coordination with stock exchanges.

At present, stamp duty on stock or commodity market is collected from either the broker or investor. It causes inconvenience to the trading community and is not conducive to efficient realization of stamp duty. Therefore, the Government intends to enter into arrangements with the concerned Exchanges and Trading Platforms so as to simplify the procedure and make the collection of stamp duty smooth and efficient.

Stamp duty proposals

With a view to protecting the legitimate interests of the concerned parties, the Government has decided to provide for certain categories of documents within the ambit of Stamp Act. Accordingly, the Government has decided to bring agreements relating to advertisement, broadcasting, etc. within the preview of Bombay Stamp Act, 1958.

The Government will endeavour to introduce registration of Leave and License Agreements, Mortgages, and Hypothecation through Banks.

The Government has proposed to simplify the Court fee structure for Probate and Letter of Administration of Will by reducing the fee from 7.5 per cent to 5 per cent.

With a view to encouraging commercial transactions, the Government has taken a decision to reduce the stamp duty on all types of mortgages from 1 per cent to 0.5 per cent.

Tax on trailers.

During the last budget, I had announced exemption of tax on motor trailers used for agriculture in order to help the farmers. The interest on the arrears of tax payment has accumulated to Rs. 19.66 crore. In response to the representations received from the agriculturists, I have decided to bring an amnesty scheme, under which the entire interest arrears will be waived if the pending taxes are paid in full by 30th June 2005. The details of the scheme will be announced in due course.

I had ended my last budget speech with an appeal to the electorate of Maharashtra to vote wisely in the elections to be held in October 2004. The voters heeded my appeal and voted most wisely to re-elect our government. It is now for our Government to payback the voters with responsible and growth enhancing economic policies. With the proposed revenue surplus and reduced fiscal deficit, Maharashtra has done the Structural Adjustment on the strength of its economy and its people. With these policies, I am sure this Government will continue to serve the people for a long, long time.

Jai Hind ! Jai Maharashtra !