

BUDGET 2005-06

(PART – B)

1. Mr. Speaker Sir, the revenue realization in the current year has been exemplary and my Government has achieved it by rationalizing taxes and duties, reposing trust in the honest taxpayers and channelising time, energy and effort on ensuring better tax compliance.

Mr. Speaker Sir, my Government is committed to the policy of progressive taxation which is aimed at equitable distribution of wealth in the society. The growth in revenues have strengthened our belief that rationalization and simplification of the tax laws and better tax administration, rather than simply increasing the tax rates, lead to better compliance and higher revenues.

Sales Tax & Related Matters

2. First of all I take up Sales Tax and related matters. Sir, the revenue from Sales Tax has shown very encouraging growth. The Department collected 4,400 crores against the revised estimate of 4,200 crores in the year 2003-04. The target of revenue collection for the year 2004-05 is Rs.4,800 crores, and collections so far have posted a growth of over 16 percent as compared to 8% last year during the same period. This has been made possible through better monitoring and enforcement to improve the level of tax compliance.

3. Mr. Speaker Sir, the implementation of VAT with effect from 1st April, 2005 is a very important step in this direction. The effort of my Government would be to see that the VAT system is simple, progressive and, at the same time, protects our revenues and trade interests.

4. Mr. Speaker Sir, this year I do not propose to raise any new taxes or increase the rate of tax on sale or purchase of goods on account of introduction of VAT.

Sir, the introduction of VAT is the most significant tax reform measure ever taken at the state level. I would like to assure this August House that we are committed to introduce VAT without adversely affecting the interests of Trade and Industry. Sir, the Government of Delhi has always taken the lead in adopting good governance practices that encourage participation of the stakeholders and promote transparency. The decision to introduce VAT with effect from 1st April 2005 reflects this commitment. Empowered Committee of State Finance Ministers was able to formulate a common design for the state-level Value Added Tax (VAT) through repeated and candid discussions which is an evidence of the collective endeavor of states to reform their tax structure.

5. VAT is a simple, transparent tax levied at every stage of sale and provides for set-off for taxes paid on the purchases. It is a self-policing system based on invoices and thus curbs tax evasion. Trusting the dealer is at the root of VAT and hence it provides for self-assessment and protects the trader from undue interference and harassment.

6. Mr. Speaker Sir, a good tax system should be efficient, provide a stable and predictable source of revenue, and be simple to administer and comply with. The current sales tax regime is a complex system causing economic distortions, through multiple tax rates, selective exemptions and incentives, and cascading of tax by denying credit for taxes paid on inputs. It thereby adversely impacts on trade and export competitiveness. Complexities of tax legislation coupled with weak administration results in non-compliance, tax

avoidance or evasion. Sir, the problems of Sales Tax could not have been dealt with in a piecemeal fashion, through marginal or incremental changes in the tax system, and required a complete structural change with a paradigm shift from a regime of uncertainty and regulation to one of trust and voluntary compliance.

7. Sir, introduction of VAT, would help rationalize tax burden on goods since other taxes like Sales Tax on Works Contract, Sales Tax on Right to Use and Tax on Entry of Motor Vehicles would be abolished. The Central Sales Tax is also proposed to be phased out eventually.

8. VAT will replace the existing system of assessment by a system of self-assessment by the dealers and auditing. The tax structure will become simple and more transparent. It will help improve tax compliance and also ensure revenue growth. The VAT will therefore help consumers, trade, industries and the Government, i.e. all the Bhagidars (stakeholders) in governance.

9. Sir, the objective of the VAT is not merely to raise additional revenue but also to reduce the costs of raising the revenue and ensure better compliance by simplifying tax administration. It aims at removing taxing distortions and indirect taxation of exporters. The Delhi VAT is not a new tax, but an improved version of Sales Tax aimed at increasing efficiency and transparency in taxation.

The Government stands to gain through the introduction of a VAT regime that provides a more reliable and non-discretionary source of revenue. With self-compliance increasing, the administrative costs are likely to come down.

10. Mr. Speaker Sir, in effect, the VAT regime has been designed so that Delhi businesses are able to take the benefit of input tax credit and capital goods credit. In addition, Delhi businesses involved in

supplying goods to customers in other States and countries will be relieved from the burden of the VAT. Calculation of tax will become simple and straight and the cascading effect of taxes will be removed. The adverse effects of last point taxes upon the distributive character of Delhi will be corrected.

11. Sir, it gives me immense pleasure to share with this August House that the VAT legislation that was passed by this Assembly is one of the most progressive VAT legislations in the world and has features that are trade friendly and have no parallel else where. I would like to draw the attention of the Hon'ble Members to some such features :

- Credit for tax paid on capital goods to the trader.
- Refund of excess tax paid within one month.
- Time bound disposal of all objections and appeals within 8 months failing which the matter stands decided in favour of the dealer.
- Automatic migration of all the registered dealers to VAT regime without any need for re-registration.

12. The above provisions were deliberately incorporated to protect the interests of trade and prominence of Delhi as a center of distribution. Moreover, we intend to, as a measure of policy, allow set off or refund on account of Inter State Sale without insisting for statutory forms. We shall however reconcile the tax liability of the dealer later through an annual reconciliation statement.

13. Sir, the Bill, passed by the Assembly, was deliberated upon by trade, industry and legal experts and we received suggestions to modify some of the provisions of the Act to remove complexities, add further trade friendly features and protect the revenue interests of the Government. I feel that, to make the transition to VAT smooth, it is essential to adopt some of the suggestions that we have received

from stakeholders. I would like to apprise the Members of this August House of the important suggestions that we had received.

14. Sir, the Act that was notified provided for a limit of Rs. 25 lakhs to avail of composition. The composition scheme, wherein a trader has to deposit tax @ 1% on his turnover, was meant to protect small traders and businesses. Sir, in keeping with our commitment to protect their interests, we have increased the threshold limit to Rs.50 lakhs by amending the relevant provision of the VAT Act.

15. The trade expressed apprehension about the provision in the VAT Act that required a separate VAT Audit in case the turnover of a dealer exceeded Rs.40 lakhs. Sir, the Government has considered the request and, not wishing to cast any undue burden, we have amended this provision to provide that statutory and compulsory Income Tax Audit, as provided in the Income Tax Act, would suffice for VAT Act also. However, in order to protect the revenue interests of the Government, we have added a new provision that provides for a special audit keeping in view the complexity of the accounts of the dealer or a class of dealers.

16. Sir, I am happy to apprise this August House that with the introduction of VAT, Delhi Sales Tax on Works Contract would be abolished and all dealers who were paying tax under the old Act would now pay only Value Added Tax. To remove any doubt we intend to clarify that the tax shall be levied at the rate of 12.5%. I am happy to state that while in the earlier regime the dealer was subjected to double taxation due to separate levying of Works Contract Tax, the dealer would now be able to claim tax credit for all the inputs utilized by him including capital goods. In our VAT Act, we had not provided for Tax Deduction at source for Works Contract. In order to maintain continuity and to protect the flow of revenue, we intend to provide for deduction of tax at source at the rate of 2

percent on all Works Contracts. This would be adjustable against the final tax payable by a dealer.

17. Sir, timely disposal of appeals is what any tax law strives for. The VAT Act passed by the House provided that only a reference can be made on a question of law to the High Court. We have since amended this provision to bring it at par with the provision in this regard in the VAT Act of the other States to provide for an appeal to the High Court on questions of law since reference and its disposal could be a time consuming affair.

18. Sir, some of the trade bodies had represented that undue powers have been given to the department under the VAT regime and determination or rulings by the department are not appealable. In the interest of the principles of natural justice and in deference to the wishes expressed by the Members of our trade and industry, we have since amended this provision to make all such orders appealable.

19. Sir, in a trust based system, proper control of entry and exit of goods is a major requirement. Though the VAT Act passed by this House provides for such control, we have aligned all such provisions with those of the Delhi Sales Tax Act, 1975 that would stand repealed from 1st April, 2005.

20. Sir, we have also received representations from trade and industry to increase the threshold limit from the existing Rs.5 lakhs. I would like to apprise the Members that fixing the threshold limit for registration under VAT Act is a convergence requirement wherein all States have to have a similar limit. Accordingly, Delhi VAT Act also provided for a threshold of Rs.5 lakhs. However, we had taken up the matter with the Empowered Committee of the State Finance Minister's to raise this threshold limit and I would like to inform the Hon'ble Members of the House that the threshold limit has since been

raised to Rs.10 lakhs due, in some part, to the efforts made by my Government.

21. Sir, for successful introduction of VAT, a common design and rate structure across the states is a major requirement. It is for this reason alone that the rate structure in VAT regime has to be kept uniform, as decided by the Empowered Committee of State Finance Minister's.

22. Sir, I am aware of the impact of taxes on trade, business and on the common man. I had received several suggestions about rationalizing the schedules contained in the VAT Act and I am committed to do justice within the framework set out by the Empowered Committee of the Finance Ministers. I propose to rationalize the level of incidence by amending the schedules under VAT Act in a way that would comfort the trade and industry, protect the interests of the weaker sections of the society and the common man while, at the same time, safeguard the revenue interests of the Government.

23. Sir, being a Doctor, I am aware of the importance of health in our lives and the role of medication in this sphere. I am happy to announce that drugs and medicines that were to be taxed @ 12.5% by virtue of their not being covered in any of the schedules would now be placed in the Third Schedule of the VAT Act and would be taxed @ 4%.

24. We had earlier decided to tax processed meat, poultry, fish and processed or preserved vegetables and fruits @ 12.5% as they were not specified in any of the Schedules. I am aware that these items are consumed by all house-holds. Not wishing to add additional burden on these items of mass consumption, and also to 'curry' favour with household managers, I intend to reduce the rate on these

items from 12.5% to 4% by bringing them in the Third Schedule of the Act. I would also like to amend entry 24 of the First Schedule of the VAT Act so as to exempt poultry along with eggs, livestock and animals. Also, the rate of VAT on food served in star category hotels will be reduced from 20% to 12.5%. I am sure every one will heartily and 'wholesomely' appreciate these steps, especially the better halves of the society.

25. Sir, the chill of winter affects us all irrespective of our social and economic background and I feel that as Finance Minister it is my duty to provide warmth against the winter chill. In order to do so, I intend to reduce the rate of VAT on knitting wool from 12.5% to 4% by bringing it to the Third Schedule.

26. Sir, in the last Budget, I had announced reduction of tax rate on footwear. I am aware that common man should not be overburdened with taxes and items that are used by the members of the weaker sections should be covered in the schedule that deals with items of mass consumption. Accordingly, I intend to amend the Entry 51 in Schedule-3 of the VAT Act to insert hawai chappal along with plastic footwear to make it taxable @ 4%.

27. Sir, we all love our morning cup of tea. In fact, it won't be an exaggeration to say that it has become the common man's brew. To give relief to *har admi*, I wish to reduce the rate of VAT on tea from 12.5% to 4% by bringing it in the Schedule Three of the VAT Act.

28. Sir, to once again reiterate and express my commitment to the needs of women, through this Budget, I am happy to inform this House that I intend to bring the rate of tax on embroidery and zari items from 12.5% to 4% by bringing them in the Third Schedule of the VAT Act.

29. Sir, in furtherance of this commitment, I believe that no tax should come in the way of the sacred and self-less bond between brothers and sisters. Therefore, I would like to exempt *Rakhi* from levy of VAT by bringing it in the First Schedule of VAT Act.

30. Sir, though having no personal experience in the matter, I am aware of the significance and importance of bangles in our culture, especially their symbolic use in the bond of matrimony. To do my bit for the bonds made in heaven, I propose to exempt Bangles (made of Shell, Glass, Lac or Plastic) from the levy of VAT.

31. Sir, my Government is totally committed to protect the interests of the poor and weaker sections of the society and accordingly, promoting cottage industry to help artisans and craftsmen is a priority of our Government. Toward this aim, I propose to exempt the following items from VAT with effect from 01.04.2005 by bringing them under the First Schedule of the Act.

- (i) Hand made safety matches
- (ii) Idols made of clay
- (iii) Clay lamps
- (iv) Poha, Murrura and Lai
- (v) Muddhas made of sarkanda, Phool Buhari / Jharoo
- (vi) Puffed Rice commonly known as Muri, Chira, Murki, etc.
- (vii) Coconut in shell and separated Kernel of Coconut
- (viii) Religious pictures not for use as calendars

32. Sir, making available staple food at affordable rates is the priority of any Government. To meet this obligation, I would not like to impose a tax burden on staple food items. Accordingly, I intend to exempt Paddy, Rice, Wheat and Pulses from the levy of VAT by placing these items in the First Schedule of the VAT Act and deleting entry 48 of the Third Schedule of the Act.

33. Sir, bread is one food product that has entered the menu of one and all. We had intended to tax branded bread @ 12.5% and exempt unbranded bread. Keeping in view the impact this would have on the budget of the households, I intend to do away with this distinction and exempt both branded and unbranded bread from levy of VAT.

34. Sir, Delhi is the only city in the World where all road-based public transport runs on CNG. Having put in a lot of effort on making this a ground reality, we are obliged to treat CNG as an item of extreme local importance. The benefits of the switchover to CNG are there for all to see and need no reiteration. So that our citizens breathe freer, I wish to accord the same treatment to CNG in the VAT regime, as enjoyed by it under the DST Act, 1975, by bringing it in the First Schedule of the VAT Act.

35. Sir, the States do not levy Sales Tax on indigenously manufactured sugar, textile and tobacco, as defined in Central Excise Tariff Act, 1985. The Central Government levies additional excise duty in lieu of Sales Tax on these items and the revenue so generated is shared with the States. Since these items were exempted from the levy of Sales Tax in the DST Act, 1975, I propose to continue the same arrangement in the VAT regime. Accordingly, khandsari, sugar, textile and tobacco, excluding guthka, shall be exempt from the levy of VAT and these items shall be placed in the First Schedule of the VAT Act. However, this exemption shall not cover imported sugar, textile and tobacco. The entry 69 of the Third Schedule shall, therefore, be deleted.

36. Sir, last but not least in this list of exemptions is an item associated with life and loyalty. In this year, marking the 75th Anniversary of the Dandi March, it would only be proper not to levy any tax on salt. In re-affirmation of the spirit and values embodied by

the March, and as a humble tribute, I propose to amend entry 35 of the First Schedule of the VAT Act. Instead of the existing entry, a new entry by the name common salt (processed or un-processed) shall be inserted and entry 54 of the Third Schedule of the VAT Act shall be omitted.

37. Sir, I have received representations with regard to certain entries and schedules contained in the VAT Act. I propose to clarify the contents of these entries to avoid any dispute. Accordingly, I propose that herbs in entry No. 34 would have the same meaning as was notified vide Notification No.F.101(194)/2003-Fin.(A/Cs)/(111)531 dated 1st May 2003 under the DST Act. Similarly, entry No. 41 would also be modified to cover all 30 I.T. products notified by the Ministry of IT (**list annexed as Annexure-I of the Budget Speech**) including cellular phones and accessories.

Stamp Duty and Registration

38. Mr. Speaker Sir, the reduction in the overall total charge on property transactions to 8% in general category cases and 6% for female registrants along with the step taken to make compulsory the registration of GPA (authorizing other than blood relation) on payment of stamp duty of 5% has resulted in a tremendous growth in revenue and we have not only achieved but exceeded our R.E. target during the current financial year. We propose to continue with the stamp duty rates as given above and have already passed a Bill for the necessary statutory amendment in the Indian Stamp Act, 1899, with the prior approval of the Central Government, in this regard.

39. Sir, in keeping with our intention to explore the possibility of fixing circle rates of land in Delhi to achieve uniform valuation and higher revenues, a Committee has been constituted to suggest the circle rates of land in Delhi. The rates already notified by the L&DO, MCD and DDA etc. would be taken into consideration for fixing realistic circle rates.

Transport

40. Mr. Speaker Sir, the requirement of funds for the transport sector has grown significantly. While being basic to Urban Development, this sector is capital intensive and has traditionally been one of the largest plan allocation sectors in the budgets of my Government. The programmes and projects, which have earlier been highlighted by me, make it imperative for the Government to mobilize additional resources by tapping new sources.

The Government intends to set-up a Committee of experts to consider the levy of goods and passenger tax on transport vehicles. Such a levy is prevalent in most of the adjacent States and the absence of such a tax in the N.C.T. of Delhi has brought distortions in the Transport Sector and Delhi is at a disadvantage when compared to the neighbouring States. The quantum of the tax as well as the modalities of its collection will be worked out by the above said Committee in the next financial year.

Conclusion

41. Through the measure of stable tax rates, which are conducive to growth, compliance and investment, I have signaled our Governments' commitment to moderation and stability in taxes, which together with better enforcement, have led to an unprecedented increase in our internal revenues. My Government is expected to provide funds for the provision of world-class civic amenities in the National Capital Territory and through the above mentioned progressive taxation steps my endeavour has been to provide for development on all fronts including the social sector to help overcome the problems of urbanization facing this city and improve the quality of life of its citizens.

Annexure-I

Items to be covered under entry No. 41 and inserted as entry 41 A... and so on

I.T. PRODUCTS - 4% rate items

1. Word processing machines, Electronic typewriters	IT-1
2. Microphones, multimedia speakers, headphones etc.	IT-10
3. Telephone answering machines	IT-11
4. Prepared unrecorded media for sound recording	IT-12
5. Prepared unrecorded media for sound recording	IT-13
6. IT software or any media.	IT-14
7. Transmission apparatus other than apparatus for radio or T.V. broadcasting	IT-15
8. Radio communication receivers, Radio Pagers	IT-16
9. Aerials, antennas and parts	IT-17
10. LCD Panels, LED panels and parts.	IT-18
11. Electrical capacitors, fixed, variable and parts	IT-19
12. Electronic calculators	IT-2
13. Electrical resistors	IT-20
14. Printed Circuits	IT-21
15. Switches, Connectors, Relays for up to 5 amps	IT-22
16. DATA/Graphic Display tubes, other than Picture tubes and parts	IT-23
17. Diodes, transistors & similar semi-conductor devices	IT-24
18. Electronic Integrated Circuits and Micro-assemblies	IT-25
19. Signal Generators and parts	IT-26
20. Optical fibre cables	IT-27
21. Optical fibre and optical fibre bundles, cables	IT-28
22. Liquid Crystal devices, flat panel display devices and parts	IT-29
23. Computer systems and peripherals, Electronic diaries	IT-3
24. Cathode ray oscilloscopes, Spectrum analysers, Signal analysers.	IT-30
25. Parts and Accessories of HSN 84.69, 84.70 & 84.71	IT-4
26. D C Micromotors, Stepper motors of 37.5 watts.	IT-5
27. Parts of HSN 85.01	IT-6
28. Uninterrupted power supply	IT-7
29. Permanent magnets and articles	IT-8
30. Electrical apparatus for line telephony or line telegraphy.	IT-9
