

HIGHLIGHTS OF KARNATAKA BUDGET 2005-06

GENERAL

- ❖ Second Budget of successful coalition government reiterates principles enshrined in Common Minimum Programme.
- ❖ In line with last year's budget (2004-05) budget of 2005-06 focuses on the "Growth with equity".
- ❖ The budget claims achievements on a number of fronts and also states that still lot needs to be achieved; the guiding beacon being the goals set in Common Minimum Programme.
- ❖ Development emphasis to facilitate the economically and socially weaker sections of the society to live with dignity and to improve the income of agrarian and downtrodden population of Karnataka.

STATE OF ECONOMY

- ❖ State witnessed a growth of 11.7% in current year over the last year, highest in last six years. With inflation at 3.9% the real growth rate for 04-05 is estimated to be 7.8%.
- ❖ Biggest contribution to economic recovery has been from the agricultural and allied sectors. After witnessing growth of -14.5%, 0.8% and -1.8% in 2001-02, 2002-03 and 2003-04, the sector grew at 11.2% in the current year. Within Primary Sector, the growth in agriculture is estimated to be 13.0%. The growth rate of secondary and tertiary sector at current rates is estimated to be 11.3% and 12.0% respectively.
- ❖ Revenue Surplus for 2005-06 estimated to the Rs.854.46 crores (0.52% of GSDP). Fiscal deficit estimated to be Rs.4714.46 crores (2.86% of GSDP). Consolidated revenue surplus, estimated to be Rs.63.44 Crores.
- ❖ Future is optimistic and state to continue its emphasis on rural sector growth and investment in infrastructure.

UNION BUDGET AND THE STATE

- ❖ Union budget 2005-06 evokes mixed feelings. Increased allocation to health, rural employment and education is encouraging. Special assistance of Rs.100 crore to Indian Institute of Science for upgrading it to world-class university is a welcome step.
- ❖ State is totally geared up to switch over to VAT regime. Union Government has supported State's initiative by assuring 100% compensation for loss of revenue.
- ❖ State's request for according special status to Hyderabad-Karnataka region, empowering State Governments to levy service tax, enhancing the ceiling of professional tax and to provide funds for social sector programmes as 100% grant still remain unattended.

TWELVETH FINANCE COMMISSION

- ❖ Though State's entitlement from divisible pool is reduced, its compliance to Fiscal Responsibility Act will get the benefit of restructuring of central loans.

STATE'S FINANCES- A BRIEF OVERVIEW

- ❖ State has achieved a significant increase in tax and non-tax resources through rationalization of tax structure. Growth rate in commercial tax is the highest in the country.
- ❖ Non-development costs have been brought down by swapping high cost loans and right sizing of Government. Additional resources have been used to support development expenditure on health, education and public infrastructure. For the first time in the last several years the budgetary targets in resource mobilization would be achieved and in 2004-05 there would be no cut in plan size.
- ❖ Karnataka has achieved Fiscal Responsibility Act targets well before time and Government of India has awarded Fiscal Incentive Grant of Rs.185 crore to state for this. Fiscal Policy and Analysis Cell to be set up.

- ❖ State has come out of debt stress. Debt to GSDP ratio is about 31%. Debt to TRR is 189%, Interest to TRR is 14%, and Debt growth to revenue growth is 0.8, FD to TRR is 16%. This has enabled state to borrow from financial institutions at competitive terms and conditions. Further borrowing to be on the basis of affordability rather than availability.

AGRICULTURE AND IRRIGATION

- ❖ It is proposed to increase the state's contribution to the revolving fund for market intervention by Rs.40 crore.
- ❖ Plan outlay for irrigation sector has been increased from Rs.3024 crores in 2004-05 to Rs.3942 crores in 2005-06. Funds required by KNNL, KBJNL and CNL during this year to take up all the programmed activities have been fully provided. To complete long pending projects like Karanja, Amarja, Bennitora, proper maintenance and modernization of Bhadra and Tungabhadra project and other projects, Rs.200 crore has been earmarked.
- ❖ Emphasis given to minor irrigation sector. World Bank and NABARD aided tank irrigation project to be implemented. Allocation to minor irrigation increased substantially to Rs.441 crore from Rs.287 crore.
- ❖ Rs.5 crore for adoption of Israeli Technology in 10 most backward taluks in about 2000 ha of horticulture plantation. Under drip irrigation Rs.6 crore is provided. State to provide matching contribution under National Horticultural Mission.
- ❖ Rs.200 crore to be provided as state's share towards crop insurance.
- ❖ Rs.32.34 crore set aside for supply of cheap and quality seeds to farmers.
- ❖ Allocation to Agricultural research increased from Rs.17 crore in 2004-05 to Rs.27 crore in 2005-06.

- ❖ Interest subsidy of Rs.80 crore provided for crop loans availed by agriculturists from cooperatives at 6%.
- ❖ Rs.450 crore provided for waiver of the interest and penal interest on the short term, medium term and long term loans availed by the farmers and coffee growers upto 31.3.04. Principal to be credited by farmers within June 2005.
- ❖ Exemption to all farmers from payment of registration charges while availing agricultural loans.
- ❖ Rs.5 crore set apart for Yashaswini scheme.
- ❖ In the centenary year of Cooperation movement, Kanginhal village to be developed as a model village and K.H.Patil Cooperative training institute to be established at Dharwad. Rs.1 crore earmarked for this.

ANIMAL HUSBANDRY AND FISHERIES

- ❖ Allocation for purchase of drugs increased to Rs 10crore. For free supply of foot and mouth vaccines through government dispensaries Rs.2.25 crore is set apart.
- ❖ 69 veterinary centers to be opened in 39 most backward Taluks as per the recommendations of High Powered Committee on Regional Imbalances.
- ❖ Rs.5 crore set apart for an insurance scheme called "Karnataka Janashree Vima Yojana" under which the sheep and shepherds who are solely dependent on sheep husbandry are proposed to be covered.
- ❖ Sales tax exempted diesel limit for mechanized fishing boats to be enhanced from 50000 KL to 55000 KL

SERICULTURE

- ❖ Rs.25.25 crore for implementing Catalytic programme, a CSS on sericulture.
- ❖ Rs.7.5 crore is provided to encourage quality egg production in sericulture grainages.

- ❖ Infrastructure facilities would be improved and upgraded in major regulated cocoon market yards at Ramanagaram, Shidlaghatta, Vijayapura, Kanakapura and Kollegala.

HEALTH AND FAMILY WELFARE

- ❖ Allocation to health sector to be 18% over and above the allocations for the year 2004-05
- ❖ Advanced CT scan equipment to be provided to district hospitals at a cost of Rs.8 crore.
- ❖ Primary Health Centers to be upgraded into Community Healthy Centres and district hospitals at Chamarajanagar, Gulbarga, Haveri and Koppal to be upgraded at a cost of Rs.23 crore.
- ❖ Rs.5crore set apart for health insurance scheme for SCs and STs. One ambulance to each district hospital to be managed by reputed NGOs to provided at cost of Rs.2 crore.
- ❖ Six new medical colleges to be opened at Hassan, Mandya, Raichur, Shimoga, Bidar and Belgaum. Telemedicine facility to be extended to other districts.
- ❖ State support to the autonomous institutions providing tertiary care increased from Rs.57.67 crores to Rs.76.07 crores
- ❖ To check spread of HIV, voluntary counseling centers to be opened in twenty high prevalent taluks.

EDUCATION

- ❖ Increase in allocation to education sector by 11%.
- ❖ To establish "Karnataka School Quality Assessment Organization" in order to ensure quality in primary schools at cost of Rs.3 crore.
- ❖ 114 new high schools to be opened in the backward taluks as identified by High powered Committee on regional imbalances.

- ❖ Rs.10 crore earmarked to open Kuvempu Kannada model schools.
- ❖ For construction of 17000 kitchen sheds under Akshar Dasoha programme Rs.30 crore is allocated.
- ❖ To take up construction of Pre-University college buildings and rooms at a cost of Rs. 10 crore during 05-06. New degree Colleges at Bijapur and Mysore to be opened.
- ❖ To construct Dr. H. Narasimaiah memorial auditorium at Gowribidanur

FOOD AND CIVIL SUPPLIES

- ❖ Subsidized rice and wheat at Rs.3 per Kg to be continued. Rs.500 crore earmarked for this. Modernisation of department to be undertaken.

RURAL DEVELOPMENT

- ❖ Additional allocations to impart proper training to the new Panchayat members to enable them to effectively discharge their duties.
- ❖ Rs.20 crore earmarked for Swatch Grama and new programme, Kugrama Sugrama, for integrated development targeted towards most backward villages in the State at a cost of Rs.20 crore. Allocation for drinking water schemes enhanced to Rs.132.11crore
- ❖ Rs.80 crore earmarked for maintenance of rural roads, under the Mukhyamantri Raste Abhivruddhi Nidhi to be allotted on the basis of Dr.Nanjundappa committee report.
- ❖ To generate sustainable incomes from small gardens, new scheme called "Namma Hola - Namma Tota" at cost of Rs.20 crore

AREA DEVELOPMENT ACTIVITIES

- ❖ Overall allocation to Area Development boards increased from Rs.42.50 crore in 04-05 to Rs.95 crore in 05-06
- ❖ Rs.50 lakh to be provided as constituency development fund to each legislator. Rs.150 crore earmarked for this.

WELFARE OF WEAKER SECTIONS

- ❖ Allocation increased by 30%.
- ❖ Allocation under GangaKalyan scheme and land purchase scheme for SC/STs, to be increased from Rs.30 crore to Rs.67 crore including the pooled funds.
- ❖ To open 43 residential schools out of which ten each will be for the Scheduled Castes and Scheduled Tribes, ten for Backward Classes and thirteen for the Minorities. Rs.2 crore earmarked.
- ❖ 4 hostels for students of professional colleges at Bangalore, Mysore, Hubli and Bellary to be opened.
- ❖ Food allowance in pre-matric and post- matric hostels enhanced by Rs.50
- ❖ State support to Post-Matric scholarship scheme for SCs and STs to be increased from Rs.23 crore to Rs.32 crore.
- ❖ Scheme for funding students from Scheduled Castes and Scheduled Tribes to pursue studies abroad extended to the Backward Classes.
- ❖ Rs.20 crore allocated to Karnataka Backward Classes Development and Construction Society for construction of hostels. Rs.15 crore allotted to KREIS for construction of residential schools.
- ❖ Rs.98 crore provided by upfront pooling from the Special Component Plan and Tribal Sub-Plan to be used for GangaKalyana, Education and Housing programmes.
- ❖ Kaushalya scheme to be implemented in 2005-06 and the same to be extended to backward classes. Shrama Shakti scheme to continue.
- ❖ Flying training to be imparted to 10 SC/STs students.
- ❖ Allocation for construction of Shadi Mahals increased from Rs.1.2 crore to Rs.3.25 crore. Allocation of Karnataka Minorities Development Corporation enhanced to Rs.14 crore. Allocations of Wakf institutions increased.

- ❖ Rs.5.45 crore earmarked for construction of Late Sri.Devraj Urs Bhavan, Hunsur and comprehensive development of his birth place-Kallhalli village.

WOMEN AND CHILD DEVELOPMENT

- ❖ Rs.11.68 crore allocated for revolving fund for Stree Shakti groups.
- ❖ Rs.12 Crore for construction of Anganwadi buildings.
- ❖ Ten women Post-Matric hostels to be opened out of which eight will be in North Karnataka.
- ❖ Construction of schools for the deaf in Belgaum and Mysore to be completed. Allocation of Scholarship for disabled students to be enhanced to Rs.1.2 crore.

KANNADA AND CULTURE

- ❖ Rs.10 crore earmarked for preparatory activities for celebrating "Suvarna Karnataka"
- ❖ To establish " Kuvempu Samskrithika Kendra" to support translation of works of Rastra Kavi KuVempu and other eminent writers.

INFORMATION

- ❖ Two best Kannada Children films to be provided Rs.25 lakh of incentive every year. In addition to the award winning films twenty more Kannada films to be awarded with Rs.10 lakh subsidy each.

YOUTH AND SPORTS

- ❖ Six stadiums under construction in the newly formed districts to be completed.
- ❖ National Youth Games to be held in Bangalore. Rs.2 crore earmarked.
- ❖ Rajiv Yuva Shakti programme to be continued.

TOURISM

- ❖ "Mahamastakabhisheka" of Bahubali celebrated once in 12 years is an upcoming event of 2006. For providing public amenities, connecting roads and facilities, Rs.75 crore is earmarked .

- ❖ New scheme of “Suvarna Karnataka - Pravasi Thana” at Rs.10 crore

PUBLIC WORK

- ❖ Allocation to Road sector increased from Rs.1022 crore in 2004-05 to Rs.1400 crore in 2005-06. Proposed to upgrade and rehabilitate 700 Kms of State Highways at a cost of Rs.550 crore.
- ❖ State highways to be brought on a three-year maintenance contract at a cost of Rs.150 crore in 2005-06.
- ❖ For maintenance of roads other than State highways Rs.83 crore to be allocated and to be spent in accordance with Road Information System prepared by Public Works Department. In addition Rs.72 crore for upgradation of roads allocated.
- ❖ 458 works involving improvement to roads and construction of bridges under RIDF assistance estimating Rs.275 crore to be taken up.

HOUSING, URBAN DEVELOPMENT AND INFRASTRUCTURE

- ❖ Rs.100 crore subsidy for Ashraya programme. Rs.50 crore to be provided for Ambedkar housing from pooled funds
- ❖ Rs.110 crore to be earmarked for Indira Awas Yojana.
- ❖ Increase in share of Urban Local Bodies from Rs.798 crore in 2004-5 to Rs.1160 crore in 2005-6, an increase of 45%.
- ❖ Augmentation of the drinking water supply in the cities of Belgaum, Hubli-Dharwad and Gulbarga with the assistance of World Bank to be taken up at a cost of Rs.235 crores.
- ❖ An amount of Rs.95 crore provided as state support to Bangalore International Airport Project.
- ❖ Rs.109 crore set apart for Bangalore Metro rail
- ❖ Traffic Management Fund to be set up in which 50% of the amount collected as traffic fines would be ploughed back.

INDUSTRIES AND COMMERCE

- ❖ For accelerated industrial development, Karnataka State Industrial Development Council under the Chairmanship of the Chief Minister to be set up.
- ❖ Rs.10 crore earmarked for Kaigarika Vikas scheme to be taken up in 39 most backward taluks.
- ❖ Product Specific Special Economic Zones for Textiles at Hassan & Mysore and Sector Specific Special Economic Zone for Information Technology and Allied activities to be set up at Mangalore. Eleven new Science & Technology Entrepreneurs Parks (STEP) to be set up in Bangalore (Rural), Bellary, Chamarajanagar, Gulbarga, Haveri, Kodagu, Koppal, Kolar, Mandya, Raichur and Uttara Kannada Districts.
- ❖ To establish and develop Industrial Valves Cluster at Hubli-Dharwad, Coir Cluster at Channapatna and Hassan, Food processing Cluster at Mangalore, Auto components Cluster at Shimoga. A Rural Artisan Products Marketing facility at Gulbarga to be set up.
- ❖ Mineral investigation activities to be strengthened at cost of Rs.2.8 crore.
- ❖ 'Weavers' package to continue.

POWER

- ❖ To provide free power upto a limit of 18 units to all the Bhagya Jyothi and Kutira Jyothi consumers.
- ❖ To provide power to 2,52,798 households at cost of Rs.202 crore under the Dalit Basti scheme.
- ❖ Reduction of commercial losses through 100% metering and stringent anti theft measures.
- ❖ Solar power lights in 1000 unelectrified hamlets, bastis, hattis at cost of Rs.26.33 crore.

SCIENCE AND TECHNOLOGY

- ❖ BDA has planned to develop High -Tech City near Hosur-Sarjapur Road at an estimated cost of Rs.460 crore.
- ❖ Biotech Park to be established at Electronics City, Bangalore
- ❖ To establish science centers at cost of Rs.10 crore.
- ❖ A special programme in the collegiate education to support Science education in Gulbarga region to be initiated.

FOREST AND ENVIRONMENT

- ❖ “Karnataka Sustainable Forest Management and Bio-Diversity Conservation Project” to be undertaken with the financial assistance of Japan Bank International Cooperation (JBIC). The project period is from 2005-06 to 2012-13 and the cost is Rs. 745 crore.
- ❖ Eco-clubs to be extended to colleges.

TRANSPORT

- ❖ A provision of Rs.70 crore to meet the government share for subsidized bus passes.

LABOUR

- ❖ New trades as approved by the DGET to be introduced in the Government ITIs in a phased manner. For this purpose Rs. 3.30 crore set apart.

REVENUE

- ❖ Rs. 9 crore for completion of all the 36 mini Vidhana Soudhas.
- ❖ Rs.5 crore to Basava Kalyana Development Authority Rs.3 crore to Kaginele Development Authority.

POLICE

- ❖ For modernization and strengthening of police forces allocation to be enhanced.

VALUE ADDED TAX

- ❖ State all set to introduce VAT.
- ❖ Paddy, wheat, pulses (for one year), seeds, awalakki, mandakki, pappad and branded bread and bun to be exempted under proposed VAT.
- ❖ Tax on tea to be reduced to 4%
- ❖ Molasses to be exempted from tax under VAT. However equivalent excise duty on rectified spirit manufactured out of such molasses to be levied.
- ❖ Current sale tax incentives to continue with suitable modifications in tax exemption scheme ensuring that value chain is not broken and there is no additional revenue loss.

SALES TAX

- ❖ Karsamadhan scheme- as a chance to those who would like to clear their arrears.
- ❖ Tax on leasing of feature films to be exempted retrospectively from August 2004

CENTRAL SALES TAX

- ❖ Tax on inter-state sale of two wheelers, three wheelers and plastic stitching yarn to be reduced to 1% to encourage sales from state.

SPECIAL ENTRY TAX

- ❖ Relevant provisions which refer to the current sales tax to be suitably amended considering introduction of VAT from April, 2005
- ❖ Definition relating to importer to be suitably amended to specifically exempt Central and State Government Departments from payment of tax.
- ❖ Special entry tax to be levied on plastic woven sacks, paper and stationery to prevent trade diversion. Special Entry Tax to be levied on all such goods where there could be trade diversion because of some neighbouring states not implementing VAT.

- ❖ It is proposed to exempt notified goods brought into the state 1) for exhibition, display, demonstration, performance, concert, shows or similar events 2) by research and development institutions and educational institutions free of cost from outside the country 3) by persons on transfer or change of residence.

BETTING TAX

- ❖ Composition amount payable in respect of horse racing at a rate of 4% of the stake money to be given effect from Aug, 2004

PROFESSIONS TAX

- ❖ Interest to be levied for delayed enrolment by self employed persons liable to pay tax.
- ❖ Exemption limit to legal practitioners increased from 5 years to 10 years.

LOTTERY TAX

- ❖ Suitable amendment to provide for levy of tax on promoters of lotteries of other states to be brought in from retrospective effect.

ENTERTAINMENT TAX

- ❖ Composition tax and show tax on film industry to be reduced.
- ❖ Circus companies to be exempted from entertainment's tax.
- ❖ Rationalisation by removal of discretion in levy of penalty for filing of incorrect returns and suitable rules to permit payment of tax due in installments in cases of financial hardship.

EXCISE

- ❖ For 2004-05 Rs.400 crore more revenue expected as compared to previous year as a result of reforms and rationalizations.

- ❖ No levy of additional taxes except simplification and rationalization of the existing tax structure.
- ❖ Maximum selling price of arrack not to exceed Rs.115 per bulk litre as against Rs.95 per bulk litre.
- ❖ A uniform fee of Rs.6 per bulk litre on rectified spirit to be levied for both captive and non-captive distilleries.
- ❖ Export of draught beer outside Karnataka to be allowed.
- ❖ Karsamadhana scheme to be extended during current year.
- ❖ Penal provisions to be made more stringent and excise department to be restructured with emphasis on enforcement.

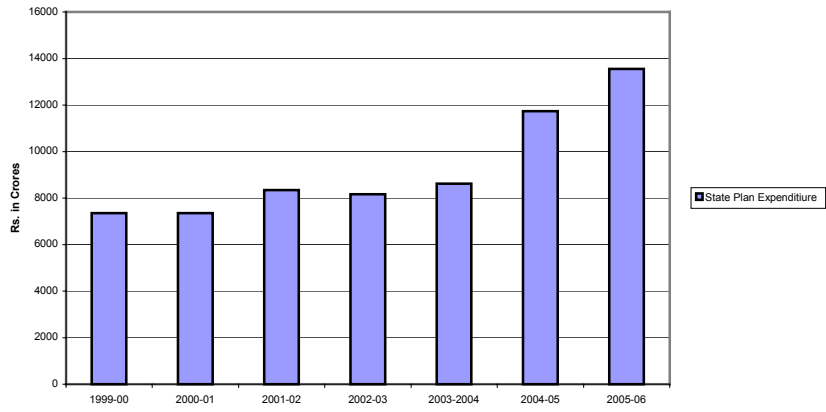
STAMPS AND REGISTRSTION

- ❖ Existing guideline values of immovable properties situated in Bangalore Urban District and other districts to be revised.
- ❖ Exemption of stamp duty and registration fees on all loan credit documents executed by farmers for availing agricultural finance. Reduction of fees on encumbrance certificate obtained by farmers for agricultural purposes to a maximum of Rs.50

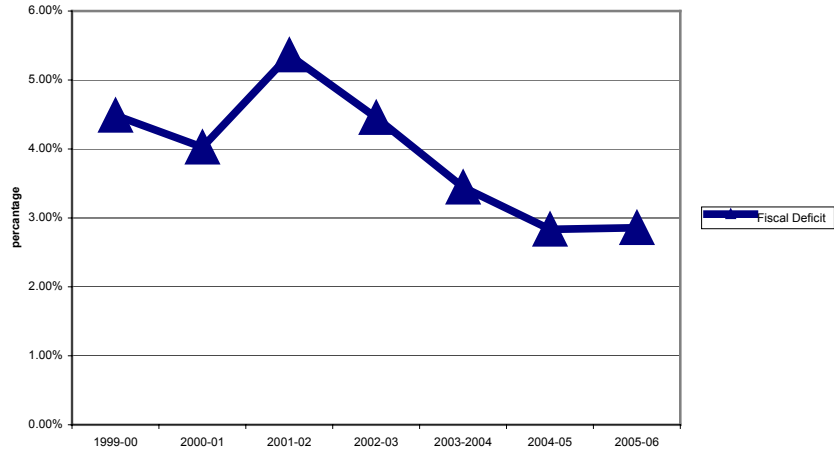
MOTOR VEHICLES TAX

- ❖ Computerisation of all Regional Transport Offices in the state to be taken up. Smart card based driving licenses, registration certificates and high security registration number plates to be introduced.
- ❖ Separate clause of tax for air-conditioned integral/monocoque buses. Enhanced tax on multi-axle, articulated goods vehicles and lifetime tax on two wheelers costing more than Rs.50, 000.

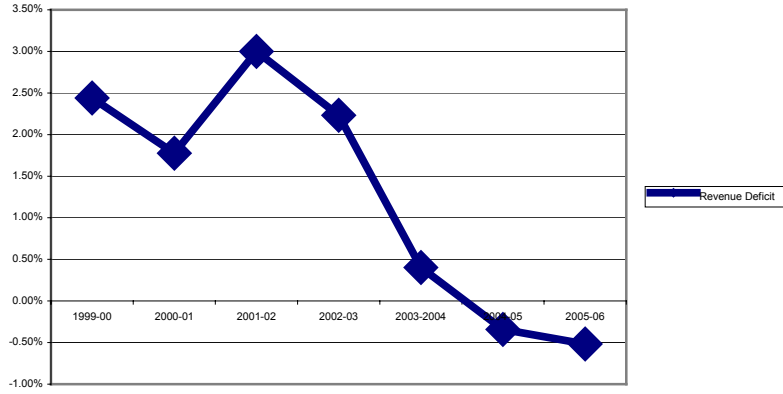
State Plan Expenditure



Fiscal Deficit as % of GDP



Revenue Deficit as % of GDP



Revenue Receipts

