



Government Of Karnataka

**HIGHLIGHTS  
OF  
KARNATAKA BUDGET  
2004 - 2005**

## **HIGHLIGHTS OF BUDGET 2004-05**

### **GENERAL**

- ❖ Common Minimum Programme adopted by the Government to be implemented in next five years.
- ❖ The budget reflects the priorities of the Common Minimum Programme.
- ❖ After a gap of 8 years of budgets with revenue deficit, this budget has a revenue surplus of Rs. 72.84 Crore. This signals the commitment to reform state finances and to ensure that the current expenditures are met by current revenues. Increased revenue balances in future years will enable creation of additional assets and also ensure that the borrowings are only used for capital expenditure. The fiscal deficit is reined in at Rs. 4246.64 Crore compared to Rs. 5564 Crore in 2003-04 (RE)

### **STATE OF ECONOMY**

- ❖ The growth of Karnataka has been high in the nineties, but there has been a slowdown in the early part of this decade. This slowdown has been mainly due to the effect of drought on agriculture.
- ❖ Average inflation rate for the period 1993-94 to 1999-2000 has been about 7%, in the period 2000-01 to 2003-04, it has been about 3.5%.
- ❖ It is possible to achieve and sustain a medium-term real growth average of 8%.

### **UNION BUDGET AND THE STATE**

- ❖ Centre will be urged to allow states to levy and retain Service Tax on all services except a few of inter-state importance.
- ❖ The reduction in interest rates on plan assistance is a welcome measure but even the loan to grant ratio needs to be reviewed.
- ❖ States should be allowed to prepay negotiated loans given by Central FIs e.g. LIC, GIC and NCDC.

### **STATE'S FINANCES – A BRIEF OVERVIEW**

- ❖ The outstanding debt has gone up from Rs. 12,465 Crore in 1998-99 to Rs. 30,188 Crore in 2003-04.
- ❖ The outstanding debt of State's SPVs has grown from Rs. 2,146 Crore in 1998-99 to Rs. 7,082 Crore in 2003-04.
- ❖ Non-developmental expenditure has grown up from Rs. 8,280 Crore in 1998-99 to Rs. 14,700 Crore in 2003-04 pre-empting 75% of State's Revenue Receipts.

- ❖ The salary expenditure has grown from Rs. 4,900 Crore in 1998-99 in Rs. 8,700 Crore in 2003-04, an increase of 77%.
- ❖ Fiscal Deficit has increased from 3.54% in 1998-99 to 4.26% in 2003-04.

### **KARNATAKA AND THE HUMAN DEVELOPMENT INDEX**

- ❖ Karnataka has slipped from 6th place to 7th place on Human Development Index.
- ❖ Principal objective to create conditions over next five years to achieve Millennium Development Goals.

### **THE FISCAL PARADIGM**

- ❖ Seven key elements to achieve rapid economic growth with equity.
- ❖ Enhanced resource mobilisation.
- ❖ Reduction in non-developmental expenditure.
- ❖ Enhanced allocation on development expenditure in key social sectors.
- ❖ Enforcing efficient subsidy management across sectors.
- ❖ Improving productivity of public expenditure.
- ❖ Ensuring Fiscal Responsibility.
- ❖ Strengthening institutional measures against corruption to prevent leakage of revenue on the resource side as well as in expenditure.

### **AGRICULTURE AND THE RURAL ECONOMY**

- ❖ The interest rate on Agricultural loans being disbursed through the cooperative credit network to be brought down to 6%. A subsidy of Rs. 60 Crore to be provided for the purpose.
- ❖ The dues of farmers, who have already paid back more than the principal and simple interest, waived. Government to provide a budgetary support of Rs. 49 Crore for the purpose.
- ❖ Rs. 83 Crore provided to meet interest waiver on agricultural loans announced by the previous Government.
- ❖ Comprehensive Watershed development programme to be taken up at a cost of Rs. 100 Crore.
- ❖ Allocation for crop insurance enhanced to Rs. 241 Crore in the current year.
- ❖ Rs. 50 Crore provided for seed subsidy this year.
- ❖ Bacterial and viral vaccines for animals to be supplied free of cost.
- ❖ Rs. 3 Crore support to Karnataka Sheep and Wool Development Corporation.

- ❖ Exemption on Sales Tax on diesel to fishermen for mechanised boats to continue.
- ❖ Plan outlay for the agriculture enhanced from Rs. 412 Crore in 2003-04 to Rs. 840 Crore in 2004-05, a growth of 104%.

### **FOOD SECURITY**

- ❖ 20kg of rice and 5kg wheat per month per family to be given at Rs. 3 per kg
- ❖ Weeding of illegal cards to ensure better targeting of subsidy.

### **PRIMARY EDUCATION AND PRIMARY HEALTH**

- ❖ Mid day meal scheme to be extended upto class 7th in both Government and Grant-in-Aid schools.
- ❖ Plan allocation to education increased to Rs. 860 Crore, an increase of 40% over last year.
- ❖ Multi-pronged approach to reform in education.
- ❖ Medical Relief Fund, which benefits farmers not covered under Yashasvini, to be augmented to Rs. 50 Crore.
- ❖ A new, five year project, "Health and Nutrition Project", at an estimated cost of Rs. 765 Crore in the health sector, aimed at strengthening public health systems and primary health care to be started.

### **DEVELOPMENT OF SC/ST, BACKWARD CLASSES AND MINORITIES**

- ❖ Ganga Kalyana to be given thrust.
- ❖ New residential schools for SC/ST, Backward Classes and Minorities in Northern Karnataka.
- ❖ Rs. 20 Crore to be allocated for training and self employment for Backward classes.
- ❖ A comprehensive survey of Backward Classes to be taken up with central assistance to enable better planning and targeting of welfare programmes.
- ❖ A new post of Secretary for Minorities Development.
- ❖ Purchase preference upto 50 % to be given to SC/STs and OBCs in procurement not covered under KTPP Act.

### **WOMEN AND CHILD DEVELOPMENT**

- ❖ Rs. 16 Crore provided for Revolving Fund and training of newly formed groups.
- ❖ Rs. 6 Crore provided for construction of Anganwadi Centre.

## **FOCUS ON NORTH KARNATAKA**

- ❖ The plan allocation to HKDB enhanced by 75%.
- ❖ Rs. 20 Crore provided for High Court bench in Northern Karnataka.

## **TOWARDS GOOD GOVERNANCE**

- ❖ Cost of public delivery to be reduced
- ❖ Recruitment freeze to continue, functional reviews of departments to be completed, redeployment and VRS to be operationalised.
- ❖ Reverse merger of department in line with reduction in number of ministries.
- ❖ Set of Pension Reforms to be taken up.
- ❖ Strict economy measures in Administrative Expenditure to be followed.

## **INDUSTRY AND INFRASTRUCTURE**

- ❖ To clear pendency in small scale subsidy, KSFC to raise resources from the market, to the extent of Rs. 65 crores.
- ❖ Minor Airports to be taken up in Mysore and Gulbarga, Rs. 5 crore allocated.
- ❖ Industrial infrastructure and transport infrastructure in rural areas to be supported through the Infrastructure Initiative Fund.
- ❖ Financial Assistance to Institute of Biotechnology and Applied Bioinformatics.
- ❖ A comprehensive package of facilities for weavers.

## **REFORMS IN THE POWER SECTOR**

- ❖ Range of reforms in Power sector will include increase in collection efficiency, implementation of Anti-theft Act, enforcing strict energy audit, performance based subsidy release and supply regulation.
- ❖ Good quality of Electric supply will be ensured in rural areas.

## **CM's ROAD FUND**

- ❖ Making road maintenance a funded activity.
- ❖ CM's Road Fund to cover all roads.
- ❖ The Fund to be supported through road cess and a tolling policy.

## **COMMERCIAL TAXES**

### ***Sales Tax***

- ❖ Effort to bring all commodities of mass consumption to be brought under the rates of 1% and 4%. Taxes on 125 commodities and 43 types of work contracts reduced.

- ❖ Current tax rates rationalized. Tax rate slabs reduced from current level of 14 to 7.
- ❖ Increase rates on certain commodities.
- ❖ Measures to simplify tax administration and encourage better compliance.
- ❖ Tax on number of commodities reduced to bring it on par with neighbouring states.
- ❖ Levy road cess of 10% and infrastructure cess of 5% on certain commodities.
- ❖ Reorganisation of Commercial Taxes Department on a functional basis as a preparation for VAT.
- ❖ Computerisation of major check posts and abolition of four intermediate check-posts and convert them into mobile check posts.

### ***Central Sales Tax***

- ❖ Tax on inter-state sales of plastic woven sacks, laminated woven sacks and copper rods reduced to 1%.

### ***Entry Tax***

- ❖ Set-off of central sales tax paid by consumers against entry tax payable on motor vehicles brought from outside the State provided.
- ❖ New enactment providing for levy on tax on high value goods brought into the State at the same rate as the sales tax rate to prevent trade diversion and protect the local trade and industry.

### ***Entertainment Tax***

- ❖ Entertainment Tax on films reduced to 40%
- ❖ Entertainment tax levied on admission to live telecast of horse races in the turf clubs.
- ❖ Tax exemption limit of Rs. 250 in respect of admission to entertainments other than cinematographic and video shows held in Bangalore Urban Agglomeration and City Municipal Corporation limits reduced to Rs. 50 per head.

### ***Profession Tax***

- ❖ An amnesty scheme for recovery of all arrears for the period ending 31st December 2003 proposed.
- ❖ A self-assessment scheme for small employers introduced.

### ***Betting Tax***

- ❖ Composition amounts payable in respect of horse racing fixed at the rate of 4%.
- ❖ Interest to be levied on delayed payment of Betting Tax.

### ***Luxuries Tax***

- ❖ Current exemption limit of Rs. 400 per day for hostels and lodging houses to Rs. 150 per day.

- ❖ Luxury tax rates revised.
- ❖ Benefit of levy of luxury tax on actual charges collected withdrawn and the old taxation system restored.
- ❖ Tax at 8% on accommodation and other luxuries provided in hospitals, therapy centres and the like where the charges are more than Rs.1000 per day levied

### **EXCISE**

- ❖ No change in IML duty structure.
- ❖ Rectified Spirit and Denatured Spirit to be canalised through KSBCL.
- ❖ Duty on arrack reduced from Rs 20 to Rs. 2.
- ❖ Manufacture of arrack liberalised.
- ❖ The reforms expected to bring additional of Rs. 300 Crore to the State exchequer.

### **STAMPS AND REGISTRATION**

- ❖ Central Valuation Committee to revise the guidance values for the cities of Mysore, Mangalore, Belgaum, Gulbarga, Hubli-Dharwad and Davangere.

### **MOTOR VEHICLE TAX**

- ❖ Tax on luxury cars, jeeps and utility vehicles costing more than Rs. 5 lakh but less than Rs. 10 lakh to be raised from 9% to 10%.
- ❖ Tax on luxury cars, jeeps and utility vehicles costing more than Rs. 10 lakh to be raised from 10% to 12%.
- ❖ The programme of computerisation to be extended to as many RTOs as possible.

### **NON-TAX REVENUES**

- ❖ Recommendations of the Revenue Reforms Commission to be implemented. An action plan to be prepared for the same.
- ❖ Online and internet lotteries to be banned.

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