



**State Budget 2003-04**

**Budget Speech-TAX Proposals**

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144. I now go to the tax proposals.

#### COMMERCIAL TAXES

145. We are on the threshold of a paradigm shift in sales tax reform. With effect from April 2003, Karnataka will introduce Value Added Tax (VAT), an internationally accepted non-cascading, fair, equitable and transparent tax in place of sales tax.

146. Sir, the Karnataka VAT Bill is before the legislature. This bill will provide the legislative frame work for VAT.

147. From being a mere tax collector, the tax administration will now be transformed into a responsive, service oriented agency. My Government has taken all steps to make this transition from sales tax to VAT, smooth and successful.

148. Sir, our likely revenue loss during the first year is expected be about Rs.750 Crores. Government of India has stood by us in tax reform efforts and is expected to fully compensate the revenue loss in the first year of introduction of VAT. The revenue loss compensation will be 75% in the second year and 50% in the third year.

149. My Government also hopes that necessary amendments will be made by Government of India to enable States to tax services.

**150.** Under VAT as specified in the Karnataka VAT Bill, commodities fall under three major categories.

**151.** Goods of necessity like fresh vegetables, fruits, coarse grains, manual agricultural implements, etc., exempt from tax are listed under first schedule. Petrol, diesel, Aviation Turbine Fuel, sugarcane and lottery tickets which are sought to be continued under the present sales tax system are also in this schedule.

**152.** Rectified Spirit and liquor including Beer, Fenny, Wine and Liqueurs will continue under the Excise Act.

**153.** Goods of mass consumption like safety matches, edible oil, bread, mechanical agricultural implements, identifiable raw materials and declared goods will be taxable at 4% and are listed in the third schedule.

**154.** All the remaining commodities are taxable at a standard rate. As agreed by all the States such standard rate, Sir, would be 12.5%.

**155.** Certain commodities are exceptions to this tax of 12.5% and are taxable at 1% and 20%. The commodities taxable at 20% are all demerit goods and in line with the national consensus, I propose to deny input tax credit to them.

**156.** The details of commodities taxable at different rates are furnished in Annexure-II.

**157.** I propose to levy VAT on textile, sugar, tobacco and tobacco products after the State Government is permitted to do so, at appropriate rates keeping in view the tax rates adopted by other States and also the interests of our trade and industry.

**158.** Sir, under VAT we have to notify the industrial inputs and packing materials taxable at 4%. Similarly the list of IT Products taxable at 4% VAT also needs to be notified. As per the

common list agreed to by all the States, I propose to notify such commodities as listed in Annexure-III.

159. Sir, I would like to emphasise here that introduction of VAT would not and should not lead to increase in prices of goods. Though a few commodities would bear a higher tax than the present tax, because of lower tax on most of the commodities, the total tax on a basket of goods of a common consumer would be lower than the present tax. This is because the Revenue Neutral Rate under VAT is 15% as against 12.5% that we are proposing to adopt.

160. Also under VAT, unlike in the present sales tax system, tax is levied only on the value addition at each stage of production and distribution chain of a commodity. I hope that the trade and industry would pass on the benefit of VAT to the consumers.

#### SALES TAX :

##### Tax exemption :

161. Sir, as mentioned by me earlier, I propose to retain Petrol, diesel, Aviation Turbine Fuel, sugarcane and lottery tickets under the present sales tax system. Petroleum products because, there is no value addition at their subsequent sale points, sugarcane because it is taxable at purchase point and lottery tickets because of the complexity in determining its taxable value. I propose to exempt all other commodities from sales tax.

##### Exemption from registration and payment of registration/renewal fee :

162. I propose to exempt all dealers required to register under VAT and not dealing in goods liable for sales tax, from getting registered under the Karnataka Sales Tax Act. I also propose to exempt dealers registered under VAT from payment of registration and renewal fee under the Karnataka Sales Tax Act.

## RELIEFS

163. I propose to reduce sales tax to 4% on Avgas sold to flying schools to revive and encourage them.

164. I also propose to reduce sales tax to 4% on ATF and Avgas used by regional airlines connecting new regional destinations to encourage them to expand their operations and provide air connectivity to important tourist and industrial centers in the State. In particular, I would look forward to regional air services commencing operations to destinations such as Mysore, Hubli, Bellary, Hospet, Gulbarga and Belgaum.

## CENTRAL SALES TAX

165. The Government of India has announced reduction of CST rate from the current rate of 4% to 2% in the year 2003-04 as part of the CST phase out. The loss of revenue to the State from the proposed reduction of CST would be about Rs.442 Crores. Government of India will compensate the States for the loss of revenue from this reduction after arriving at a consensus with the Empowered Committee of State Finance Ministers.

## LUXURY TAX

### Additional Resource Mobilization Measures :

166. I propose to:

- (i) levy luxury tax on telephone charges collected by hotels and lodging houses by withdrawing the present exemption available to such charges collected.
- (ii) levy luxury tax on luxuries provided in clubs as Rs.600 per annum per member.

### Reliefs :

167. I propose to reduce luxury tax rates on hotels and lodging houses as in Annexure-IV to encourage tourism industry.

**168. I propose to increase the exemption limit in respect of Kalyana Mantapas from the present Rs.2000 to Rs.5000 per day as a measure of relief to the poorer sections of the society.**

**Profession Tax :**

**Rationalisation Measure :**

**169. Harmonisation of rates : As recommended by the Tax Reform Commission, I propose to harmonise the number of rate slabs in general and exemption periods in the case of self-employed persons to make the tax more simple and equitable, as in Annexure-V.**

**Additional Resource Mobilization Measures :**

**170. I propose to:**

- (i) levy tax on new professions as in Annexure-VI.**
- (ii) levy tax on every branch of self-employed persons.**

**Entry tax :**

**Rationalisation measures :**

**171. In line with similar provisions under the Karnataka Sales Tax Act, I propose to,**

- (i) to fix a time limit of 90 days to the first appellate authorities for disposal of appeals covered by stay orders.**
- (ii) restore the stay powers to State Appellate Tribunal to the extent of 50% of the tax disputed in second appeals and fix a time limit of 180 days for disposal of such appeals.**

**172. I propose to permit dealers to issue self-printed declarations towards payment of entry tax paid by on goods sold, instead of the present Form-40 declarations to be obtained from the Department.**

**173. I propose to empower the Committee of Additional Commissioners set up to issue statutory clarifications on classification of commodities, tax rates and eligibility of transactions to tax under the Karnataka Sales Tax Act to issue similar clarifications under the Entry Tax Act.**

**Entertainment Tax :**

**Reliefs :**

**174. I propose to exempt tax on sponsors of sports events.**

**Rationalisation Measures :**

**175. I propose to levy an additional tax of Rs.1 and Rs.0.50 per admission on AC and Non-AC theatres respectively.**

**176. I propose to revise the rates of composition of tax in respect of cable and satellite TV operators as in Annexure-VII, as the current rates are low when compared to tax on cinema.**

**Betting Tax :**

**177. I propose to revise the composition amounts payable in respect of horse racing as in Annexure-VIII.**

**178. As the present sales tax on lottery tickets is not generating revenue at the desired levels, I propose to levy a more efficient betting tax on lotteries by bringing a new enactment.**

**Agricultural Income Tax :**

**Relief**

**179. I propose to continue the concessions on Agricultural Income Tax that I had announced for the year 2002-2003 during the year 2003-04 also in view of the drought.**

**180. Consequential Amendments :** The relevant tax laws need amendments to implement the above proposed measures. These amendments together with other amendments for rationalization will be moved.

#### **EXCISE**

**181.** I propose to levy excise duty on liquor supplied to Canteen Stores Department at the rate of Rs.40 per bulk litre, instead of Rs.20 per Bulk litre levied at present.

**182.** I also propose to levy litre fee at the rate of Rs.15 per Bulk Litre on liquor costing a basic price of Rs.351 and above per case on liquor supplied to Canteen Stores Department.

**183.** I propose to increase the minimum basic price of liquor excluding Fenny, Beer and Wine to Rs.350 per case for the purpose of levying Additional Excise Duty and consequently I propose to levy a minimum Additional Excise Duty at Rs.130 per Bulk litre.

**184.** In order to rationalise the fee on export of liquor, I propose to increase export duty on Indian Made Liquor from Rs.2.50 per Bulk litre to Rs.3.50 per Bulk litre and on Beer from 50 Paise to Rs.1 per Bulk litre.

**185.** I propose to levy a fee of Rs.2 per bulk litre on denatured anhydrous alcohol supplied to oil companies for the purpose of mixing with petrol.

**186.** The above provisions will come into force with effect from 1st April 2003.

**187.** On sub-leasing of Distilleries/Breweries/Wineries by the licensees to third parties, I propose to levy a fee equivalent to ten percent of the licence fee on Distilleries/Breweries/Wineries at the time of granting permission for sub-leasing and thereafter at the time of renewal of such licences every year.

**188.** I propose to create a special category of retail licence for Government owned companies, with a condition that, such shops shall be

exclusively maintained by them and shall not be transferred or sub-leased to others. Consumption of liquor within the licensed premises will not be allowed under this category of licences. The licence fee for such shops shall be Rs. One lakh per year.

189. I propose to levy a special fee of Rs. One lakh for granting special permission to bottle liquor in less than 180 ml capacity.

190. I propose to reduce the fee levied on wholesale licences issued for shops located in city municipal corporation limits with a population of above 20 lakhs from Rs. 8.25 Lakhs to Rs. 7.25 Lakhs and in case of wholesale licences issued for shops located in other areas from Rs.6.75 Lakhs to Rs. 5.75 Lakhs per annum.

191. I also propose to reduce licence fee in respect of clubs(CI-4) located in town municipal council and town panchayat areas from Rs. 70,000 to Rs. 60,000 per annum and in respect of clubs located in other rural areas from Rs.60,000 to Rs. 50,000 per annum.

192. At present, a licensee who is granted a licence to sell Indian Made Liquor is permitted to sell foreign liquor (imported from outside India) on payment of an additional licence fee equivalent to ten percent of the licence fee. It is proposed to permit the sale of foreign liquor (imported from outside India) on payment of an additional licence fee of Rs.25,000 in case of wholesale licences (CL-1), Rs.5,000 in case of Clubs and Rs.10,000 in respect of all other licences granted for sale of liquor under the Karnataka Excise (Sale of Indian and Foreign Liquors) Rules, 1968.

193. The above provisions will come into force with effect from July 1st 2003.

194. In order to ensure proper utilization of rectified spirit and denatured spirit, I propose that the requirement of rectified spirit and denatured spirit for industrial concerns and



pharmaceuticals will be supplied only through the warehouses established by Government companies. For this purpose, Warehouse licences will be issued to such Government companies for purchase and sale of rectified spirit and denatured spirit to industrial concerns and pharmaceuticals in the State.

195. It is proposed to give confiscated liquor to Government Companies free of cost with a condition that Excise Duty, Additional Excise Duty and Litre fee shall be paid to Government at the time of selling such confiscated liquor to the licensees.

196. In order to strengthen enforcement measures, I propose to introduce independent third party inspection in critical areas of management of Distilleries, Breweries and Excise Warehouses.

#### STAMPS AND REGISTRATION

197. Taking forward my Government's initiative on tax reforms, I propose to rationalize stamp duty and registration charges. The Tax Reforms Commission had recommended and I quote, "The Commission recommends that, to remove discriminatory treatment of equals, in the interest of horizontal equity, the incidence of all levies on conveyance (including surcharge, additional stamp duty and registration fee) should be limited to 9% of the market value in all areas without differentiation".

198. Sir, Based on this recommendation, I propose to reduce the stamp duty from 10% to 8% on conveyances, for property situated within the limits of Bangalore Metropolitan Regional Development Authority, and from 9% to 8% for property situated in city corporations, city municipalities, town municipal councils and town panchayaths outside the limits of BMRDA. The Karnataka Stamp Act 1957 will be amended accordingly.

199. I also propose to bring down the Registration fee to 1% from 2%.

200. I propose to levy surcharge of 2% and 3% on the stamp duty instead of the existing additional duty on behalf of the local bodies, as prevailing in the Section 99, of the Karnataka Municipalities Act, 1964, even in the areas of Municipal Corporations and Taluk Panchayats. The relevant Acts will be amended accordingly.

201. This progressive measure of rationalizing the stamp duty and registration fee is yet another step in my Government's commitment to provide citizen-centric services and good governance. This measure should also encourage better compliance by the citizens to declare correct value in their documents on property transactions and prevent evasion of stamp duty.

202. To ensure that the rationalization of stamp duty is implemented effectively and to eliminate evasion, I propose to constitute a Central Valuation Committee under the Commissioner of Stamps for the estimation, publication and revision of market value guidelines of real estate in the State.

203. This Central Valuation Committee will be responsible for bringing in a scientific approach to the assessment of market value guidelines in the State for formulation of right policy, methodology and administration of the market value guidelines for property transactions in the State.

204. The Committee will also address the inconsistencies that exist in the assessment of market values to facilitate the widening of the tax base, which is at present limited to Bangalore and a few other cities.

205. With effect from April 1st 2003, the use of stamp papers and stamps including judicial stamps will be discontinued. With this, the process of elimination of fake stamp papers and stamps will be completed.

206. I propose to exempt levy of court fee stamp upto Rs.10 both for judicial and non-judicial purposes.

207. Suitable amendments to the Karnataka Court Fees and Suits Valuation Act, 1958 as well the Karnataka Stamp Act, 1957 will be made.

208. I propose to bring down the stamp duty rate on Mortgages from 3% to 0.5%.

209. I propose to increase the stamp duty on GPAs related to the sale of properties from 3% to 8% on par with conveyances.

210. I propose to remove the slab rates on the sale of apartments and flats and bring in an uniform conveyance rate on all the conveyances related to apartments and flats to 8%.

211. I propose to levy duty on sale deeds of properties executed by house building co-operative societies in pursuance of lease-cum-sale deeds executed before March 31st, 2001 on market value of property prevailing on the date of execution of lease-cum-sale deed of such properties.

212. In view of the above rationalization of the stamp duty and registration fee, concessions on stamp duty and waiver of registration fee which were in force under various policies will stand withdrawn from April 1st, 2003.

213. The details of these rationalization measures are shown at Annexures IX and X.

#### **MOTOR VEHICLE TAXES**

214. The principal problem in the transport sector is that supply is woefully short of the growing demand for public transport services. This mismatch has put the common citizen to considerable difficulty and inconvenience. The inadequacy of state transport undertaking run passenger services has resulted in several

distortions including unregulated and clandestine operation of private passenger services seriously jeopardizing the safety of passengers and considerable dilution of traveling comfort. The brunt of this is being borne by the rural population.

215. Over loaded unauthorized maxicabs causing serious accidents, substituting brazenly for nationalized buses; goods vehicles like trucks and tractors designed for agricultural operations taking on passenger load on routes inadequately served by the state transport undertakings and roof top traveling is rampant.

216. The Tax Reforms Commission has examined this problem in considerable detail and I quote "Inadequacy of public transport facilities due to various factors seems to be creating conditions of artificial scarcity. Unless private operation is permitted optimum operation of passenger services and consequent improvement in comfort and safety standards is unlikely".

217. The Tax Reforms Commission has therefore made a strong case for repeal of Contract Carriages (Acquisition) Act in the interest of the passenger comfort and safety. Therefore, I propose to repeal the Karnataka Contract Carriages (Acquisition) Act, 1976. This will pave the way for private contract carriages through out the state.

218. The Tax Reforms Commission has also recommended that stage carriage permits should also be given to private operators within 20 kms of district headquarters. I propose to implement this recommendation. A separate scheme for introduction of city/town services within the radius of 20 kms in and around the district headquarters excluding Bangalore will be implemented. Necessary amendments will be made to the various schemes notified by the Government.

219. These measures will be administered by the Regional Transport Authorities at the district level and by the State Transport Authority at the State level. Action will also be taken to rationalize slabs and tax rates suitably.

220. The Tax Reforms Commission has also recommended that state transport undertaking should be brought on par with the private stage carriages and taxed in the same fashion. I propose to enhance the present rate of tax from 6% to 7% on vehicles operating on moffusil routes and 3% to 5% on vehicles operating on city/town limits on the gross traffic revenue earned by state transport undertakings.

221. I also propose to enhance the ad-valorem rate of tax from 7% to 9% on new motor cars/jeeps and omnibus/private service vehicles having floor area up to 5 sq. meters and 10% in respect of vehicles the cost of which exceeds Rs.10 Lakhs at the time of registration. Necessary amendments will be made to the tax schedule.

222. I propose to rationalize and reduce the rate of tax on tourist vehicles from Rs.2,250 to Rs.2,000 per seat per quarter and Rs.4,000 to Rs.3,000 per sq. meter on campers van respectively to encourage tourist related activities in the state.

223. With the introduction of computerization in the Transport Department, prompt, efficient and better services will be provided to the citizens. It is proposed to levy user charges of Rs.10 for each computerized document in addition to the regular fees payable to the Government.

224. LPG is being encouraged as an alternate eco-friendly and clean fuel for vehicles. To encourage the auto-rickshaws to use LPG, it is proposed to grant permits liberally to auto-rickshaws fitted with LPG by relaxing the quota/restrictions on grant of permits in major cities.

225. Further, to encourage retrofitting of LPG for in-use auto-rickshaws, the Government proposes to provide interest subsidy of Rs.2,000 per auto-rickshaw out of the Green Tax that is being collected.

226. The changes proposed are detailed at Annexures XI to XIII.

#### **ELECTRICITY TAX**

227. There are different rates of tax applicable to different categories of consumers based on their electricity consumption. These rates were last revised during 1996.

228. I propose to rationalize the existing tax structure, and introduce an ad valorem tax at 5% of total electricity charges payable by all the consumers, except agricultural consumers and Kutira Jyothi and Bhagya Jyothi consumers, as per the rates fixed by KERC from time to time. This tax structure would replace the existing tax structure effective from the 1st metering dates of consumers of electricity in the State on or after April 1st 2003. Necessary amendments will be made.

#### **REVISED ESTIMATES 2002-03**

229. The Revised Estimates of total receipts are Rs.24,745.75 Crores as compared to budget estimates of Rs.25,542.05 Crores for 2002-03. The total expenditure is expected to be Rs.24,915.76 Crores as against the budget estimates of Rs.25,597.32 Crores for 2002-03. After taking into consideration the surplus in the Public Account, the closing deficit for the year is likely to be Rs.(-)173.34 Crores as against the expected deficit of Rs. (-)153.28 Crores at the time of presentation of the 2002-03 Budget.

#### **BUDGET ESTIMATES 2003-04**

230. The total receipts are expected to be Rs.26,907.08 Crores comprising Revenue Receipts of Rs.19845.17 Crores and Capital

Receipts of Rs.7,061.91 Crores. The total expenditure is estimated to be Rs.26,839.43 Crores out of which revenue expenditure will be Rs.21,980.50 Crores and capital expenditure will be Rs.4,858.93 Crores.

231. Apart from major taxes, which have already been covered in my speech, the Government expects to raise Rs.1,814.40 Crores from Small Savings, Rs. 973.51 Crores from market borrowings (net), Rs.522 Crores from negotiated loans and Rs.2,931.50 Crores as total loans from the Central Government.

232. The Revenue Deficit works out to Rs.2135.32 Crores and the Fiscal Deficit works out to Rs.6,032.79 Crores.

233. With these estimates, an overall surplus of Rs.67.66 Crores is expected for the year. Taking into account the opening balance of Rs. (-)173.34 Crores, the closing balance is estimated to be Rs.(-)105.68 Crores. I hope to cover this deficit through expenditure control and fiscal management during the year.

234. I now commend the Budget Estimates 2003-04 for the consideration of the House. The entire budget will be discussed on the floor of the House. I now seek approval of the full budget for 2003-2004.

Jai Hind – Jai Karnataka

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