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GOVERNMENT OF
KARNATAKA



ಆರ್ಥಿಕ ಇಲಾಖೆ **Finance**
Department

ಆಯವ್ಯಯ BUDGET 2000-01

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Hon'ble Speaker,

1. I rise to present the Budget of the Karnataka Government for the year 2000-01, the very first year of the 21st Century and of the Third Millennium.

Five months ago, confounding all pollsters, the wise people of Karnataka gave an overwhelming mandate to the Congress Party.

We thank the people of this great state for the confidence and trust they have placed in us. We are conscious of the awesome responsibility that has devolved upon my colleagues and myself.

The hopes, the aspirations, the expectations, the dreams, of over 5 crore Kannadigas and other residents of this cosmopolitan state now have to be fulfilled.

2. We will strive our utmost to do so in significant measure. That is our solemn pledge, that is our firm resolve. The time for promises is over. It is now time for performance.

3. Sir, the Budget is not just an accounting exercise, not just an annual statement of revenue and expenditure. It is more than that. The Budget is an opportunity for the government of the day to unveil its economic agenda, articulate its social priorities and support intent with investments. I propose to do precisely that today. This Budget stands in the future and shapes our present priorities, policies and programmes. Today is confined. But tomorrow can be

defined. Hence, this Budget is about defining Karnataka's tomorrow and about reaffirming our faith in Karnataka's leadership in development.

4. Karnataka has made great progress. Its achievements are being recognized not just in India but across the world.

But many challenges await us, many unfinished tasks demand our attention.

The Challenges Ahead

5. First, my Government's topmost priority is to eradicate poverty, to empower women and to provide food & nutritional security to the vulnerable sections of society. While the state has been implementing several poverty alleviation schemes for the last two decades, the challenge is now to enhance their effectiveness, make a direct attack on poverty and improve the standard of living of the poor.

6. Second, in the 1990s, economic growth in Karnataka has averaged 5.8% per year. This is an improvement over the 1980s when the average growth rate was just around 5% per year. But a 5.8% growth rate is not good enough. We must aim to achieve and set in motion policies and programmes in agriculture, in industry and in the services sector to actually achieve a minimum growth rate of 7 to 8% per year for the next ten years. Only through higher growth can we hope to address our social concerns in a fiscally sustainable manner.

7. Third, while Karnataka has earned justifiable recognition for its achievements in industry and science and technology, we cannot forget that agriculture provides the foundation of our economy. Karnataka's farmers need better seeds and fertilisers, they need more credit, they need more reliable power, they need remunerative prices and insurance against natural calamities. While giving a renewed thrust to traditional agriculture, a new momentum has to be imparted to horticulture, floriculture, fisheries and animal husbandry as well. My government is a government of the farmers, by the farmers, and for the farmers.

8. Fourth, there is no substitute for irrigation to stimulate rural prosperity. A large number of irrigation projects have been started. These have to be completed quickly. The irrigation potential that has been created should be utilized fully. We also have to make the irrigation establishment more commercially viable and involve farmers in their management in a more meaningful manner.

9. Fifth, the infrastructure of the state needs substantial expansion. This is as true of rural infrastructure as it is of

urban infrastructure. Power, roads, water supply and sanitation are four specific areas that are crying out for new investments and for better management. New investments are undoubtedly required but equally important is to improve the productivity and efficiency of investments already made and to ensure that infrastructure projects yield adequate returns which can then be ploughed back for further expansion. Innovative organizational mechanisms to accelerate infrastructure projects must be put in place.

10. Sixth, we need a determined assault on social backwardness. There are still large parts of the state where female literacy is unacceptably low. In recent years, health facilities have expanded, but here again access to primary health care for the weaker sections and in the poorer regions of the state has to be increased in substantial measure. We have to expand productive employment opportunities for the youth of the state, particularly for those who have acquired some degree of educational skills.

11. Seventh, Karnataka must continue to provide a climate conducive to new investments in industry, both in the traditional sectors like engineering, textiles and manufacturing and in the newer areas of information technology, pharmaceuticals, biotechnology and knowledge-based industries.

12. Eighth, we are committed to providing the people of Karnataka a transparent government, a responsible and responsive administration, a government that derives its strength and sustenance from the citizens of the state. Karnataka has pioneered democratic decentralization for which I acknowledge the contributions of many of my distinguished predecessors. These panchayats and nagarpalikas are not the third tier of development. They are the first tier of democracy and need to be suitably empowered to fulfill this role.

13. Ninth, Karnataka is more than Bangalore although it is Bangalore that is routinely ranked among the ten top cities of the world. We need to develop all regions of the state and use all our resources to ensure that the backward regions of the state particularly in the north are fully integrated into the mainstream of the development process.

14. Finally, we must have a fiscal system that serves the needs of the poor, a pattern of public expenditures that supports the achievements of our pressing socio-economic concerns and that keeps the state away from a debt trap.

15. My first Budget takes a series of measures in support of these ten objectives. It is only the first milestone in a long

journey. Budgets do not work miracles. They provide thrusts and set the direction. It is easy to make grandiose announcements. I have resisted that temptation. Instead, what I offer to the people is a credible set of policies and programmes.

New Investments

16. Sir, in the last five months, we have interacted with various financial institutions in order to attract funds for development. I am happy to report here that our labours have borne fruit.

17. First, the World Bank which has been having a dialogue with the state for the past four years on a sporadic basis, has now after detailed discussions agreed to make Karnataka a focus state. A firm commitment of Rs 12,000 crores is being made for disbursement over the next five years. This would finance projects in a wide variety of areas—watershed development, agriculture, irrigation, power, roads, water supply, primary education, municipal services and health. These projects are currently under preparation. 70% of the money would be in the form of loans and 30% in the form of grants. The loans have to be repaid at 12% interest over a twenty year period with an initial moratorium period of five years. These are extremely liberal terms and will not lead us into a debt trap.

18. Second, we have signed a detailed agreement with HUDCO which will make available Rs 1580 crores over the next two years for housing, water supply, sanitation and roads.

19. Third, following an Agri-Summit that was held in Dharwad on February 6th and following a visit by me and some of my ministerial colleagues to Anand, the National Dairy Development Board (NDDB) will invest Rs 505 crores in the state in dairy development, horticulture, animal husbandry, social forestry, oilseeds, fruits and vegetables marketing.

20. Fourth, the Japanese Government has agreed to a Rs 3,600 crores investment programme. The project being taken up under this programme includes the Cauvery Phase IV to augment drinking water supply to Bangalore.

21. Fifth, Karnataka is the first state to sign a Memorandum of Agreement on Power Reforms with the Central government. This MOA will bring Rs 3500 crores of new investment in transmission and distribution in the state over the next five years.

22. Sixth, the state has established excellent working relationships with both the Infrastructure Development and Finance Company (IDFC) and the ICICI. I will be highlighting some of the specific projects to be taken up with the IDFC and the ICICI later in my speech. We are also pursuing strategic alliances with NABARD and the REC.

23. Sir, I will now highlight some important sectoral programmes. But before I do so, I wish to digress a little. Economic and social development can take place only if the law and order situation is maintained. Karnataka has been known to be one of the most peaceful states in the country. It will continue to be so. We have cracked down and will continue to crack down on violence of all kinds. We will not allow mafias to operate in the state. We are coming forward with a legislation to combat organized crime. The security of life and property of all those living in Karnataka—Kannadigas, those from outside the state and those from outside the country—will be our first responsibility.

Women

24. Sir, the Congress Party has always believed in the empowerment of women. It was the Congress that introduced one-third reservation for women in local bodies. We are irrevocably committed to the full legal, educational, nutritional, economic and political equality of women.

25. As a reflection of this commitment to provide micro-finance to women, I am introducing a new self-help group scheme for women called **Stree Shakti**. In the first year itself, we will cover 1,00,000 groups. We expect to give over Rs.50 crores in the first year as revolving fund. An apex Committee under the Chief Minister will lay down broad guidelines. The Scheme will be implemented through Deputy Commissioners. Anganwadi Workers will be primarily the organisers of the Groups. A Commissioner for Self-Employment at the State level will oversee the Scheme. The records of all Self Help Groups (SHGs) will be computerised and stored in the rural bank branches.

26. In every government scheme like housing, distributing house sites, assistance for borewells, etc, women will be made the first owner. Houses under Ashraya, Ambedkar and other housing schemes will be in the sole name of the woman of the house.

Education

27. Educate a boy, educate an individual. Educate a girl, educate a family. But not only do we believe in it but we propose to do something about it. Hence, I am making

education free for all girls in all respects in government-run institutions upto the pre-university level.

28. There are about 11000 incomplete school rooms in the state. These will be completed by March 31st 2001 at a cost of Rs. 45 crores.

29. There is an existing scheme to supply free textbooks to all students of classes I to IV and for SC/ST students of classes V to VII. This scheme will now be extended to all students upto class VII. This scheme will cover an additional 16 lakh students at a cost of Rs 5.3 crores.

30. My government is committed to improving the quality of education in schools through the use of Information Technology. While others talk of IT education only, we are focussing on IT based education as well. IT based education will be started initially in 1000 schools.

31. All the 77 engineering colleges in the state will be networked in the next twelve months. The Karnataka Open University has joined a consortium of renowned educational institutions worldwide, to start distance education programme on the internet.

32. We have been providing grant-in-aid to educational institutions. Most of these institutions have now stabilized and can raise their own resources. Therefore, I am reducing the grant-in-aid to higher education by 15%. However, I am maintaining the present level of grant-in-aid to both primary and secondary education. The resources that we save will be used to spread primary education particularly in the educationally deprived areas of the state.

33. There is also a crying need for increasing the fee structure in government colleges. In our state, the fees for B. Com, for example, is Rs 180 per year, as compared to Rs 800 in Maharashtra and Rs 360 in Andhra Pradesh. But the present situation cannot continue for long. Simultaneously, I am initiating a dialogue with banks and financial institutions to offer a student loan scheme so that no deserving student is denied college education, when the fee structure is rationalised.

Health

34. Honourable Members are aware that a Task Force on Health has been set up. The Task Force is expected to submit a comprehensive report on revamping the state's health system in the next two to three months. Meanwhile, it has made some important suggestions for immediate implementation to improve the quality of rural health care.

35. The major cause for high infant mortality in villages is unhygienic delivery methods. Therefore, I am introducing a new scheme called **Suraksha Herige** by which sterilised sealed delivery kits will be made freely available to all midwives through the network of PHCs. The subsidy on account of this scheme will be Rs 1 crore per year.

36. Rural women also require personal hygiene kits. I am sure Honourable Members are aware of the unhygienic practices in many parts of rural Karnataka which causes infection and is, in many way, a blot on our social conscience as well. What we have decided, therefore, is to distribute personal hygiene kits through the PDS and through Anganwadi workers throughout rural Karnataka. We shall be providing a subsidy of Rs 18 crore during the year for this scheme.

37. These two subsidies are the type of subsidies that my government believes are socially desirable and justifiable.

38. The Government will improve 1000 PHCs to begin with. Each of these PHCs will have a laboratory and be fully equipped and staffed. The process of district-wise recruitment of laboratory technicians has already started.

39. Honourable Members will be glad to know that the World Bank has hailed the Karnataka Health System Development Project as one of the best examples of implementation. Under this project, we will make at least 100 secondary hospitals to be fully functional by the end of the year.

40. A new programme for extending health care for urban slum dwellers is being launched in Mysore, Hubli-Dharwad, Raichur, Gulbarga, Belgaum, Bijapur, Tumkur, Davanagere, Shimoga, Bhadravathi and Bellary, apart from Bangalore, under the World Bank-aided India Population Project VIII (IPP) at a total outlay of Rs 26 crores this year.

41. A Health Information System that monitors epidemics in all parts of the State will be in place in the next three months. The project involves initiatives from the private sector. All District Hospitals will be interconnected to the Health Secretariat in Bangalore to enable better monitoring. This is being done as a public service by a Bangalore-based private company.

Agriculture

42. I mentioned earlier about the Agri-Summit that was held in February at Dharwad, and that was attended by some of the most distinguished experts of the country. An

Agricultural Commission will be set up and the immediate task of this commission will be to identify missions for bridging the gap between actual yields and possible yields in the ten different agro-climatic zones of the state.

43. We have already set up a multi-disciplinary Directorate of Watershed Development. This will give a new thrust to watershed management in the arid zones of the state. Karnataka has the second largest arid zone area in the country, after Rajasthan. My government attaches the highest priority to watershed-based projects, an area which Karnataka had pioneered but which unfortunately has stagnated.

44. We have decided to participate in the Rashtriya Krishi Bima Yojana that has been announced by the Central government. This scheme is to cover both loanee and non-loanee farmers and will cover more crops. We do not agree with the way the Central government has formulated the scheme. However, we have decided to participate in it in the interests of our farmers. I shall be making a provision of Rs 100 crores during the year. The magnitude of this allocation can be gauged by comparing it with the Rs 6 crores that the state spent on crop insurance last year.

45. A new scheme, called **Ryot Mitra**, is being launched to set up farmers contact centres in each of the 745 Hoblis of the state. These centres will make available scientific and technical advice on a continuing basis to farmers at their doorsteps.

46. A network of 100 cold storages will be set up in the state with private sector participation. This will give a boost to horticulture development. Cold storages, both existing and proposed, will get concessional power tariff. Industrial power tariff will be made applicable instead of commercial electricity rates as at present. In addition, a subvention of Rs 1 per kwh will be given by the state government. A policy directive to this effect is being issued. This policy will remain in place for the next five years.

47. I am proposing a new policy initiative to attract private investment for the development of agri-businesses and for the development of barren, arid and degraded lands with the full involvement of local communities. The details of this policy will be announced within the next sixty days.

48. The state government has 415 horticultural farms. The returns from them are very meagre. The productivity of these farms will be increased and model production centres developed. A few of them will be disposed off to the private sector as well.

49. The current level of agricultural credit disbursement by the cooperative institutions is around Rs 1010 crores. I am making a commitment that this will be doubled in the next three years with particular focus on bringing small and marginal farmers under the umbrella of institutional credit. We will make use of the RBI's new scheme to strengthen cooperative credit institutions. Even though NABARD has increased the rate of interest on its refinance facility, we have decided not to pass on the additional burden to the farmers. The burden of this concession is Rs.15 crores. It will be borne by the co-operative lending institutions.

50. Sir, in recent days, concern has been expressed in the House on the spread of the coconut mite disease. I share the worries of Honourable Members. We are mobilizing the best available technical expertise from all over the country through the Indian Council of Agricultural Research and whatever funding is required will definitely be provided.

51. I will be making more announcements on concessions to farmers later in Part B of my speech. These will demonstrate our commitment to Karnataka's farming community.

Irrigation

52. This year, we will create an additional irrigation potential of 2 lakh hectares. This will comprise about 1 lakh hectares in the Upper Krishna Project and another 1 lakh hectares in other projects. During this year, we are expecting a substantial increase in assistance from the central government for the Upper Krishna, Malaprabha, Hirehalla and Karanja projects.

53 We have completed the NABARD assisted Votehole and Manchanabele irrigation projects this month. The Bennithora, Taraka, Chulkinala, Lower Mullamari, Amarja, Devraj Urs Canal (Varuna Canal) and the Maskinala Projects will be commissioned by March 31st, 2001.

54. The active and full participation of all farmers is essential for realizing the benefits from irrigation schemes and projects. I am, therefore, bringing forward legislation in this session of the Assembly itself to give teeth to water user associations so that they can not only collect irrigation charges but also be involved in the management and maintenance of the projects from which they draw irrigation water.

55. Water rates have not been increased for the past fifteen years. This has been one of the main reasons why irrigation projects are poorly maintained with consequent adverse impact on farmers. I believe that farmers will pay more

provided they are assured of reliable, timely and adequate supply. A consensus will be evolved on this issue before any final decision is taken.

Minor Irrigation

56. Honourable Members are aware that for centuries, tanks have provided not only water for irrigation but have also provided employment opportunities in the state. There are about 50,000 such tanks which, unfortunately, have fallen into disuse because of silting and no maintenance. We are formulating a *Jala Samvardhana Yojane* to be taken up as a poverty alleviation project as part of the World Bank package. To begin with, 25,000 tanks will be taken up for rejuvenation under this scheme for completion in a period of five years.

57. A comprehensive project for combating sea erosion on the west coast of the state is being prepared. This project will be posed to the Government of India for assistance.

Cooperation

58. I am happy to announce that the scheme for enrolling SC/ST persons in state cooperative institutions, that was discontinued three years ago, is being revived immediately. In addition, the scheme will be made applicable to minority communities as well.

59. Under the Floor Price Scheme, the government conducted effective market interventions in the last three months to help onion and potato farmers. Good quality onions were purchased at Rs 300 a quintal.

Housing

60. Housing for the economically weaker sections of society is a matter of overriding priority for my government. We will construct 2,00,000 houses this year. We are setting up the Rajiv Gandhi Rural Housing Corporation to act as a vehicle for mobilizing greater resources for social housing. Through this Corporation, we will construct houses under the Ashraya and the Ambedkar schemes during the next twelve months. The Indira Awas Yojana will continue to be implemented by the zilla panchayats.

61. The Karnataka Housing Board will be thoroughly revamped and restructured. It will concentrate on providing housing to lower income and middle income groups. It will enter into joint ventures with private sector agencies and its land will be utilized as its equity share.

62. The quality of life in slums has to be improved. Slums have to be rehabilitated. The resources of the Karnataka Slum Clearance Board will be augmented with the assistance of HUDCO. The additional funds that will be made available during 2000-01 in this manner will be Rs 24 crores.

Drinking Water

63. My government has established a norm for rural drinking water supply of 55 litres per person per day to be achieved within the next three years. Substantial funds from HUDCO and the World Bank will augment our own resources. A World-Bank assisted Integrated Rural Water Supply and Sanitation Project covering 1110 villages in 16 districts of the state will be completed by September 2000. Another Dutch-assisted project in 200 problem villages in the districts of Dharwad, Gadag, Haveri, Bagalkote and Bijapur will be completed in the next few days itself.

64. A Technology Mission for Water Supply and Sanitation has already been established. This will give a new impetus to all drinking water supply programmes. It will also catalyse interventions to eliminate the problem of brackishness and excess fluoride in ground water sources.

65. An action plan for drinking water schemes in 47 small and medium towns of the state has been formulated for completion within the next four years at a total cost of Rs 321 crores. The funds for this project have been tied up with HUDCO.

66. I am launching a new scheme *Swachcha Grama* for total village sanitation which will involve paving of internal roads, construction of drainage systems and sanitary latrines, provision of community compost yards and provision of household sanitation. I am starting the scheme with a budgetary allocation of Rs 20 crores that will, in turn, enable us to obtain about Rs 160 crores of HUDCO loans. 1000 villages will be taken up in the first year of the programme.

Panchayats

67. Honourable Members will recall that I have already announced that the annual grants given to gram panchayats will be doubled from Rs 1 lakh to Rs 2 lakhs. You will be happy to know that this assurance has been implemented and the first instalment of this enhanced grant for the last quarter of the financial year 1999–2000 has already been released to all the 5675 gram panchayats of the state.

68. The Abdul Nazeer Sab Institute of Rural Development in Mysore will take up the task of organizing orientation courses for nearly 80,000 panchayat members. These courses will be

completed by December 2000. Honourable Members would be interested to know that we will be using satellite technology for this purpose, showing our commitment to the social applications of high technology.

Social Welfare

69. Honourable Members will be very pleased to know that the target for SC/ST houses is being doubled from 50,000 to 100,000 a year. Two days ago, the Bangalore Development Authority cleared 2500 sites for distribution among SC/ST families whose applications were pending since 1988.

70. Announcements for the construction of new hostels have been made in the past. This year while making the announcement, I wish to reiterate that they will be constructed at all costs. I will personally be monitoring progress. We will build 50 new hostels all over the state for SC/ST boys and 20 for SC/ST girls. The government will continue to pay all boarding charges. 20 new post-matric hostels for girls belonging to backward classes will be constructed at taluka headquarters.

71. All SC/ST boys and girls from the state who get admitted to IITs, IIMs, IISc and IIIT Bangalore will each get a one time scholarship grant of Rs 50,000.

72. For the purchase of agricultural land, the ceiling on subsidy given by the state government to the Karnataka SC/ST Development Corporation is being raised from Rs 50,000 per beneficiary to Rs 60,000 per beneficiary.

73. We are enhancing the share capital of the Karnataka Backward Classes Development Corporation by Rs 1 crore.

74. The Budgetary allocation for the Karnataka Minority Development Corporation has been enhanced by 25% this year. 1700 minority beneficiaries will be trained under various trades. 5 post-matric hostels for minority girls will be opened this year along with five community halls (Shadhi Mahals).

Rural Youth

75. Honourable Members would be pleased to know that we are launching a new scheme called **yuva.com** for the rural youth. Under this scheme, training centres will be established in each of the 225 Assembly constituencies over the next twelve months. These centres will train about 1 lakh educated unemployed youth in IT-related services. The private sector will participate in setting up and running these centres. The first four yuva.com centres will take off on July 1st in Belgaum, Bidar, Chitradurga and Mandya.

76. There are 90 government-run Industrial Training Institutes. With the assistance of the private sector, the government will upgrade facilities in these institutes which will be used for additional training of rural youth.

Sericulture

77. Sir, it is well-known to all of us that sericulture is extremely important to the state. It provides employment to 25 lakh people, most of whom are women. To further accelerate the employment potential of the industry and to enhance the production of high-quality silk cocoons, I am introducing a new scheme called *Reshme Sampathu Yojane*. This scheme will be targetted at scheduled castes and scheduled tribes, small and marginal farmers and physically handicapped persons in all the 27 districts of the state. Under the scheme, borewells will be drilled and pumpsets fitted, superior variety of mulberry will be planted and maintained and high quality bivoltine silkworms will be reared. We are seeking multilateral and bilateral funds for launching this programme.

Sugar

78. The Government of Karnataka has already provided all sanctions to the 11 new sugar factories that are to come up in the cooperative sector, each with a capacity of 2500 tonnes per day. NABARD and the NCDC have agreed to sanction the share capital and to accord the necessary credit authorization.

79. The potential for generating power by sugar mills in the state through cogeneration is substantial. So far, less than one-fourth of the potential has been utilized. A time-bound programme for utilizing the cogeneration potential is being launched by the Karnataka Renewable Energy Development Limited (KREDL).

80. The Government will also facilitate the establishment of the Karnataka Sugar Institute in collaboration with the sugar industry. My friends and colleagues will be happy to know that this Institute will be located in Belgaum.

Fisheries

81. The government is fully committed to protecting the welfare of fishing communities. The existing scheme of providing subsidy on diesel to marine fishermen is cumbersome and involves time-consuming procedures. I am happy to announce that the scheme will now be drastically simplified and will be implemented by the Fisheries department.

Forests, Environment and Ecology

82. The forest cover in our state is now estimated at about 20%. This will progressively be increased to 22% in the next five years.

83. The availability of fuelwood is coming down over the years. The Forest Department will take up extensive fuelwood plantations to help the poor villagers, particularly the tribals.

Food and Civil Supplies

84. Honourable Members are aware that very recently the Central Government has increased the prices of rice and wheat for ration card holders and have sought to transfer the burden of food subsidy to the state governments. My government is committed to ensuring food security to all those genuine green card holders.

85. For instance, the price of rice which is presently bought by poor green-card holders has been raised from Rs 3.50 per kg to Rs. 6.60 per kg. We have already protested against this most insensitive and unilateral decision of the Government of India.

86. If we continue to distribute foodgrains at original prices, the state requires an allocation of Rs 966 crores. Last year's allocation for food subsidy, however, was Rs. 305 crores. It is obvious that the state finances cannot support such a huge increase. The honorable members also appreciate that several non-genuine people have been given green-cards in the state. Unless such richer beneficiaries are weeded out from the list the food subsidy cannot reach the poor and the needy. I seek the cooperation of all Honourable Members to weed out blatantly ineligible cardholders so that more foodgrains can be made available to the really needy. A decision will soon be taken to resolve the problem arising out of the Government of India's announcement.

87. Monitoring will be facilitated if the ration cards are computerised. This process will be completed in Bangalore by March 31st 2001 and in all other places in a phased manner.

Administrative Decentralisation

88. My government is committed to balanced regional development. This will involve shifting of government offices and functions that will, in turn, trigger other economic activities. The Karnataka Handloom Development Corporation has already been relocated from Bangalore to Hubli. We have now decided to relocate the Directorate of Sugar from Bangalore to Belgaum, the Textile Commissioner's Office from Bangalore to Hubli, Sericulture Directorate from Bangalore to Mysore, the Karnataka Oilseeds Marketing Federation from Bangalore to Raichur

and the Karnataka Neerawari Nigam from Bangalore to Dharwad. Krishna Bhagya Jala Nigam is the most prestigious corporation of the State Government that implements the Upper Krishna Project. I am happy to announce that this corporation will now be shifted from Bangalore to Bhimarayanagudi, in Gulbarga district. This is just the beginning and I seek the cooperation and support of each and every Honourable Member in this important task.

Public Sector

89. The performance of public enterprises in the state has been dismal. Enterprises making losses or marginal profits are a drain on the state's exchequer and erode our capacity to invest in essential social infrastructure. A Public Sector Restructuring Committee has been set up to recommend to the government future options for each of our public sector companies. I wish to reassure the Honourable Members that in the process of public sector restructuring, the legitimate interests of workers would be fully protected.

90. The Karnataka Small Industries Marketing Corporation was set up to market products of small-scale industries. Its working in recent times, however, has left a lot to be desired. This House itself has been a witness to discussions on several irregularities in KSIMC purchases. It is hence necessary to refocus the role of the KSIMC.

91. The Karnataka Construction Corporation was set up as a role model for the construction contractors. The Government, however, is unhappy to note that the KSCC has not lived up to its expectations. The State now has also good contractors in the private sector with better technological expertise. It has, therefore, been decided to wind up the KSCC. The Government will merge all the resources of KSCC with the PWD.

Unorganised Labour

92. Over 90% of the labour force in India and in Karnataka is in the unorganized sector. To protect their interests, a Karnataka Manual Workers (Regulation of Employment and Conditions of Work) Bill will be shortly introduced. This will enable the provision of social security to these vulnerable groups.

Chit Funds

93. We must protect the interests of small investors who have put their hard-earned, lifetime savings into chit funds and related non-banking financial companies (NBFCs). During this session itself, I will bring a legislation to ensure that this happens.

Urban Development

94. Karnataka is a state where urbanization is taking place rapidly. This is creating new demands for municipal services and amenities. There is urgent need to strengthen the revenue base of urban local bodies. The present property tax structure of the municipalities is not very scientifically determined and is amenable to misuse by all parties. Therefore, I am proposing to make property tax assessment more simple and to make clear and transparent the method for calculating the rateable value of the property. The system will also provide for self-assessment. This self-assessment procedure has already been initiated in Bangalore. Other cities will see the improvements in the next three months.

95. We have taken up a number of urban development projects with the assistance of HUDCO. We are negotiating projects with the World Bank and the Asian Development Bank. All these projects will be implemented by the Karnataka Urban Infrastructure Development Finance Corporation.

Regional Development

96. While negotiating with financing institutions like the World Bank, HUDCO, ADB and bilateral organizations, I have been acutely conscious of the need to substantially step up investments in social and physical infrastructure in the backward northern region of the state. Even in my negotiations with the NDDB, I specifically included horticulture, being aware of the great potential that exists in this area in northern Karnataka. My efforts to launch a process of shifting government offices away from Bangalore is also part of my government's desire to bring about a better regional balance. In addition to these initiatives, I am proposing other steps to further develop northern Karnataka specifically.

97. The Tadri port will be developed with the assistance of a private investor, the contracts for which will be issued shortly. This will involve an investment of at least Rs 800 crores.

98. A Software Technology Park will be commissioned in Hubli by May 31st with a fibre optic link to Belgaum. Similarly, a food processing park will be started at Bagalkote within the next two months. A north-eastern road transport corporation will be launched with headquarters in Gulbarga. We are also taking measures to revive and reactivate the Belgaum and Hubli airports. A perspective plan for developing tourism in the northern region specifically is under preparation.

Mining Policy

99. Honourable Members are aware that Karnataka has substantial mineral resources. These have to be surveyed

systematically with the aid of modern technology and developed in an ecologically sustainable manner. We will announce a New Mining Policy within the next 60 days.

Infrastructure

100. The concept of an Infrastructure Development Corporation of Karnataka (IDeCK) was initiated by the previous Finance Minister in 1998-99. While complimenting him, I am pleased to announce that IDEck has now become a reality. The Government and the IDFC have agreed to form this Corporation in the private sector. The Government will contribute Rs.200 crores to this Corporation as one time support. The IDFC shall hold 51% Equity and the IDEck will take a large number of small projects all over Karnataka. IDeCK will emphasise user charges, fiscal discipline in local bodies, community participation etc. IDeCK has target to spend over Rs. 600 crores on infrastructure projects in the first year itself.

101. I wish to draw attention of the Honourable Members to a disturbing situation in regard to rural infrastructure. Since 1995-96, NABARD has been operating a Rural Infrastructure Development Fund (RIDF) under which Karnataka has been sanctioned close to Rs 744 crores. Unfortunately, our record of utilization has been disappointing and has been just around 48%. My government is extremely concerned with this and will take corrective steps immediately. Project preparation will be improved. Agencies like the Karnataka Land Army Corporation will be involved in project implementation. This is an area that requires greater professional inputs.

102. Honourable Members are aware that an Infrastructure Cess is being levied on sales tax, excise license fees, motor vehicle tax and non-judicial stamps. The collection from the cess is to be used for investment in IDEck. This cess is being extended for another two years.

Rail Projects

103. Honourable Members would undoubtedly have been disappointed with this year's Railway Budget. Many important rail lines in the state have received meagre allocations and at present levels of funding would take years to be completed. We need a bold new initiative to expand the rail network in the state. Consequently, I am proposing the establishment of a Karnataka Rail Development Corporation with 26% equity from the state government through IDeCK. IDFC and HUDCO have already agreed to be joint venture partners and I have written to the Railways also to participate. The Corporation will raise resources for the completion of key lines like Hubli-Ankola, Gadag-Sholapur, Sakleshpur-Mangalore and doubling of Bangalore-Mysore. This is a new idea and it would be my earnest endeavour to ensure that we succeed.

Power

104. Over 60% of this year's revenue deficit is on account of explicit power subsidies alone. This cannot go on. The power sector must be made commercially viable with subsidies targetted at the truly poor and the needy. Subsidies must also be provided in a transparent and explicit manner through the state Budget. I also wish to bring to the attention of Honourable Members that only 37% of the total electricity supply in the state is metered. We must move to universal metering in a phased manner. The T&D losses of the KPTCL at 34% according to present estimates is also unsustainable.

105. The government has already announced its decision to privatize the distribution system. A total investment of about Rs 6500 crore is on the anvil for strengthening the transmission and distribution system in the state. We will add 2500 to 3000 MW of new capacity by 2005. This will be achieved at all costs. Work on the seventh unit of the Raichur Thermal Power Station with a capacity of 210 MW will commence by July 31st 2000. I am also happy to announce that the 500 MW Vijayanagar power project will be developed on a joint venture basis. Talks are on with the ICICI for its participation.

106. We have already extended Bhagya Jyoti connections to 16 lakh households. In 2000-01, an additional 2,00,000 households will be covered. I am aware that many deserving families cannot be covered under the existing Bhagya Jyoti norms if their house is more than one pole away from the LT line. This restriction is being removed immediately to enable houses that are up to two poles away from the LT line to become eligible for Bhagya Jyoti connections. These initiatives to expand the Bhagya Jyoti and rural electrification schemes will cost the state Rs 180 crores in 2000-01. KPTCL has also taken up the task of completing the electrification of 18,000 hamlets within the next five years with assistance from the REC.

107. The high-level committee to evaluate escrow capacity for private power projects has submitted its report to the government. Financial institutions are also now having second thoughts on the very concept of escrow. Our policy is clear-we will actively encourage private power producers with proven track record and managerial and technical expertise with state government guarantees.

Transport

108. The Government has already taken up a special programme for the improvement of rural roads with a total outlay of Rs 1 crore in each of the 175 talukas of the state.

About 10,000 kms of rural roads will be upgraded as part of this special programme this year. Discussions are also on with the World Bank and a major highway project is being finalized. 78 roadless villages will be provided with metalled roads this year. The Karnataka Road Development Corporation will be spending Rs 200 crores to improve the state highways and construct 100 bridges in the state.

109. Honourable Members will be pleased to know that the state government has given all clearances to the Bangalore-Mysore Infrastructure Corridor being implemented in the private sector. At the insistence of the state government, the project will begin at two points, Bangalore and Mandya. The project will go for financial closure shortly.

110. The performance of KSRTC has improved after its split into three corporations. But there is still great scope for both financial and operational improvements. These corporations must function in a commercial and autonomous manner. They will be allowed to automatically revise their tariff to absorb increase in diesel prices.

Bhoomi

111. I have been repeatedly saying that ultimately modern technology must make a difference to the lives of ordinary people. The government will take up specific projects to mobilize technology for social applications. I am making a solemn commitment in this House that by the 31st of March 2001, RTCs in computerised format will be made available to every single ryot in the state.

Textiles

112. In our eagerness to embrace IT, we must not forget traditional industries like textiles for which there is still further scope for growth in the state. We will utilize concessional funds under the newly introduced Technology Upgradation Fund of the Government of India to modernize the textile industry. We will also establish new units for the wet processing of fabrics, powerloom complexes and product development centres through the Karnataka Powerloom Development Corporation. Bangalore itself is a leading centre of garment exports, a position that will be consolidated and strengthened. An Apparel Export Park is being set up in Whitefield. This will create sizeable employment opportunities.

Industry

113. The state government will continue to proactively woo both Indian and foreign investors. A Global Investors Meet is being organized in June 2000 in collaboration with the Confederation of Indian Industry. The state has positioned itself as a major destination not just for traditional industry

but also for value-added services. Karnataka is marketing itself as a major investment destination for research and development activities.

Knowledge-Based Industries

114. We have recently unveiled Mahiti - the Millennium IT Policy in the service of the common man. We propose to use the IT in the pursuit of social goals and improving administration.

115. The Government will encourage new colleges in IT. We will also actively support private universities in IT started by professionals. Existing colleges will be encouraged to convert other streams into IT. In addition, a State council for IT Education and Training will be set up to establish standards. The Government will double the number of students that graduate in IT from 9620 to 20,000.

116. The Government understands the concerns of industry regarding uncertainty in taxation. I am pleased to announce that tax stability would be maintained for five years for knowledge-based industries including IT, communications, biotechnology and pharmaceutical research.

117. While Karnataka is the acknowledged leader in IT, I would like the State to lead the next revolution in Biotechnology. Karnataka already has the training and knowledge base necessary to drive the revolution. We have the critical mass of biotech companies and the best research institutions. The immediate challenge is how to nurture that innovation, promote entrepreneurship and facilitate effective technology transfer to the end users. I am happy to announce a Vision Group on biotechnology is being set up to advise the government on future strategies.

118. The government is setting up in collaboration with STPI, an incubation centre for the IT entrepreneurs. In addition, two incubation centres one for IT and one for biotechnology are being set up in active collaboration with ICICI. I am also happy to announce that ICICI would be setting up a professor chair at the Indian Institute of Information Technology, Bangalore.

Tourism

119. My government recognizes the enormous employment potential of tourism. Tourism development will also help stimulating growth in backward areas. A Tourism Policy was announced by the previous government. That policy now has to be translated into specific projects. We will make an all-out effort to attract private investment in this sector. Special emphasis will be laid on eco- and coastal tourism.

Bangalore

120. Honourable Members are aware that a Bangalore Agenda Task Force has been set up and the Task Force has galvanized action across a wide variety of fronts to improve the quality of life in the state's capital. I would like to commend this as a true example of public-private partnership, which my Government will emulate in other cities of the state.

121. In addition to what the Task Force has already unveiled and which are being pursued aggressively, I am now proposing two initiatives to decongest the city. I have already mooted the idea of shifting the Race Course away from its present location to outside the city limits with the Turf Club. Let me make it clear that the land so freed will under no circumstances be used for real estate development but will be earmarked as vital lung space for the city. Similarly, the Central Jail will also be shifted to a more suitable location.

122. The Bangalore Mahanagara Palike has committed to undertake several initiatives which will improve the efficiency of public services and create a citizen oriented administration. These steps include: self assessment of property tax; instituting zonal level administration; massive slum development programme and urban rejuvenation of the old 'petes'. To raise resources, an infrastructure fee on vehicles between Rs 50 and Rs 100 and a solid waste management cess on property tax is being introduced. I am bringing forward amendments to the Karnataka Municipalities Act very soon.

123. In the past, property tax collections of the BMP have increased by around 2% annually. Because of our untiring efforts in the past six months, property tax collections have doubled and will amount to Rs 120 crores by March-end. In 2000-01, the increase will be 50% and this trend will be maintained.

124. Government offices are spread all the city and are paying an annual rent of Rs 5.5 crores. I am pleased to announce that we will construct Vidhana Soudha South Block to bring all offices under one roof. This will be of great convenience to the public. The aesthetics of the new structure will be in harmony with that of the Vidhana Soudha.

Transparency in Administration

125. My government is fully committed to transparency at all levels. This will empower the people of Karnataka and make the government truly accountable. The power of IT will be used to modernize and open up the administration that has traditionally operated behind a veil of secrecy. I will bring forward a Right to Information Bill later in the session. I would also like to take a leaf out of my predecessor's Budget speech last year and once again propose a Karnataka Transparency in Tenders and Procurement Act. I have no

hesitation in borrowing ideas from others, including my political opponents, if I see the benefits to citizens.

126. I am determined to usher in a new work culture in all government departments. I would like the government to be more polite to people, clear the files faster and deliver better service. I am also aware of the complex rules and regulations under which the government functions. A typical file in Vidhana Soudha may have to be seen by 15 to 25 layers for the final decision to reach the citizen. The government will set up an Administrative Reforms Commission to recommend steps to offer better service to Karnataka citizens. I am also sensitive to genuine and reasonable grievances of the government employees, I propose to set up a committee to examine the demands of government employees in respect of anomalies arising out of the implementation of the report of the official pay committee 1998.

127. I am also introducing concurrent social audit of all government schemes and programmes to be conducted by independent agencies and institutions. This will improve the quality of our delivery systems.

128. Sir, Karnataka has a vibrant network of NGOs who are doing extremely valuable work. We look at NGOs as partners in development. Accordingly, I am establishing *Seva Mitra*, a service facility for NGOs which will troubleshoot on their behalf with both the state government and the central government.

Development of Kannada

129. A model art village will be established at Ramanagaram in collaboration with Janapada Loka. This will preserve and highlight the different facets of our folk culture and serve as an important tourist destination.

130. Honourable Members are already aware that one of the central objectives of Mahiti is promoting Kannada. The Government of Karnataka with the active cooperation of the Kannada Abhivruddhi Pradhikara, Kannada Ganaka Parishad as well as several Kannada researchers has already evolved a common keyboard for all Kannada software. A Committee under the chairmanship of Secretary, Kannada and Culture Department is being set up to standardize the formats and codes so that the development of Kannada software can take place rapidly.

131. A Commission is being set up to study and report on the problems of Kannadigas living in the border areas of Kerala, Maharashtra, Andhra Pradesh, Goa and Tamil Nadu. The report of the Commission will be made available in the next four months.

Home

132. We have entered into an agreement with HUDCO and the HDFC to provide Rs 160 crores specifically for police housing. The police system will be modernized with the massive application of information technology. The State Crime Records Bureau will be improved, all police stations in Bangalore will be connected to begin with and the capabilities of the Intelligence Wing will be enhanced. Ten new police stations will be opened this year for the convenience of the citizens of the state.

State Finances

133. Karnataka's finances are comparatively in a better shape than most other states. We are not in a crisis situation. But there is no room for complacency. Our financial position is grim and because of the repayments on account of the Krishna Bhagya Jala Nigam Bonds and the Fifth Pay Commission Recommendations, will be under severe stress over the next three years. The public at large needs to be informed about the state finances. A consensus needs to be created about the tough measures that will be required to bring about reductions in non-productive, non-development expenditure. That is why I will be presenting to the House a White Paper on the State's Finances on the 31st of March. The objective of our fiscal restructuring policy is to enhance the capacity of the state to increase investments in social and physical infrastructure and in agriculture. A medium-term fiscal management policy will be tabled in the House subsequently.

134. There is no running away any longer from the objective of eliminating the revenue deficit altogether. I propose to do so by 2004. In addition, our objective would be to stabilize the fiscal deficit at around 3% of GSDP by 2004 and substantially step up capital spending. This will help us to invest more in agriculture, irrigation, education and other critical sectors that affect the lives of ordinary citizens of the state.

135. The state has been following a prudent borrowing policy so far. Honourable Members are also aware that a Ceiling on Government Guarantees Act has already been passed. We must, under no circumstances, fall into the temptation of fiscal profligacy. I want to state here that our borrowing programme will be confined to the priority sectors and would be restricted to capital spending.

136. About 80000 posts in government have been vacant for the past six years. These posts had been created on a normative basis in the fifties and sixties. There is a need to change these norms in line with new management techniques and advances in technology. I propose to retain 20% of the existing vacancies and to abolish the remaining 80% of the vacant posts. We are not freezing recruitment but only ensuring that future recruitments are need-based. Let me

repeat, we are not freezing recruitment but only ensuring that future recruitments are need-based.

137. Honourable Members may be surprised to know that almost 75% of our revenues are consumed by committed expenditures. Salaries and pensions alone account for over half of our revenue receipts. This is simply unsustainable and is only working against the interests of the poor of the state. The greatest anti-poverty measure we can take is to make the structure of our public expenditure consonant with the needs of the poor and weaker sections of society and of the backward regions of the state.

138. In spite of these difficulties, Hon'ble members would be pleased to know that the size of our Annual Plan for 2000-2001 is being fixed at Rs. 7274 crores, as against the revised Annual Plan size of Rs. 5231 crores in 1999-2000. This increase of almost 40% is unprecedented and shows our commitment to rural Karnataka. There is a substantial increase in the allocation for Irrigation, Rural Development, General Education, Health, Water Supply & Sanitation and Social Welfare as outlined in Annexure - I.

139. I have already announced the introduction of VAT by April 2001. In order to prepare a detailed roadmap, a Taxation Reforms Commission is being set up. Karnataka will also be among the first states to set up the Second State Finance Commission. The Commission is being requested to examine not just how local bodies can reduce their dependence on subventions and develop independent sources of revenue but also how resource flows within the state can discriminate in favour of backward and laggard regions.

140. Sir, the contribution of the services sector to the state's GDP is over 45%. The State government has invested heavily on the development of infrastructure for the service sector. But the state government has no Constitutional power to tax this sector. I am going to lead an All-Party delegation from Karnataka to the Prime Minister shortly to press our case for a Constitutional Amendment.

141. The final report of the 11th Finance Commission is awaited. The gap filling approach of the earlier commissions has not helped. We sincerely hope that states like Karnataka which practice fiscal discipline and are carrying out hard economic reforms should be adequately rewarded. We request the Union Government to adopt the alternative devolution formula with retrospective effect and also to enhance the percentage of devolution from 29% to 40%.

142. Sir, there is one announcement that I know my colleagues have been eagerly awaiting. There are special requirements in executing development works that are not covered by existing government schemes and programmes. Legislators have a crucial role to play in our democracy and

in being responsive to the genuine needs of constituents. Therefore, I am seriously considering the introduction of a Legislators Area Development Fund and a decision on this will be announced shortly.

143. I now go to the tax proposals,

Commercial taxes

144. Commodity taxes form a vibrant source of revenue to the State. To realize optimal levels of tax, the tax administration should be placed on a sound footing. It should also be ensured that taxation instruments do not influence the choice of economic agents. This requires rationalisation of tax policy, its instruments and administration. With this end in view I earnestly desire to introduce Value Added Tax (VAT), an ideal and fair tax system which causes the least distortion to the economy, from 1st April 2001, The introduction of VAT would result in expansion of the tax base, help in harnessing the buoyancy available in all value addition points of a commodity, and also rationalize the existing tax system.

145. There is an urgent need to further the pace of adoption of technologies in agriculture and horticulture to improve the income levels of farmers. It is also necessary to remove any hurdles in the way of entrepreneurship. The small scale industry which plays a very innovative and significant role in the economic development of the State needs support. We have to make our export industry globally competitive. The interface between the businessman and the Government shall be built on trust, understanding, and regard for each other. With the above objectives, measures towards further rationalization of taxation system, certain reliefs and concessions that would lessen the inhibitions that tax imposes along with a few additional resource mobilization measures are being proposed.

146. I now present the measures that I propose to take under the various tax enactments:

147. SALES TAX

A. Reduction in Tax Rates

1) Reliefs to agriculture sector

Agriculture forms the backbone of our economy. While some in the farming community have adopted the modern package of practices in agriculture operations, the small and medium farmers have not been able to have full access to the technology. To give fillip to modernization of agricultural sector, I propose to offer the following reliefs:-

i) to exempt the tax on (i) chemical fertilizers and its mixtures, (ii) tractors and its trailers, (iii) power tiller and its trailers and (iv) all kinds of sowing seeds (whether certified or not) and certified oil seeds.

ii) to reduce the tax on (i) sprinklers and drip irrigation equipment to 4%, (ii) PVC pipes used for irrigation to 4%, (iii) insecticides and pesticides to 2%, and (iv) plant growth nutrients to 2%.

(2) Although the minimum floor rates (MFR) of tax as decided in the conference of Chief Ministers were given effect to from 1st January 2000, some of the neighboring States have kept the rates of tax on certain commodities lower than the floor rates. This resulted in trade diversion during the last few months. To protect our tax base, I propose to reduce the rates of tax on commodities like edible oil, camphor, autorickshaws, plastic granules, PVC pipes, oil seeds, coconut and copra etc., The detailed list of such commodities and the rates of taxes are furnished in Annexure - II.

(3) The minimum floor rates in respect of certain commodities were revised by States' Finance Ministers' Committee in consultation with the State Governments. In pursuance of that, I propose to bring the rates of tax on commodities like agarbathi, animal feed, brass utensils, bronze utensils, copper utensils, chemicals of all kinds, cardamom, pepper, sewing thread etc., on par with the revised floor rates. The detailed list of such commodities and the rates of taxes are furnished in Annexure - III.

(4) The trade and industry have requested the Government to reduce the rate of tax on various commodities. After examining such requests I propose to reduce the rates of tax on commodities like coffee seeds, exim scrips and the like, folding umbrellas, blasting gun powder, barks and herbs etc., used in the manufacture of Ayurvedic medicine, etc. The detailed list of such commodities and the rates of taxes are furnished in Annexure - IV.

B. Reliefs and concessions:

1) Concessions to Small scale Industries :-

Raw materials and components sold to an industrial unit for use by the latter in the manufacture of goods for sale are liable to tax at concessional tax rate of 3% under section 5-A and if they are sold to SSI units, a concessional rate of tax at 2% is levied. I propose to reduce the rate of tax on all goods

sold by SSI units to any other industrial unit for use by the latter as raw materials and components to 2 per cent.

2) Reduction of TOT on inputs to industries :-

In addition to the above concessions, I propose to reduce the TOT on the goods sold as inputs to industries against form 37 to a uniform rate of 1 per cent.

3) Relief to Film Industry :-

The Film industry in the State needs support for its development. Towards this I propose to exempt the tax on transfer of the right to use feature films for exhibition (film leasing).

4) Relief to Coffee Exporters:-

Coffee purchased against an existing foreign buyers' export order and exported is exempt from tax. Coffee exporters have requested that coffee purchased without an existing export order should also be exempted from tax if such coffee is exported within 6 months from the date of purchase. To encourage exports, I propose to exempt the purchase tax on coffee, if such coffee is exported outside the country within 4 months from the date of purchase of such coffee. I propose to extend this facility to pepper and cardamom also.

5) Reliefs to Export Oriented units :-

At present only 100% Export Oriented Units and those industrial units who export not less than 25% of their production are eligible for refund of tax under KST paid on raw materials and components if goods manufactured out of such raw materials and components are exported outside the country. I propose to extend the above benefit to all the exports undertaken by the industrial units without any limits. I propose to extend the benefit available under Entry tax Act to these units also. Further I propose to allow a set off of the tax paid on the purchase of raw materials and components against the tax payable, if any, by them under the KST/Entry Tax Act to the extent of export of the goods manufactured out of such raw materials and components, subject to adjustments after the final assessments under the relevant tax Acts.

6) Other reliefs :-

I propose to give the following further reliefs and concessions:

(a) To allow the benefit of set off of tax paid under KST Act 1957 in excess of 3 per cent in respect of cement used in the manufacture of RCC poles and pipes from the tax payable under KST on the goods manufactured and sold out of such

tax paid cement. However there would be no refund of any excess tax on this account.

(b) To include casurina and eucalyptus for the benefit of concessional rate of tax under section 5-A.

(c) To include consumables, other than petroleum products, for the benefit of concessional rate of tax under section 5-A.

(d) To exempt tax under section 5-C, if the goods leased have already been subjected to tax under the KST Act.

(e) To exempt sales made to United Nations Organisation and its specialized agencies.

(f) To rationalize the levy and collection of taxes from granite jelly crushers by providing a composition scheme on the basis of the capacity of the rock crushers used by them.

(g) To extend the benefit of paying taxes on composition basis to women caterers of food and drinks.

(h) To amend form 32B retrospectively to remove certain difficulties faced by the business.

7). Exemptions :-

(a) Due to introduction of floor rates, Aluminium domestic utensils are subjected to tax. I propose to exempt the above goods.

(b) On account of the revision of floor rates, bicycles, tandem cycles, cycle combination etc., and their parts and accessories including tyres, tubes and flaps have been brought to tax at 4 per cent. Further jaggery is subject to both basic tax and turnover tax. As these commodities are used by the common man, I propose to exempt both the commodities from turnover tax. I also propose to exempt the purchase turnover of old gold and silver jewellery used in the manufacture of new jewellery on which tax is paid, from the levy of turnover tax.

(c) For short periods, Coconut husk (from 1.4.97 to 31.3.98), raw silk and raw silk yarn (1.1.2000 to 5.1.2000), Country bricks and tiles, salt (processed), renewable energy devices and equipments for utilizing ocean waves and thermal energy in the oceans (from 1.1.2000), have been subjected to tax. Further purchase turnover of seeds used in obtaining sowing seeds. during the period 1.4.93 to 1.4.99 has been wrongly subjected to turnover tax levy. I propose to exempt the liability on the above commodities for the period mentioned against them and to continue the exemptions.

(d) Goods such as coconut husk, coir fibres, coir yarn, coir ropes, avalakki, mandakki (puri), clay, glass chimnies,

lantern, oil lamp wares, hay, ragi flour, rice soji are exempt from tax for a long period of time by way of notifications. I propose to continue exemptions by incorporating these goods in the exemption schedule.

C. Rationalization of Sales Tax :-

1) Tax rates

(i) In the minimum floor rate list, certain category of goods, i.e., vacuum cleaners, washing machines, voltage stabilizers, etc., are subjected to tax at 12 per cent. Some related goods like electrical appliances which are commonly dealt under the same roof have lesser rates. This gives scope for misclassification and also require the dealers to maintain classified accounts. Therefore I propose to have a common basic tax and common rate of turnover tax in respect of such commodities. The details of the commodity and the rates of taxes are furnished in Annexure - V.

(ii) At present diesel is taxed at 20% under Karnataka Sales Tax Act, 1957 and entry tax at 5% but exemption is available to oil companies. Exemption of entry tax given to oil companies has shifted the liability to the petrol bunks and bulk consumers under the Entry Tax Act. To rationalise this, I propose to reduce the rate of tax on diesel to 15.5 per cent under Sales Tax Act and impose an entry tax of 4 per cent on all. The retail selling price of diesel remains almost at the present level.

(iii) Gutka is taxable at the rate of 15 per cent under KST Act and at 4 per cent under KTEG Act. It is noticed that most of the second and subsequent dealers in the said commodities are petty shop keepers who do not become liable to pay TOT of one per cent as their turnovers fall below the prescribed limit. In view of the above I propose to increase the rate of tax from the existing rate of 15 per cent to 16 per cent and exempt the T.O.T on the second and subsequent sales.

iv) Presently tax is levied on IML at all stages of sale at the rate of 60% excepting the last point of sale which is at 10%. There is a need to rationalize the tax structure. I also take this opportunity to add some additional revenue by increasing the rate of tax on these commodities. I propose to levy tax at the point of first and last sale at the rate 115% and 10 % respectively for effective realization of taxes. The intermediary sales will not be liable to tax under this scheme since this tax is loaded onto the first point.

2. Turnover tax :-

As the present exemption limit of rupees five lakhs has given scope for some dealers to remain within the exemption limit, I propose to remove the exemption limit of rupees five lakhs. This measure would not only expand the tax base but is a step

towards Value Added Tax (V.A.T) where tax-habit by all in the value chain of the commodity is an essential requirement.

Further, I propose to reduce the present three slabs of turnover tax to two slabs, with a rate of 1.5 per cent upto 1000 lakhs and 3 per cent for the turnover exceeding 1000 lakhs. I also propose to give the benefit of paying turnover tax at the rate of 1.5 per cent for turnover upto one thousand lakhs and at three per cent on the turnovers exceeding rupees one thousand lakhs for dealers who cross one thousand lakh rupees turnover for the first time in the year. Further there would be no change in rate of TOT on second and subsequent sales.

3) Rationalization of tax provisions :-

I propose,

(i) To redefine the definition of 'brand name' to give the meaning as was there prior to 01.04.1999.

(ii) To exclude the time for the purpose of computing the time limit for assessments in case of dealers who have been given eligibility certificates under any of the packages of incentives and concessions offered by the State and when such eligibility certificate is disputed and referred for resolution.

(iii) To provide for calculation of penalty at the rate of 2 per cent per month from the date of close of the year to which such default relates, in lieu of the existing penalty under section 12 -B (4).

(iv) To allow the dealers who are eligible for assessment under section 12-C to file the declaration and statements within six months from the close of the year or before the assessment which ever is later.

(v) To increase the turnover limit under section 12-C from the existing rupees 25 lakhs to rupees 40 lakhs in case of dealers and to rupees 50 lakhs in case of SSIs.

(vi) To provide for a levy of uniform rate of interest under section 13 (2) at 2 per cent for each month of default

(vii) To prescribe conditions for notifying the dealer eligible for exemption from deduction of tax under section 19-A (1) (ii).

(viii) To restrict the TDS under section 19-AA only to Government departments and Zilla panchayats.

(ix) To extend the time limit under section 22-B upto 31.3.2001 in respect of cases initiated and pending as on 31.3.2000.

(x) To modify the penalty payable under section 28-A (4) (a) from the existing one half of the amount to not less than one fourth of the amount of tax and not exceeding one half of the amount of tax.

(xi) To amend the provisions of the section 28-AA to provide for prescription of transit pass in respect of goods imported into the state and subsequently transported to a place outside the state.

(xii) To make provision to provide for levy of tax on the value added portion at the hands of the brand name holders.

(xiii) To provide for publishing of photographs of chronic tax defaulters along with the details of default in the newspapers.

(xiv) To delegate the power of recognition under section 7-A and 42-A of the fifth schedule to the Joint Commissioners of Commercial taxes.

(xv) To extend the time limit for filing revision petitions against the orders of the Karnataka Appellate Tribunal before the High court from the existing 60 days to 120 days.

(xvi) To provide for recovery of taxes or any other amount due for the period before transfer of business created subsequent to transfer both by the transferor and transferee.

(xvii) To introduce a system of filing of returns and payment of taxes on a quarterly basis under section 12-B in respect of dealers having turnover upto rupees 7.5 lakhs per year, and,

(xviii) To provide for concluding assessments under KST, CST and KTEG Acts summarily, by accepting the return of turnover filed on or before 31.3.99, upto to the year 31.3.98, in respect of dealers having a total turnover upto rupees 5 lakhs without any condition and in respect of dealers having a total turnover upto rupees 15 lakhs, subject to the following conditions :

a. the returns of turnover are filed on or before 31.3.99

b. the dealers file all the statutory declarations, and,

c. the assessments for the immediate preceeding two consecutive years have been completed by accepting the returns under section 12 (2) of KST Act as a one time measure.

D. Additional Resources Mobilization measures

1) Increases in the rates of tax:

In view of the requirement of additional resources, a few commodities like batteries including dry cells batteries, cassette tape recorders (audio and video) and their parts, electrical appliances, mineral water, granite stones etc., have been identified for increase in the rates of tax. The detailed list of such commodities and the rates of taxes applicable are furnished in Annexure-VI.

2) Removal of exemptions :-

At present only specified canteen stores sold to Canteen Stores Department, are subjected to tax at the rate of four per cent. I propose that all taxable goods sold to Canteen Stores Department be subjected to tax at four per cent or at such lower rate if the rate of tax is lower than four per cent.

3) Increase in the rate of tax on beer :-

With effect from 1.4.99 the rate of tax on beer was reduced from 55% to 45% at first sale point and from 10% to 5% at the last sale point. This reduction was made at the behest of the beer manufacturers who suggested that the reduction of tax to the suggested level would increase the volume of sales and consequently there would not be any loss of revenue to the state ex-chequer. But this measure has adversely affected revenues during the year 1999-2000. Hence I propose to bring the rate of tax on beer to the original level of 55 per cent at the first sale point and at 10 per cent at the last sale point.

148. THE KARNATAKA ENTRY OF GOODS TAX ACT, 1979

I propose

(i) to exempt tyres and tubes used in bicycles, tandem cycles, cycle combinations, cycle rickshaws, perambulators and children's tricycles and on windmills and its parts and accessories.

(ii) to levy entry tax on Lifts, Elevators & Escalators and its parts and accessories, Films (all kinds), Photographic paper, at the rate of 5 per cent, and neutral spirit and ethyl alcohol at the rate of 4 per cent .

(iii) to increase the rate of tax on sugar from 1 per cent to 2 per cent.

(iv) to delete section 9-A dealing with TDS in respect of Sugar.

(v) to make the Government departments other than State Government liable for entry tax, and

(vi) to amend provisions under KTEG Act, so as to bring them on par with similar provisions under KST Act. 1957.

149. THE KARNATAKA AGRICULTURE INCOME TAX ACT, 1957

(1) At present persons holding land upto 50 acres are only eligible for composition benefit. To rationalise the tax structure, I propose to extend the benefit of composition upto 150 acres to all the assesseees, other than companies at the following rates.

Sl.no. Extent of Land Rate of Composition

tax payable

S.No.	Extent of Land	Rate of Composition tax payable
(i)	1 Acre to 100 Acres in respect of persons holding more than 50 acres but not more than 100 acres.	Rs. 1150 per Acre
(ii)	1 Acre to 150 Acres in respect of persons holding more than 100 acres but not more than 150 acres.	Rs. 1250 per Acre

The tax payable under the above composition system would be on the entire holdings without any exemption.

(2). I propose

(i) to amend section 18 (2-A) (b) clarifying the point of time from which penalty is to be calculated,

(ii) to amend section 17 for empowering the Commissioner to give jurisdiction to his subordinate officers, and

(iii) to amend section 35 empowering the Commissioner to revise the orders of Addl. Commissioners,

150. THE LUXURY TAX ACT, 1979

(i) With a view to overcome the splitting of amounts collected by the marriage halls to avoid the payment of tax, I propose to reduce the exemption limit to rupees 2000 and tax the marriage halls at a uniform rate of 15 per cent on the gross amount received. For this purpose the provisions of the Luxury Tax Act will be amended suitably,

(ii) I propose to amend the definition of hotel to include clubs with retrospective effect,

(iii) I propose to exempt telephone call charges and laundry charges from levy of luxury tax,

(iv) I propose to reduce the maximum rate of luxury tax from 15% to 12.5% to promote tourism.

151. THE KARNATAKA ENTERTAINMENT Tax ACT, 1958

I propose,

(i) to continue the exemption given to Kannada films for the year 2000-2001,

(ii) to increase the rate of entertainment tax (other than Kannada Films) to 100 per cent,

(iii) to restrict exemption given at 100% under section 7 to 50% of tax,

(iv) to empower the Joint Commissioner of Commercial Taxes with the power of revision,

(v) to increase service charges under section 4-AA from 25 paise to 50 paise, and from 50 paise to one rupee, respectively,

152. THE MYSORE BETTING TAX , 1932

I propose,

(i) to fix the composition totalizator tax at Rs. 800 lakhs for Bangalore Turf Club and Rs. 30 Lakhs for Mysore Race Club,

(i) to prescribe penalty at 2 per cent per month for default in making payment of taxes due under Act.

153. REVIEW OF NOTIFICATIONS :

All the existing notifications issued under several acts exempting/reducing the rate of tax and turnover tax for various commodities are reviewed and I propose to continue the exemption and reduction with the revised rates of TOT in respect of the commodities other than those mentioned in Annexure - VII.

154. Kara Samadhana Scheme

A number of assessments relating to the past years in respect Sales tax, Entry tax, Agricultural Income tax are under dispute and considerable revenue is locked up by way of stay orders issued by appellate authorities and courts. There are also other cases of default. To give finality to such disputes, and to reduce the arrears, as a one-time measure, I offer the following schemes:

1. If a dealer who has challenged the assessment orders and filed cases before appellate authorities or courts and such

cases are pending adjudication for over 5 years as on 27th March 2000 pays the assessed tax in full and also withdraws the cases filed by them on or before 30th September 2000, the penalties and interest levied/ leviable would be waived/written off

2. Dealers who are in arrears of assessed tax or any other amount due in respect of the above Acts relating to years upto 31.3.98 would be given the benefit of waiver of 50% of penalties and interest due on such amounts if they pay the tax and 50% of the penalties and interest on or before 31st July 2000.

I expect that the above measures will result in better tax compliance by the trade and industry and create an effective, efficient, and transparent tax administration.

155. Consequential amendments

The above measures necessitate amendments to the provisions of respective tax enactments. These amendments to gether with other amendments for rationalization will be placed before the house for consideration and approval.

Excise

156. In order to maintain parity with the licence fee structure prevailing in the neighbouring States, it is proposed to increase the licence fee on Distilleries, Breweries, Wineries, Bottling of Liquor, Wholesale liquor and Retail liquor licences etc. The details are given in the Annexure - VIII.

157. The duty on Arrack is proposed to be increased from Rs. 17 to Rs. 20 per bulk litre. The lable approval fee levied for liquor bottled within the State is proposed to be increased from Rs. 4000 to Rs. 10,000 and for liquor bottled outside the State but for Sale in Karnataka it is proposed to be increased from Rs. 10,000 to Rs. 25,000. These three proposals will be made effective from the beginning of the Excise year i.e., 1st July 2000. In order to rationalise the differential duty levied on liquors manufactured out of molasses based spirit and malt spirit, it is proposed to levy a uniform duty of Rs. 45 per bulk litre. The litre fee on IML (other than Beer) is proposed to be increased from Rs. 20 to Rs. 30 per bulk litre. A litre fee of Rs. 1.50 per litre will be levied on beer sold for sale in Karnataka.

158. The fee on rectified spirit for local use and issued for export (non potable purposes) is proposed to be increased from Re. 1 to Rs. 2 per bulk litre. However to encourage local distilleries, it is proposed to increase import fee on rectified spirit from Re. 1 to Rs. 3 per bulk litre. In order to encourage local industries, the Government intends to increase import fee on beer from Rs. 3 to Rs. 6 per bulk litre and import fee on IML from Rs. 5 to Rs. 10 per bulk litre. For the same

reason, it is proposed to reduce the export fee on Beer from Rs. 1 to 50 paise per bulk litre.

159. In order to regulate indiscriminate shifting of liquor shop premises, it is proposed to levy a fee equivalent to 25% of the licence fee for permitting shifting of shops from one premises to another at the request of the licensees.

160. The net additional resources mobilisation out of the above measures would be Rs. 100 crores for the financial year.

161. There are arrears in the department right from pre-independence days (i.e. 1946) to an extent of Rs. 306 Crores. The interest on arrears is mounting from year to year and now the outstanding principal amount is Rs. 142 Crores and interest there on is Rs. 164 Crores indicating that the interest is more than the principal amount. It has become very difficult to collect old arrears. Now my Government is determined to recover these dues by introducing a scheme like 'Kar Vivadh Samadhan'. Therefore it is proposed to introduce a scheme for waiver of interest wherever the defaulters come forward to pay the outstanding principal. The scheme will be in operation for a period of three months only and it is expected that this measure would help in speedy recovery of arrears.

162. The scheme of selling toddy through tappers co-operative societies as a socio-economic measure for the betterment of the tappers and to provide good toddy to the consumers, introduced few years back has not resulted in benefitting the toddy tappers due to steep fall in the number of toddy trees being tapped. Therefore it is proposed to revert back to the old system of disposing of the right to sell toddy through public auction. However initially this change will be given effect to in Sedam, Chincholi, Chittapur and Yadgir taluks of Gulbarga District and Raichur and Devadurga taluks of Raichur district from the Excise year 2000-2001.

Stamps and Registration

Stamp duty, Registration Fee and Societies Registration Fees :

163. I propose reduction of rates of stamp duty on Sale Deeds, to help the farming community and also the people residing in areas other than Bangalore Metropolitan Regional Development Authority (BMRDA) limits. Against the existing common rate of stamp duty of 10 per cent on Sale Deeds irrespective of the areas, there will be a reduction of 1 per cent of the stamp duty on the properties situated in urban areas other than BMRDA limits and reduction of 2 per cent of Stamp duty in respect of properties situated in Rural Areas, which will help substantially the farmers.

164. Depending upon the value of an apartment, the Stamp duty of 4 per cent, 6 per cent and 8 per cent is levied under the existing system. The said Stamp duty structure is now rationalised by providing stamp duty ranging from 2 per cent to 8 per cent depending upon the value of the Apartment. This will encourage building activity and encourage more people to come forward to this sector and is likely to increase the registration of Apartments.

165. Efforts are made to Rationalise the Stamp duty, Registration Fee and Fees under the Societies Registration Rules. For the benefit of all Women and SC/ST Societies, I propose 50 per cent concession in payment of Fees.

166. My Government shall consider 100% stamp duty exemption for key projects in Core Areas on a case to case basis.

167. The details of the above proposals are in Annexure - IX to Annexure - XI.

One time settlement scheme

168. There are a large number of undervaluation cases pending under Section 45-A of the Karnataka Stamp Act in Bangalore and other areas of the State. Previously, the said scheme of remission of 30 per cent of difference of duty chargeable on the values assessed by the Sub-Registrar and duty already paid for documents presented for registration on or before 16-3-1999, existed for a period of 6 months. The said scheme lapsed on 20-10-1999. Even though, the response to the said scheme was good, but, it was not up to expectation. Still there is a demand for reintroduction of the said scheme and a huge number of undervaluation cases are pending. In order to encourage early settlement of cases and to avoid possible litigation, I propose for the benefit of the Tax Payer, a revised "One Time Settlement Scheme". The scheme is applicable to all the documents presented for registration on or before 16-8-1999 and pending adjudication.

169. In the first phase, the scheme will be in operation from 1-4-2000 to 30-6-2000. Whoever has presented a document for registration on or before 16-8-1999 and comes forward to settle his undervaluation case during the first phase, will be allowed a remission of 30 per cent of the difference of stamp duty, additional stamp duty and registration fee chargeable on the values assessed by the Sub-Registrar and the duty already paid.

170. This facility of 30% concession is valid for initial 3 months. This will be reduced by 10% for those who pay after the expiry of 3 months. Even this 20% concession will be available for the next 3 months (1-7-2000 to 30-9-2000) only.

Release Deed

171. The levy of Stamp duty on instruments of Gift, Settlement and Release is on the market value of the property. Gift and Settlement are already subjected to the provisions of Section 45-A, which enables the authorities to act in case of undervaluation. Now it is proposed to bring the instrument of Release also within the ambit of Section 45-A.

172. By the rationalisation of tax and non-tax structure, there is likely shortfall of Rs. 77 crores. But, through additional resources mobilisation, higher compliance and increase in registrations, we anticipate an increase in revenue of Rs. 107 crores. Thus, the net increase in revenue will be around Rs. 30 crores.

MOTOR VEHICLE TAX

173. When compared with the tax rates prevailing in Southern States, Karnataka is levying the lowest rate of tax in respect of Tourist vehicle and vehicles covered by Tourist Transport Operator Permit. Therefore, I propose to enhance the rate of tax. In spite of this enhancement, the rate of tax now levied is less than the tax prevailing in neighbouring States.

174. I propose to enhance the existing rate of tax in respect of Omnibuses, Private Service Vehicles and Motor cabs. I also, propose to levy a uniform rate of tax in respect of Motor cars and Jeeps whose cost exceeds Rs. 6 lakhs, irrespective of the cubic capacity of the vehicle. A separate rate of tax has been proposed for Omnibuses and Private Service vehicles covered under Lease agreement and permits held by Industrial Undertakings or Companies for providing transportation to its employees.

175. Automobile Industries are introducing new models of Omnibuses and Private Service Vehicles under Light Motor Vehicle category. Hence, it is proposed to introduce one more clause for levy of Life Time Tax for vehicles having floor area exceeding Four (4.00) Square Meters but not exceeding Five (5.00) Square Meters.

176. I propose to reduce the rate of tax in respect of motorcabs having seating capacity of six, Maxicabs and Luxury Buses belonging to other States, plying in Karnataka to encourage tourism.

177. The changes proposed are detailed at Annexure - XII. These means will yield an additional revenue of Rs. 10.00 crores.

Revised Estimates 1999-2000

178. The Revised Estimates of total receipts are Rs. 16442.21 crores as compared to budget estimates of Rs. 17747.36 crores for 1999-2000. The total expenditure is expected to be

Rs. 16681.32 crores as per the revised estimates as against the budget estimates of Rs. 17818.63 crores for 1999-2000. After taking into consideration the surplus in the Public Account, the closing deficit for the year is likely to be Rs. 254.40 crores as against the expected deficit of Rs. 124.99 crores at the time of presentation of 1999-2000 budget.

Budget Estimates 2000-2001

179. The total receipts are expected to be Rs. 19664.76 crores comprising of revenue receipts of Rs. 15212.65 crores and capital receipts of Rs. 4452.11 crores. The total expenditure is estimated to be Rs. 20061.06 crores, out of which the revenue expenditure will be Rs. 17154.94 crores and capital expenditure will be Rs. 2906.12 crores.

180. Apart from the major tax revenues which I have already covered in my speech, the Government expects to raise Rs. 1454.86 crores from Small savings, Rs. 825.18 crores from market borrowings (net), Rs. 332.28 crores from negotiated loans and Rs. 1227.12 crores as total loans from the Central Government.

181. With these estimates, an overall deficit of Rs. 396.30 crores is expected for the year. Taking into account the opening balance of Rs. (-) 254.40 crores the closing balance as per the present rates of tax and non-tax revenue is estimated to be Rs. (-) 650.70 crores. After considering the impact of various changes in taxation, totalling to (+) Rs. 360 crores, the details of which are given in Annexure - XIII, the final closing balance for 2000-2001 will be Rs. (-) 290.70 crores. I hope to cover this deficit through expenditure control and buoyancy of taxes during the year.

182. I would like to express my appreciation to Sri Gopal Reddy, Finance Commissioner and his team who have strived hard in preparing this Budget.

183. I now commend the Budget Estimates 2000-2001 for the consideration and approval of the House. The entire budget will be discussed on the floor of the house in April. The Government will then seek approval of the full budget. I seek a Vote on Account for a period of four months ending July 31, 2000.

Jai Hind — Jai Karnataka