

## **Budget 1998-99**

### **Speech of**

Shri Yashwant Sinha  
*Minister of Finance*

**1st June, 1998**

### **PART A**

Sir,

I rise to present the budget for the year 1998-99.

#### **Introduction**

2. This is the first budget of the Government led by Prime Minister Shri Atal Bihari Vajpayee. It is a defining moment in history. It is an occasion fraught with expectation. I am very grateful to the Prime Minister for the confidence he has reposed in me and the guidance he has given me.

3. It has been just over ten weeks since this Government took office. But we know already that a new India is rising. And as May 11 was surely the first step, today is yet another. Certainly, a long journey lies ahead, but as history will prove, we have now begun to build a new India. This will be a strong and prosperous India - a nation self-reliant, but not autarchic, rather a nation keen to deal with the world as an equal partner with other countries. As the saying goes, "only the strong can be free. And only the productive can be strong". This is the new India we propose to build.

4. The dimensions of the economic challenges that confront us today have come into sharper focus since the time I presented the interim budget before this House. While the people of India have reacted with pride over the events of May 11, some of our friends abroad have responded negatively. I am confident that these initial negative responses will be moderated as our position gets better understood, and will not have any significant impact on our economic development. On our part, our policies have to be clearly directed and firm. As Gurudev Rabindranath Tagore said "You cannot cross the sea by standing and staring at the water". We intend to cross the sea and I seek the cooperation of this august House in this national endeavour in the weeks and months ahead.

5. In preparing this budget I have been guided by the famous talisman of Gandhiji. I have recalled to myself the face of the poorest and the weakest man I have seen and made sure that this budget is of use to him. This budget is rooted in Swadeshi which will be unfolded as we go along. But I shall hasten to add that Swadeshi does not mean isolation, Swadeshi means making India strong and self-reliant so that we can compete with the world and win. As our courageous Prime Minister has himself said :

लिया हाथ में ध्वज कभी ना झुकेगा,  
कदम बढ़ रहा है कभी ना रुकेगा।

Flag we hold shall never bow,  
Marching steps shall never halt.

### **Current Economic Situation**

6. A few days ago the Economic Survey, 1997-98 was tabled in Parliament. It provides a comprehensive analysis of the economy's performance during 1997-98. In my interim budget speech I had already drawn attention to some disquieting trends: overall economic growth slowed to 5 per cent in 1997-98; agricultural growth was negative, with foodgrain production dropping to 194 million tonnes from 199 million tonnes in the previous year; growth of industrial production slackened to 4.2 per cent; export performance was weak for a second successive year, recording growth in dollar terms of less than 3 per cent; the fiscal deficit worsened to 6.1 per cent of GDP; the capital market remained in the doldrums and infrastructure bottlenecks continued to plague the economy. But I am not daunted by the situation. Only the weak are tamed by adversity, the strong rise above them.

### **Key Objectives**

7. Drawing on the National Agenda for Governance and policy statements of the Prime Minister, I believe the key objectives of this budget should be to:

- \* Strengthen the foundations of the Indian economy to deal effectively with an inherently uncertain external environment.
- \* Reverse the decline in agriculture and strengthen the rural economy.
- \* Restore the momentum of industrial growth, especially of small scale enterprises, and revive the capital market.
- \* Accelerate the development of infrastructure.
- \* By these and other means, rapidly expand productive job opportunities.
- \* Give special impetus to social sector development.
- \* Calibrate the pace and character of integration with the world economy, while strengthening India's international economic position through revival of exports and reduced reliance on borrowed funds.
- \* Ensure macro-economic stability and control over inflation.
- \* Raise the rate of domestic savings to achieve higher national investment and thus lay the basis for faster medium-term growth. Supplement this effort through foreign investment.
- \* Free the productive energies of our people from unnecessary bureaucratic hurdles and undertake reforms to raise the productivity of our land, labour and capital.

### **Agriculture and Rural Development**

8. As I stand here and address this august House, my thoughts wander naturally to the remote villages of India and to millions of our toiling farmers. I have no doubt in my mind that the health and dynamism of the rural economy is central to India's economic and social development. I propose to do the following for agriculture and rural development:

- \* Water is a critical input for agriculture. Yet, after all these years of development only 37 per cent of our cultivable area is under assured irrigation. The bulk of our poor people live in rainfed areas. We propose to accord top priority for development of rainfed areas on a watershed basis and thereby enhance agricultural productivity in a sustainable manner. Watershed Development Programmes, currently spread across several ministries and departments, will be unified and the plan allocation stepped up to Rs.677 crore from Rs.517 crore in RE 1997-98. Furthermore, there is an increase in the provision for the Accelerated Irrigation Benefit Programme by 58 per cent over 1997-98.
- \* Next only to water is the question of rural credit and rural infrastructure. Under the Rural Infrastructure Development Fund (RIDF) managed by NABARD moneys are made available to the State Governments for rural infrastructure. During the past three years about Rs. 2,500 crore has been allocated to it annually. I am pleased to announce RIDF IV with an enhanced allocation of Rs.3,000 crore. I invite the States to come forward to utilise this important facility.
- \* I propose to augment NABARD's share capital by Rs.500 crore in the current year. Government will allocate Rs.100 crore from the budget and the RBI will contribute the balance of Rs.400 crore. This will enable NABARD to leverage additional resource from the market to meet the credit needs of agriculture.
- \* The problem of rural unemployment and under-employment is a massive one. This can only be solved through self-employment. There is no reason why every craftsman, artisan and weaver cannot become an entrepreneur and run his own little enterprise. A major bottleneck however has been lack of credit facilities. Earlier NABARD had launched a limited scheme for promotion of Self Help Groups (SHG) as a channel for the flow of funds to the micro enterprises. I am asking NABARD to greatly extend the scope and coverage of the scheme so that 2 lakh Self Help Groups covering 40 lakh families can be assisted over the next five years through this scheme of micro credit. 10,000 Self Help Groups covering 2 lakh families will be assisted this year. The Reserve Bank of India is also advising commercial banks to design specific loan package to meet the needs of micro enterprises.
- \* I have asked the National Housing Bank to finance one lakh rural dwelling units under the Swarna Jayanti Housing Finance Scheme as against 50,000 units last year.
- \* I am making a provision of Rs.265 crore to carry forward the process of rehabilitation and recapitalisation of the Regional Rural Banks (RRBs). Sponsor banks are being given an enlarged role in providing management, operational and restructuring support to RRBs.

- \* Farmers often face chronic problems of overdue loans due to circumstances beyond their control. They are even committed to civil prison for this default. While the repayment culture must improve, this government is determined to create conditions so that no farmer goes to jail for a loan repayment default or is forced to commit suicide. The Reserve Bank will be issuing appropriate guidelines to the banks for hassle-free settlement of old cases of overdues. Banks will be encouraged to provide appropriate relief on accumulated interest in deserving cases. The new procedure should also help in reducing the outstanding volume of Non-Performing Assets (NPAs) of the banking sector.
- \* NABARD is being asked to formulate a model scheme for issue of Kisan Credit Cards to farmers on the basis of their holdings for uniform adoption by the banks so that the farmers may use them to readily purchase agricultural inputs such as seeds, fertilisers, pesticides etc. and draw cash for their production needs.

9. The ingenuity and enterprise of our farmers is today hamstrung by numerous Central and State laws and regulations relating to the production, marketing and movement of agricultural commodities. This is clearly unacceptable. My colleague, the Minister of State for Agriculture, will soon be bringing out, under the guidance of the Prime Minister, the Government's National Agricultural Policy paper which will address these constraints in a comprehensive manner. The Minister of Commerce is systematically reviewing existing controls on exports of all agricultural commodities except foodgrains. There is no reason why our farmers should not reap the benefits of access to wider global markets.

10. The system of agricultural cooperatives in our country is plagued by bureaucracy and political interference at many levels. As part of a concerted programme to revitalise the cooperative sector, government will shortly bring forward a model cooperative law to replace the Multi-State Cooperative Societies Act of 1984 and will encourage the States to make similar amendments in their own acts.

11. There has been a long standing demand from our farmers and the Ministry of Agriculture for the exclusion of farm implements and tools from the list of items reserved for manufacture by the SSI sector, so that farmers can benefit from a wider range of implements and tools at competitive prices and with requisite after sales service. This proposal had also been recommended by the Advisory Committee of the Ministry of Industry. Government have decided to accept this recommendation.

12. India has made commendable progress in oilseeds production in recent years. In order to establish an efficient market environment and to reduce volatility in prices in this sector, the government is planning to introduce futures trading in edible oilseeds, their oils and their cakes.

13. The existing subsidy schemes for both urea and decontrolled phosphatic and potassic fertilisers are being continued. However, for achieving optimum crop response ratio to fertiliser use, the use of all the three nutrients, nitrogen (N), phosphorus (P) and potassium (K) should be balanced. This balance has been progressively distorted over time because of the low price of urea compared with decontrolled fertilisers. The NPK balance, which was 5.9:2.4:1 in 1991-92, had

changed adversely to 10:2.9:1 by 1996-97. An increase in the price of urea would help restore this balance. The increase is also justified on the ground of rising costs, which have led to a more than 50 per cent increase in the subsidy on indigenously produced urea in two years between 1995-96 and RE 1997-98. It is, therefore, proposed to increase the selling price of urea by Re.1 per kilogram with immediate effect.

14. Government is committed to provide safe drinking water to all rural habitations in the next five years. To achieve this ambitious target, a multi pronged approach to rural water supply is being adopted:

- \* The allocation for the Accelerated Rural Water Supply Programme is being enhanced from Rs.1,302 crore in RE 1997-98 to Rs.1,627 crore in this regular budget. This enhanced outlay will cover about one lakh habitations.
- \* As mentioned earlier, we will give a special thrust to Watershed Development Programmes. This will also ensure better results for ground water availability and conservation.
- \* States are being encouraged to institutionalise community-based rural water supply programmes, which secure active participation of beneficiaries to own, operate and maintain rural water supply facilities.

15. Over the years, programmes for alleviation of poverty and employment generation have proliferated. Each scheme is well intentioned but their multiplicity has led to needless duplication, high overhead costs, confusion at field levels and insufficient benefit to the people. It is proposed to unify the various programmes under two broad categories of Self Employment Schemes and Wage Employment Schemes. Funding and organisational patterns will be rationalised to achieve maximum beneficial impact of these programmes.

### **Small Scale Industry**

16. The SSI sector makes a valuable contribution of about 40 per cent to our total manufacturing sector production, 35 per cent to exports and employs over 160 lakh workers. Our commitment to the SSI sector is total. The commonest complaint of SSI entrepreneurs and associations are the insufficiency of timely credit and the harassment of the "Inspector Raj".

17. On the credit problems of the SSI sector, I propose the following initiatives:

- \* At present, for SSI units having aggregate working capital requirements up to Rs.2 crore, the working capital limit is determined by the banks on the basis of a simple calculation of 20 per cent of their annual turnover. This facility is being doubled to Rs.4 crore. This will ease the flow of bank credit to SSI.
- \* To moderate the cost of credit to SSI units, RBI will advise the banks to accord SSI units with a good track record, the benefit of lower spreads over the prime lending rate.
- \* Enhanced powers would be delegated to bank managers of specialised SSI branches to ensure that most credit proposals are decided at the branch level.

- \* At present, Small Industrial Development Bank of India (SIDBI) is a subsidiary of IDBI and IDBI is the major shareholder in State Finance Corporations (SFCs). To equip SIDBI to play its apex role in SSI credit provision more effectively, SIDBI will be delinked from IDBI and IDBI shareholding in SFCs will be transferred to SIDBI.
- \* SSI units are often handicapped by delays in the settlement of their dues from larger companies. To tackle this problem, I am asking RBI to strengthen the existing mechanisms available to SSI for discounting of bills. RBI will also modify its guidelines to commercial banks on credit appraisal to give greater weight to the amount of overdue outstandings that large units have in respect of SSI supplier. My colleague, the Minister of Industry is separately bringing amendments in the Interest on Delayed Payments to Small Scale and Ancillary Industry Undertaking Act, 1993 to make the existing legislation more effective.

18. As for the pervasive problem of the “Inspector Raj”, I shall be announcing far reaching changes in the administration of Central Excise which should help SSI units significantly. I urge all States to review their laws and regulations and make necessary changes to lighten the burden of the inspector raj problem of SSI units.

19. I shall also be announcing some tax concessions to the SSI sector later in my speech.

#### **Private Investment in Industry**

20. The government accords high priority to boosting private investment, including foreign investment, in industry. We must minimise bureaucratic and procedural hurdles and create an investor friendly environment. Industrial licensing was abolished in most industrial sectors as part of the economic reforms. On reviewing the remaining handful of licensed sectors, the government have further decided to delicense coal and lignite and petroleum products.

21. Industrial deregulation would remain incomplete without reducing the burdens imposed by the “Inspector Raj”. The majority of inspectors operate under State level statutes. Government have initiated a dialogue with the State Governments to explore the consolidation of regulatory legislation relating to industry and exchange of best practices across States in carrying out the necessary inspections in the least burdensome way. I will return to this subject when I present my excise proposals.

22. The Foreign Investment Promotion Board (FIPB) has done a good job in promoting foreign investment and streamlining the procedures at the Central government level. Foreign investment flows have increased substantially and were estimated to be \$3.1 billion in 1997-98. About 60 per cent of investment approvals are in the energy and infrastructure sectors. It will be our objective to create conditions in which foreign investors will find India an attractive investment destination. We hope to double the inflow of foreign direct investment within two years. Foreign investors are frequently inhibited by lack of familiarity with our systems and statutes and particular problems at the State level. To reduce such problems, we will implement a system whereby, an officer of the administrative Ministry would be designated as a monitoring officer to help processing and implementation of the project in

conjunction with Central and State authorities for every foreign investment proposal exceeding Rs.100 crore. We are committed to creating a hassle-free procedure and I would like to assure all foreign investors that a decision on their investment proposals shall be taken within a period of 90 days. It will be the personal responsibility of the monitoring officer to ensure this.

### **Housing**

23. The National Agenda, identifies housing as a priority area. We will move purposefully to tackle the country's enormous housing shortage problem through partnership between government, housing finance institutions and the private sector.

- \* 20 lakh additional dwelling units will be built this year with 13 lakhs in rural areas and 7 lakhs in urban areas.
- \* The budget allocation for the Indira Awas Yojana Programme is being substantially enhanced to Rs.1600 crore, from Rs.1144 crore in RE 1997-98. The scope of this scheme is also being widened to include a loan-cum-subsidy programme.
- \* The Urban Land Ceiling and Regulation Act will be repealed to free the supply of usable urban land for housing construction.
- \* The capital base of the Housing and Urban Development Corporation (HUDCO) is being increased by Rs.110 crore from the budget so that it may leverage more funds for housing construction.
- \* I also have some tax incentives for housing which I will outline later in my speech.

### **Infrastructure**

24. The acuteness of our infrastructure problems is equalled only by our resolve to tackle them. One of the major planks of this budget is to provide strong stimulus to the infrastructure sector through larger public and private investment in these sectors. This will also help to boost industrial growth and overall economic activity.

25. The plan outlay for the key infrastructure sectors of Energy, Transport and Communications in the revised estimates for 1997-98 was Rs.45,252 crore. I am happy to announce that the outlay for these sectors for the current year will be Rs.61,146 crore. This is an increase of 35 per cent. I am hopeful that this steep increase in investments will trigger industrial activity and revive rapid economic growth.

26. Within a few weeks of taking office, the government passed an important ordinance for establishing Central and State Electricity Regulatory Commissions with the primary objective of rationalising electricity tariffs. This will go a long way towards enhancing investor confidence in the power sector and facilitate raising resources for higher public and private investment. We have also simplified the procedures for extending sovereign counter guarantees for a few "Fast Track" power projects which were held up for long. We now expect early financial closure of these projects. The total plan outlay for Ministry of Power is being increased to Rs.9,500 crore as against Rs.6,738 crore in RE 1997-98.

27. The outstanding dues from State Electricity Boards to major public sector undertakings such as NTPC and Coal India amount to about Rs.10,000 crore. These large outstanding dues are serious impediments to investment by these public sector undertakings. The government will evolve a guarantee scheme to cover such dues. On the strength of such guarantees, the PSUs concerned will be able to raise resources either by securitising these debts or directly entering the market for tapping resources. This would help these enterprises to raise resources to fund large projects in the power and coal sectors. The resulting investment will also boost industrial growth and investment through linkage effects.

28. We must build more roads and the quality of our roads must also improve. Our National Highways must be brought up to international standards. I am providing Rs.500 crore for the National Highways Authority of India to catalyse new road projects including four-laning of existing National Highways. I shall announce some more measures for this sector in Part B of my speech.

29. To enhance long-term finance for infrastructure investment in the private sector, the Infrastructure Development Finance Company Limited (IDFC) was incorporated as a non-government company in 1997. I am happy to inform the House that the IDFC has tied up its paid up equity capital of Rs.1,000 crore, including equity participation of Rs.400 crore by nine foreign investors and has now commenced operation. In order to put IDFC on par with other all India public Financial Institutions in the matter of fiscal incentives and fund raising benefits extended to these institutions, it is proposed to make necessary amendments to the Companies Act.

30. Provident funds are a potentially important source of funding for private sector infrastructure projects. The present pattern of investment prescribed for provident funds does not permit any investment in securities of private sector infrastructure projects. I propose to provide some flexibility in this regard by allowing upto 10% of the new accretion to provident funds to be invested in private sector securities which have an investment grade rating from at least two credit rating agencies. This is an enabling provision which will allow the Board of Trustees managing these funds to invest in these securities subject to their assessment of the risk-return prospects of each security.

### **Education**

31. Education is the key vehicle for social transformation. Universalisation of elementary education and eradication of illiteracy are central elements of our social policy. Government also plans to implement the Constitutional provision for making primary education free and compulsory up to fifth standard and for girls up to the college level.

32. This budget provides for a nearly 50 per cent increase in the total budgetary allocation to Education, from Rs.4,716 crore in RE 1997-98 to Rs.7,047 crore in this budget. We are committed to raising the total resource allocation for Education to 6 per cent of GDP in a phased manner.

33. The allocations under the Kasturba Gandhi Shiksha Yojana and the Mahila Samiridhi Yojana will be integrated to support a unified Action Plan for accelerating female education.



34. Swami Vivekanand while exhorting the youth had said “A far greater work is the sacrifice of yourself for the benefit of your race, for the welfare of humanity.” In order to harness the limitless energy of the youth, government will formulate a scheme for creation of a National Reconstruction Corps, which will mobilise youth for community-based nation building activities. The scheme will also promote self-employment of youth whereby the volunteers would simultaneously be given training in vocations and entrepreneurship development for taking up self-employment vocations. An inter-Ministerial Committee is being set up to work out the details.

### **Information Technology**

35. The Prime Minister has underlined the crucial importance of Information Technology for India. It is the fastest growing sector of the Indian economy as indeed of the world economy. It has tremendous potential for the generation of employment, incomes and export earnings. It can also provide millions of skilled jobs for women. Our Information Technology specialists and software creators are second to none in the world.

36. The government have set itself a target of making India a Global Information Technology Power and one of the largest generators and exporters of software in the world within ten years. A National Information Technology Task Force, headed by the Deputy Chairman, Planning Commission has been set up, to formulate a National Informatics Policy which will help achieve our objectives.

37. Our software companies operate in a highly competitive global market and the skilled professionals working in these companies have attractive opportunities abroad. Our companies need flexible systems of incentives to retain their human resources. They have sought permission to offer stock option schemes to their Indian employees linked to ADR/GDR issues abroad, under which their employees will be eligible for ADR/GDR stock options. In recognition of the excellent work being done in this sector, and its very special circumstances, the government have decided to formulate a special scheme to allow such options for the software sector. The details of the scheme will be notified separately.

38. I also have some fiscal proposals to support rapid development of this crucial sector which I will present later in my speech.

### **Financial Sector**

39. A mature and well functioning financial system is essential for promoting savings, channelling investment into the most productive activities and ensuring an efficient payments mechanism. The East Asian financial crisis has highlighted the importance of prompt action to strengthen our financial system. The recently submitted Narasimham Committee Report has provided many recommendations which are being examined in consultation with RBI. However, I am happy to announce that decisions have been taken on some important recommendations.

- \* The relatively high level of Non-Performing Assets (NPAs) in our public sector banks is a cause for concern. Net NPAs, averaging 9 per cent in 1996-97, must be brought down to below 5 per cent by the year 2000-2001. As one way of reducing NPAs, Debt Recovery Tribunals will be strengthened and more Tribunals will be set up to cover all States.

- \* A few banks have particularly high NPAs. These banks will be encouraged, on an experimental basis, to establish Asset Reconstruction Companies, which will takeover the NPAs of the bank at their realisable value and swap them with special bonds to be held by the bank. The Asset Reconstruction companies will concentrate on recovery of dues to realise the maximum value for the assets transferred to them.
- \* To strengthen the underlying health of our banks, RBI is raising the minimum required Capital Adequacy Ratio for banks from the present 8 per cent to 9 per cent by March 31, 2000 and to 10 per cent by as early as possible thereafter. RBI will also announce certain other enhancements of prudential norms in regard to asset classifications, income recognition, risk weights, etc.
- \* Our financial system today works under the burden of several archaic laws regarding transfers of and transactions in properties and financial instruments. An Expert Group is being set up to propose precise legal amendments in the key laws to make the provisions consistent with modern financial and banking practices.

40. Non-Bank Finance Companies (NBFCs) perform an important role in our financial sector. But regulation of this sector has to improve to protect unwary small investors. The Reserve Bank of India Act was amended last year with a view to laying down a framework for improved regulation of NBFCs. RBI has recently issued guidelines for registration as also for effective regulation of NBFCs. Our objective will be to develop a framework of prudential regulations and a supervisory system which will foster the development of a healthy financial system and also provide transparent disclosure norms leading to greater depositor awareness to enable the investors to take well informed investment decisions.

41. Along with reform of the banking sector, it is necessary to move forward with reforms in insurance which has hitherto been a public sector monopoly. In order to provide better insurance coverage to our citizens and also to augment the flow of long-term resources for financing infrastructure, I propose to open the insurance sector to competition from private Indian companies. The Insurance Regulatory Authority will also be converted into a statutory body. Necessary legislation will be introduced later in the year.

#### **FEMA and Money Laundering**

42. The present Foreign Exchange Regulation Act, 1973 is outdated and is no longer in keeping with the needs of the economy and the changes that have taken place in foreign exchange markets and transactions. We have moved to full current account convertibility. It is no longer appropriate to deify foreign exchange as something special and maintain a burdensome and highly regulatory structure around this deity. Accordingly, government have decided to repeal FERA and replace it with a new Foreign Exchange Management Act (FEMA), which would be consistent with the needs of a modern economy. The new Bill will be introduced in this session of Parliament.

43. At the same time, I want to assure the House that the replacement of FERA by FEMA is in no way intended to give license for illegal transactions to drug peddlers,

terrorists, arm smugglers and other perpetrators of heinous economic crimes. Indeed, to protect our society from the globally recognised and, growing problem of money laundering, I will also bring an anti Money Laundering Bill before the House simultaneously with FEMA.

### **Capital Market**

44. I am proposing a number of measures to strengthen our capital markets:

- \* The Securities and Exchange Board of India (SEBI) has approved the introduction of trading in stock index futures as a way of providing greater opportunities for hedging and inducing more liquidity into the market. The government will bring forward the necessary amendment to the Securities Contracts (Regulation) Act to enable derivative instruments to be treated as securities.
- \* Foreign institutional investor (FII) debt funds are today allowed to invest only in listed debt securities. I propose to allow them to invest in unlisted domestic debt securities also; the risk of default would be borne by the FIIs.
- \* To encourage modernisation of broker services, a one time permission was given last year to stock brokers to corporatise their businesses without attracting capital gains tax. I propose to extend this exemption by one year.
- \* To encourage more primary public issues, I am proposing certain changes to expand the income tax deductibility of expenses incurred on public issues.
- \* After some of the turbulent events in the stock markets in recent years, a special effort must be made to restore the confidence of small investors. I am asking SEBI to devote special attention to strengthening the institutional arrangements for protecting small investors from defaults and financial failures of brokers and other market intermediaries.

### **Non-Resident Indians**

45. Whenever I have travelled outside India, Non-Resident Indians (NRIs) have expressed a sincere desire to contribute meaningfully to the development of India. I believe NRIs constitute a huge, untapped potential for India's development. I propose the following steps to encourage NRIs to participate in the development of their country of origin:

- \* At present NRIs are allowed to purchase shares in Indian companies in the secondary market subject to a limit of 1 per cent of the company's total equity for individual NRIs and NRI overseas corporate bodies, with a 5 per cent limit for aggregate NRI/OCB investments in the company. These limits were imposed many years ago when our capital market regulations were much weaker and there were no rules governing acquisition and takeovers. The situation has changed materially in both these respects. I, therefore, propose to raise the individual investment limit of 1 per cent for NRIs to 5 per cent and the aggregate limit for all NRI investments in a company from 5 per cent to 10 per cent.
- \* NRIs have also complained to me that the procedures governing their participation in our share markets are extremely cumbersome and onerous. I am having these procedures thoroughly reviewed with a view to modifying them to facilitate investment by NRIs in our capital markets.

- \* The Unit Trust of India will launch a new India Millennium Scheme which will be open for subscription in dollars only by NRIs. The money collected under this scheme would be invested in shares of Indian companies with high potential for growth and in high quality Indian debt. The details of the scheme will be announced shortly.
- \* The State Bank of India is launching a new Resurgent India Bond denominated in foreign currencies for subscription by NRIs. This will enable NRIs to contribute to the flow of resources for our country's development, especially for building up infrastructure. The bond will be fully repatriable and the government will extend tax concessions similar to those currently available to NRI deposits to this new bond. The details of the scheme will be notified separately. I am confident that NRIs will welcome this initiative and will contribute liberally to these Bonds.

46. I have one more significant announcement to make for NRI's. Government have decided to draw up a scheme for issuance of a Persons of Indian Origin (PIO) Card for those living abroad and having foreign passports. The PIO Card, which would be extended to persons of Indian Origin settled in countries to be specified by government would besides introducing a visa-free regime, also confer some special economic, educational, financial and cultural benefits. The details are being worked out.

#### **Decentralisation and Expenditure Restructuring**

47. Government have already appointed a Special Task Force on Devolution of Powers to States, under the Chairmanship of Shri Bhairon Singh Shekhawat, to examine and recommend measures for devolution of additional financial powers to the States and additional or alternative means by which States can raise more resources. The first report of the Task Force has been received. We are examining the recommendations in consultation with the RBI.

48. The distinction between plan and non-plan expenditures in our budgetary system has created several problems. It has led to an excessive focus on so called plan expenditures with a corresponding neglect of items such as maintenance which is classified as non-plan. Various bodies, including the Finance Commission, have advocated the elimination of the plan and non-plan distinction in the budget. I propose to constitute a Task Force, including representatives of Planning Commission, Finance Ministry, Comptroller and Auditor-General of India and State Governments to examine these issues in a comprehensive manner and to make recommendations for a functionally viable and more focussed presentation of government expenditure in the budget.

49. A related problem is the proliferation of Central Sector and Centrally Sponsored Schemes over the years. There is a need to rationalise these, with the objective of reducing overlaps and duplication, modifying procedures and norms and making them more easily accessible to the intended beneficiary. The Task Force, mentioned above, will also advise on this issue.

#### **Development of North Eastern Region**

50. The government have already decided to restructure the North Eastern Council (NEC) for speedy implementation of important infrastructural programmes

in this region. Sikkim will also be included in the Council. Necessary legislation will be introduced in Parliament to effect these changes.

51. Furthermore, it has been decided that a non-lapsable Central Resource Pool will be created for deposit of funds from all Ministries where the plan expenditure on the North Eastern region is less than 10 per cent of the total plan allocation of the Ministry. The difference between 10 per cent of the allocation and the actual expenditure incurred on the North Eastern region will be transferred to the Central Pool, which will be used for funding specific programmes for economic and social upliftment of the North Eastern States.

52. The North-Eastern Development Finance Corporation Limited (NEDFi) promoted by public sector financial institutions and banks was incorporated in 1995. NEDFi strives to respond to the specific needs of industries in the North-East. At present there is one State Financial Corporation (SFC) in Assam and twin function Industrial Development Corporations (IDCs) in some other States. In order to foster healthy and efficient growth of these institutions, I am proposing that the refinancing function for industrial loans of SFC/IDCs of the North-East will be undertaken henceforth by NEDFi, rather than IDBI/SIDBI as at present.

#### **Disinvestment/Privatisation/PSU Reform**

53. The regular budget takes credit for a receipt of Rs.5,000 crore from disinvestment in the current year. In order to expedite the process the government have decided to disinvest specified portions of equity from IOC, GAIL, VSNL and CONCOR. As part of an overall strategy to restructure Indian Airlines and expand its capacity, government have decided to restructure the capital of Indian Airlines and also to undertake a phased disinvestment in this company, over three years, bringing the government's equity holding down to 49 per cent.

54. Some public sector undertakings have consistently incurred large losses. Experience and studies by independent organisations, have conclusively established them to be unrevivable. Nevertheless, a decision on their closure has been delayed only on account of the concern for the interest of the workers. In order to find a viable and satisfactory solution to this dilemma, the government have decided to provide a safety net to the workers of enterprises destined for closure by providing a liberal and attractive compensation package prior to closure. At present, when a unit is closed, the workers are only entitled to retrenchment compensation under the Industries (Development and Regulation) Act, which is only 15 days wages for each completed year of service. To make the compensation package attractive, it is proposed to make applicable the benefits of VRS package, namely 45 days wages for each completed year of service, subject to the maximum wage or salary accruable on the basis of the balance of years of service left to all the workers of these public sector units. As a further improvement to the package, the workers of these units will also be eligible for a maximum of 60 months or 5 years salary or wages as compensation in the case of all those who have completed not less than 30 years of service. This would mean that all those who have put in more than 30 years of service will get more than the normal VRS. The other conditions of the VRS will apply and this offer will be made time bound.

55. A separate Restructuring Fund is being constituted for this purpose and these public sector enterprises will be advanced funds from the budget to offer a

compensation package to the workers. Once the labour is separated, the assets of the company will be available for disposal at the best economic price. The proceeds of the disposal, after settling all pending liabilities, will be credited to the Restructuring Fund which will get recouped to that extent. This would enable the fund to operate on atleast a partially self-sustaining basis and it is expected that, in the course of time, budgetary support for the fund will gradually diminish.

56. Government have also decided that in the generality of cases, the government shareholding in public sector enterprises will be brought down to 26 per cent. In cases of public sector enterprises involving strategic considerations, government will continue to retain majority holding. The interest of workers shall be protected in all cases.

### **Budget Estimates for 1998-99**

57. As Hon'ble Members are aware details of the revised estimates for 1997-98 were presented along with the interim budget in March 1998. I am, therefore, not going over those estimates again. The figures that are given below are the budget estimates for 1998-99. I shall compare them with the revised estimates for 1997-98, since budget estimates are after all estimates. What really matters is the expenditure in the previous year and the increase proposed in this year's budget.

58. I shall now briefly go over the budget estimates for 1998-99.

59. For 1998-99, the total expenditure is estimated at Rs.268107 crore. Of this, Rs.72,002 crore has been provided as budget support for Central, States and UT Plans and balance Rs.1,96,105 crore is for non-plan expenditure. Hon'ble Members will be pleased to note that the budget support for the plan has been increased by Rs.11,372 crore from Rs.60,630 crore in revised estimates 1997-98, which is the largest increase ever in absolute terms. Even in percentage terms the 18.8 per cent increase is the highest in the last decade, except for one year.

### **Plan Expenditure**

#### ***Central Plan***

60. Total Central plan outlay at Rs.1,05,187 crore will be higher by Rs.24,154 crore from the last year's level of Rs.81,033 crore. Gross budgetary support for the Central plan is being enhanced from Rs.33,629 crore in the revised estimates 1997-98 to Rs.42,464 crore. The balance will be met by the internal and extra-budgetary resources of the Central Public Sector Enterprises. Gross budgetary support for the Central plan includes provision of Rs.5,741 crore for externally aided projects.

61. The plan allocations reflect our dominant priorities. The plan allocation for the Ministry of Agriculture has been increased by 58 per cent from Rs.1807 crore to Rs.2,854 crore.

62. For 1998-99, the plan allocation for Ministry of Rural Areas and Employment is Rs.9,912 crore, an increase of Rs.1,556 crore over RE 1997-98 of Rs.8,356 crore.

63. The plan allocation for Ministry of Health and Family Welfare is Rs.3,684 crore, an increase of 34% over RE 1997-98 of Rs.2,747 crore.

64. The plan allocation for the Department of Education has been increased substantially from Rs.3,351 crore to Rs.4,245 crore.

65. The plan allocation for Ministry of Welfare is being increased by 91 per cent from Rs.804 crore to Rs.1,539 crore. It includes Rs.92 crore for National Backward Classes Finance and Development Corporation, Rs.41 crore for National Minorities Development and Finance Corporation, Rs.60 crore for share capital contribution to State Scheduled Castes Development Corporations, Rs.28 crore for National Handicapped Finance and Development Corporation and Rs.10 crore for National Safai Karmachari Finance and Development Corporation.

66. In order to sustain our quest for excellence in frontier areas of scientific research, the plan allocation for Department of Atomic Energy is being enhanced by 68 per cent from Rs.828 crore to Rs.1,391 crore and the plan allocation for Department of Space is being raised by 62 per cent from Rs.850 crore to Rs.1,381 crore.

67. For tapping the potential of non-conventional energy sources, the plan allocation for the Ministry of Non-Conventional Energy is being more than doubled from Rs.190 crore to Rs.404 crore.

68. The plan allocation for the Ministry of Environment and Forests is being increased by 60 per cent from Rs.440 crore to Rs.704 crore.

69. The budgetary support for the Ministry of Civil Aviation and Tourism is being more than tripled from Rs.122 crore to Rs.379 crore.

70. The plan allocation for the Department of Women & Child Development is being stepped up from Rs.1,026 crore to Rs.1,226 crore.

#### ***Central Assistance for States and UTs' Plan***

71. I am providing Rs.29,538 crore as Central plan assistance to States and Union Territories in budget estimates 1998-99 compared to Rs.27,001 crore in the revised estimates 1997-98. The normal Central Assistance for State plan is proposed to be enhanced from Rs.12,888 crore to Rs.15,037 crore. The Special Central Assistance for Tribal Sub-Plan is proposed to be enhanced from Rs.330 crore to Rs.380 crore. The Additional Central Assistance for externally aided projects is placed at Rs.5,000 crore. Assistance for Basic Minimum Services and Slum Development schemes is proposed to be enhanced from Rs.2,873 crore to Rs.3,760 crore.

#### ***New schemes***

72. A new experimental crop insurance scheme is being launched in 24 selected districts to cover non-loanee farmers with a provision of Rs.100 crore.

73. A new scheme of Technology Mission on cotton is being launched with a provision of Rs.60 crore.

74. A new scheme for rehabilitation of tribals displaced from National Parks and project areas is being launched with a provision of Rs.25 crore.

#### **Non Plan Expenditure**

75. Total non-plan expenditure in 1998-99 is estimated to be Rs.1,96,105 crore compared to Rs.1,74,615 crore in revised estimates 1997-98.

76. The provision for interest payments has increased from Rs.65,700 crore in RE 1997-98 to Rs.75,000 crore.

77. The provision for Defence expenditure has been increased substantially from Rs.36,099 crore in RE 1997-98 to Rs.41,200 crore. I will consider further increase in the budgetary support during the course of the year, if necessary. There can be no compromise in our defence preparedness.

78. An amount of Rs.9,000 crore is being earmarked for Food subsidy in 1998-99 representing an increase of Rs.1,500 crore over RE 1997-98. The provision for sugar subsidy has been retained at Rs.400 crore. An increase in food subsidy has become necessary due to recent revision of minimum support price for wheat procurement and also to clear arrears pertaining to previous years.

79. Pursuant to the change in the selling price of urea, the provision for subsidy on indigenous nitrogenous fertilisers is being reduced from Rs.6,600 crore in RE 1997-98 to Rs.6,000 crore. The subsidy on decontrolled phosphatic and potassic fertilisers is being increased from Rs.2,600 crore in RE 1997-98 to Rs.3,000 crore.

80. Grants to States is being enhanced in 1998-99 from Rs.4,114 crore in RE 1997-98 to Rs.6,314 crore representing an increase of Rs.2,200 crore. Of this, the increase of Rs.950 crore is due to assistance to the States for improvement in the pay & allowances of the university and college teachers. The balance of the increase is mainly due to grants under Tenth Finance Commission's award.

81. The provision for pension is being increased by Rs.459 crore over RE 1997-98 to Rs.7,342 crore. This provision takes into account the effect of Government's decision to raise the age of superannuation from 58 years to 60 years. This will also have an impact on the Small Savings Collections. The provision for loans to States and Union Territories against net small savings collections is being kept at Rs.14,200 crore against the provision of Rs.15,732 crore in RE 1997-98.

82. A provision of Rs.1,482 crore has been made for non-plan loans to public sector enterprises mainly for payment of salaries and wages to the employees of sick and convalescent PSUs.

### **Revenue Receipts**

83. I shall now turn to the revenue receipts.

84. Hon'ble Members are aware that on the basis of a consensus reached in the Third Meeting of the Inter-State Council held on July 17, 1997, the then government had approved in principle to accept the recommendations of the Tenth Finance Commission regarding the alternative scheme of sharing of Centre's tax revenues with the States. I am happy to announce that we have ratified this decision. Accordingly, I propose to shortly introduce a Constitution Amendment Bill to give effect to this alternative scheme subject only to one modification. The modification is that the percentage share of States' share in the gross proceeds of Central taxes may be reviewed by successive Finance Commissions instead of freezing it for fifteen years as suggested by the Tenth Finance Commission.

85. Gross tax revenues at the existing rates of taxation are estimated at Rs.1,48,506 crore. As Hon'ble Members are aware, we had made a provision of Rs.7,594 crore in the RE 1997-98 for States' share in the proceeds of the Voluntary Disclosure of Income Scheme, 1997 as the collections were estimated to be



Rs.10,050 crore by March 31, 1998. However, the actual collection is reported to be about Rs.1,000 crore less. After making adjustment for the excess share paid to the States, I am providing Rs.39,074 crore as the share of taxes of the States. Thus, the Centre's net tax revenue will be Rs.1,09,432 crore over RE 1997-98 of Rs.99,158 crore. Non-tax revenues are estimated to increase from Rs.39,356 crore in RE 1997-98 to Rs.45,137 crore this year. I have taken credit for Rs.2,800 crore as license fee from the operators of cellular and basic telecom services and Rs.4,200 crore as net surplus profits of the Reserve Bank of India.

86. The net revenue receipts for the Centre, including non-tax receipts, are expected to increase from Rs.1,38,514 crore in RE 1997-98 to Rs.1,54,569 crore in 1998-99.

87. In the area of capital receipts, market borrowings are placed at Rs.55,931 crore. Net external assistance is estimated at Rs.2,337 crore. I am also taking credit for receipts from disinvestment of equity in public sector enterprises of Rs.5,000 crore.

88. I shall come to the fiscal deficit in Part B of my speech.

## **PART B**

89. Sir, I now present my tax proposals.

90. There has been much talk of a tough budget. The temptation to raise taxes in the given situation was indeed great. But I recognise that direct tax policy must impart stability and confidence both to individuals and corporates. Therefore, any uncertainty in this regard must be ended. Tax rates introduced last year are moderate enough. I do not propose to introduce any changes in the rate structure either for individual or corporate taxes. I do hope that long-term stability in tax structure would create virtuous circles of increased productivity, voluntary compliance and enhance our tax widening efforts. In fact, I am going to announce a couple of concessions. Considering the difficulties experienced by the tax payers at the marginal level, the level for tax exemption is being raised from the existing limit of Rs.40,000 to Rs.50,000.

91. Salary earners having income upto Rs.1 lakh will be further pleased to know that I propose to raise the ceiling of standard deduction in their case from Rs.20,000 to Rs.25,000. Their pleasure, I hope, will be happily shared by those salary earners whose income is more than Rs.5 lakhs. They will henceforth not be entitled to this deduction. For salary earners having income between Rs.1 lakh and Rs.5 lakhs, no change is proposed in the existing position. I also propose to enhance the ceiling of tax-free reimbursement of medical expenses from Rs.10,000 to Rs.15,000.

92. In a country of our size, it is a matter of great anxiety that the total number of assesseees constitutes less than 1.25% of our population. The scope for tax widening remains the single most formidable challenge in the area of direct taxes. It is well accepted tenet of taxation policy that moderate rates of taxes only make sense if the

net is wide and the scope of evasion progressively minimised. Towards this objective, I propose to take some important initiatives. Last year, a scheme was introduced to cover 12 important cities where if you fulfil two of the four criteria, namely, possession of a house, subscription to a telephone, spending on foreign travel and possession of a motor vehicle, you would be obliged to file an income-tax return. This scheme had several lacunae which I propose to remove. In the first instance, the scheme is being extended now to cover 23 more cities in India taking the total coverage to 35 cities. The net itself is being enlarged to include two additional criteria, namely, holding a credit card and membership of expensive clubs, taking the total parameters to six. Finally, the matching of two out of four parameters apart from being an administratively onerous task provided an escape route to many potential assesseees. I believe that if any one fulfils one of the six criteria, it would be reasonable to ask the individual to file his income-tax return. It could thereafter be determined whether he is liable for payment of taxes or not. This revised "One-by-Six", as the scheme would now be known, is a significant initiative in our tax widening efforts and it is my intention to raise the total number of individuals filing their income-tax returns by at least 50 percent during a full fiscal year.

93. Coupled with tax widening, tax evasion continues to be a serious handicap. While efforts at enforcement would be strengthened, I propose to undertake a new initiative in making it obligatory for assesseees to quote their PAN or GIR number mandatorily in respect of certain high value transactions. These transactions would be :-

- \* Purchase & Sale of immovable property
- \* Purchase & Sale of motor vehicles
- \* Transaction in shares exceeding Rs.50,000
- \* Opening of new bank accounts
- \* Fixed deposits of more than Rs.50,000
- \* Applications for allotment of telephone connection
- \* Payment to hotels exceeding Rs.25,000/-.

With increased usage of computerisation, this data will be fully utilised for increasing the tax-base and for preventing the leakage of revenue.

94. We must recognise that the cumbersome nature of our income tax forms coupled with complex procedures is a serious deterrent to an honest individual in becoming an assessee. I, therefore, propose to introduce, for the first time, a simple one page taxpayer-friendly return form to be hereinafter called, 'SARAL', applicable to all non-corporate taxpayers. SARAL can be filled up easily without the aid of Chartered Accountants or Tax Advisors. The 'SARAL', I hope, would become popular enough, through voluntary compliance and the assistance of NGOs, which I propose to muster, along with mobile vans for important cities, can be widely distributed and collected easily on spot. This will, apart from contributing to our tax widening effort, also make an important psychological difference in the mindset of potential tax assesseees.

95. Litigation has been the bane of both direct and indirect taxes. A lot of energy of the Revenue Department is being frittered in pursuing large number of litigations pending at different levels for long periods of time. Considerable revenue

also gets locked up in such disputes. Declogging the system will not only incentivise honest taxpayers, enable government to realise its reasonable dues much earlier but coupled with administrative measures, would also make the system more user-friendly. I, therefore, propose to introduce a new scheme called "SAMADHAN". The scheme would apply to both direct taxes and indirect taxes and offer waiver of interest, penalty and immunity from prosecution on payment of arrears of direct tax at the current rates. In respect of indirect tax, where in recent years the adjustment of rates has been very sharp, an abatement of 50 per cent of the duty would be available alongwith waiver of interest, penalty and immunity from prosecution.

96. Legal measures are also being proposed to limit and expedite litigation. These include enhanced scale of fees for filing appeals before the Appellate Commissioner and the Income Tax Appellate Tribunal, abolition of the level of Deputy Commissioner (Appeals), provision of direct appeals to High Courts to reduce delay, and also extension of the scope of the Authority for Advance Ruling to notified categories of resident tax payers.

97. Moderate rates and large concessions do not go hand in hand. I have, therefore, carried out a review of the various concessions and exemptions under the Income-tax Act. I find that many of them are no longer necessary and some of them are also being used for tax avoidance. I, therefore, propose to withdraw many of these provisions. These include exemption to the Export Import Bank of India and exemption in respect of certain perquisites of foreigners employed in India. The blanket exemption in respect of educational and medical institutions which is being misused, is proposed to be withdrawn, compelling such institutions to come under a discipline. However, safeguards are being provided to ensure that the institutions genuinely serving the social cause in either field do not lose the existing benefits.

98. I also propose to plug certain loopholes. Rule 5(a) of the First Schedule to the Income-tax Act relating to computation of profit of insurance business other than life insurance business is being amended to prevent leakage of revenue. Similarly, section 10(23G) of that Act is being recast to serve the objective of infrastructure financing without misuse of the concession. Under the existing provisions, there is no mechanism to ensure that the tax free funds raised by an infrastructure enterprise are actually used for infrastructure development within a reasonable time and are not used for any other purpose. I propose to provide such a mechanism.

99. Gift-tax has been levied in India since 1958. The revenue yield from this tax has been insignificant. Last year we collected barely Rs.9 crore. The Gift-tax Act has also not been successful as an instrument to curb tax evasion and avoidance. I, therefore, propose to discontinue the levy of gift-tax on gifts made after 30th September, 1998. At the same time, to ensure that there are no leakages of income-tax revenue through the mechanism of gifts, I propose to tax the gifts under the Income-tax Act itself in the hands of the recipients. However, the gifts from non-residents including NRIs through banking channels will continue to enjoy exemption as at present.

100. I have already said that housing is an area which requires our utmost attention. Therefore, I propose several incentives to encourage house-building activity.

These include :-

- \* Tax holiday for approved housing projects - 100 per cent deduction from profits for first five years and 30 per cent deduction for subsequent five years.
- \* Increased deductions against income from house property - deduction for repairs and collection charges increased from 1/5th to 1/4th and deduction for interest on borrowed capital in case of self-occupied property increased from Rs.15,000 to Rs.30,000.
- \* Carry-forward of losses from house property against future income under the same head to be allowed for 8 years.
- \* Deduction equal to 50 per cent of the profits to companies engaged in housing projects aided by the World Bank.
- \* Section 80GG in respect of deduction for rents paid is being reintroduced.
- \* Exemptions to certain specified properties like commercial complexes under the Wealth-tax Act.

101. Other areas in the social sector for which new tax incentives are proposed or the existing ones being increased include employment generation, improvement of environment, upliftment of women, road safety, cooperatives and medical expenses of the handicapped.

102. I propose to allow a new deduction to companies with a view to encourage them to employ additional work force. An amount equal to 30 per cent of additional wages paid to the new workmen will be allowed as a deduction against profits, subject to certain conditions.

103. For improvement of environment, I propose to allow 100 percent deduction, subject to a ceiling of Rs.5 lakhs, to undertakings engaged in the collection or processing of biodegradable waste. I also propose to make activities which encourage the production of bacteria induced fertilisers eligible for 100 per cent deduction under section 35AC of the Income-tax Act. Necessary amendment in the rules will be notified for this purpose. Similar benefit is proposed to be extended to the activities of establishing and running of educational institutions, hospitals and medical facilities in rural areas exclusively for women and children and also creches and schools for the children of workers employed in factories or at project sites. I also propose similar amendment of rules to make activities which promote road safety and traffic awareness and prevent accidents eligible for 100 per cent deduction under section 35AC.

104. The promotion of sports and games in the country needs to be encouraged. I propose setting up of National Sports Fund and further propose that donations made to the Fund will be eligible for 100 per cent deduction.

105. I propose to extend 100% tax holiday granted to industrial undertakings located in any industrially backward State or district till the year 2000. I also propose similar extension of tax holiday to power sector upto the year 2003 and also to new refineries set up after 1st October, 1998. I also propose to extend infrastructure status to inland waterways and inland ports.

106. I further propose tax holiday benefits to radio paging services and services provided by satellite owners for telecommunication.

107. I also propose several measures in response to demands from business and industry. Certain categories of business reorganisations are proposed to be freed from any additional tax liability or loss of tax benefits keeping in view the necessity of such reorganisation consequent on economic liberalisation. No capital gain would be charged and the benefit of carry-forward of losses and unabsorbed depreciation would be allowed in case of specified reorganisations. Intangible assets are proposed to be allowed depreciation at the rate of 25 per cent. Provisions for amortisation of preliminary expenses are proposed to be liberalised. The period of amortisation is proposed to be reduced from 10 years to 5 years and the rate of deduction will consequently be doubled. Stock lending is proposed to be exempted from capital gains.

108. Delay in refund of excess tax collected tantamounts to denial of justice. It is a source of constant harassment, particularly of small tax payers. I intend to mitigate this difficulty by effecting an amendment in section 192 of the Income-tax Act which will enable adjustment of loss from house property against salary income, at the source itself. This, I believe, will eliminate a large number of refund claims.

109. In response to demands from tax payers, I propose to take further measures. Under the existing provisions of section 44AA of the Income-tax Act, every person carrying on business or profession is required to maintain account books, if his income from business exceeds Rs.40,000 or his total turnover exceeds Rs.5 lakhs. Considering the increased cost of engaging accountants, I propose to enhance these limits to Rs.1,20,000 and Rs.10 lakhs respectively. I further propose that the penalty leviable at the minimum rate of Rs.100 per day for failure to furnish certificates of tax deduction or collection at source under section 203 or to deliver copies of declarations under section 197A, shall not exceed the amount of tax deductible or collectible, as the case may be. Presently, there is no such ceiling on the quantum of penalty leviable which causes hardship, particularly to small businessmen.

110. Certain demands of the film industry have also engaged my attention and I propose to give relief to them. Under the existing rules, if a film is released on commercial basis at least 180 days before the end of the previous year, full amortisation of the cost incurred on production or acquisition of distribution rights of the film is allowed in the year of release itself whereas if the film is released later, full amortisation is not allowed in that year. Considering that nowadays film producers and distributors release a large number of prints simultaneously to counter the threat of video-pirates and cable television, resulting in shorter life span for exploitation of films, I propose to reduce the aforesaid period of 180 days to 90 days. This will enable the film industry to quickly recoup the cost of film production and distribution. I also propose that producers of films, who are required to furnish information in respect of all payments over Rs.5,000 to the Income-tax Department in any financial year would have to do so now only in respect of payments over Rs.25,000. I hope these measures would inspire the film industry to make better and healthier films.

111. A controversy has arisen recently regarding the deductibility of payments by way of extortion money. To set the controversy at rest, I propose to explicitly

provide retrospectively since the inception of Income-tax Act, 1961 that any money paid by way of extortion will not qualify for deduction as a business expense. As further rationalisation measure, I propose to make certain amendments with regard to block assessment procedure and treatment of MODVAT credit in the valuation of inventories and capital assets.

112. The limit of room rent in hotels for the purpose of attracting expenditure tax is proposed to be increased from Rs.1200 to Rs.2000 per day.

113. Taxpayers all over the world have a sense of pride in discharging their legitimate dues to the government and the society recognises the important contribution they are making in enabling the State to discharge its responsibilities. In this country, regrettably, the culture of pride by honest taxpayer and a social recognition of his important role has yet to evolve. We must make a change in this mindset. Towards this objective, I propose to introduce a scheme called "SAMMAN" to demonstrate the society's recognition of their important contribution to the national cause. The details of the facilities and recognition to be conferred on the taxpayers and PAN holders would be separately announced.

114. I hope the above measures alongwith SARAL, SAMMAN and SAMADHAN will go a long way in making our efforts to increase the tax payers compliance a success. But while we are doing what we can, I call upon the people of India to do their patriotic duty by the country and honestly pay their taxes.

115. Before I move on to indirect tax, I would like to state that a large number of suggestions were received from all sections of tax payers and I have got them carefully examined. It is not practicable to acknowledge all these communications individually. I do so now collectively and am extremely thankful to the tax payers for their valuable suggestions.

116. Hon'ble Members would see from the budget documents that the figure projected by way of revenue realisation from direct taxes is Rs.48,855 crore which is higher than the figure indicated in the interim budget. This is after taking into account the revenue loss of Rs.950 crore, worked out on a mechanical basis, arising out of certain proposals for reliefs and concessions placed before the House. We intend to make this loss up and collect the budgeted amount through improved collection of arrears, continuation of the tax base enlargement efforts, rigorous enforcement and tightening measures reflected in the budget proposals.

117. Mr. Speaker, Sir, our medium-term objective is to enhance the tax-GDP ratio. As far as customs duties are concerned the process of restructuring has resulted in a progressive reduction in tariffs, with a view to align these with internationally acceptable levels, and the broadbanding of rates. These measures have enhanced the competitiveness of Indian industry.

118. On the excise side, until a few years ago the regime was characterised by a multiplicity of rates and punctuated with numerous ad hoc exemptions. As a result, the tax structure was opaque. It is the objective of the present proposals to introduce greater transparency in the system through a significant rationalisation of rates. The ultimate objective of this process is to move towards a Central Value-Added Tax (VAT) system which can then be merged with a generalised VAT. It is our intention to move in this broad direction.

119. The domestic industry has responded favourably to the restructuring of customs duties and has shown commendable resilience. They need to improve their competitive efficiency to meet the challenges of global competition. But they also have legitimate concerns which cannot be ignored. In this background, the path of transition has to be carefully calibrated to ensure that the adjustment process for the Indian industry is orderly without leading to serious disruption.

120. I have received representations from a cross section of the industry about the regime of import duties. Many Hon. Members have also written to me expressing their concern on the general health of the domestic industry. The demands are diverse and asymmetrical in most cases. This is for obvious reasons. While the users of imported raw materials and other inputs or the consumers of finished imported goods would benefit from further reduction in import duties, the domestic producers have made a convincing case for urgent relief to the domestic industry.

121. I have given my earnest consideration to these concerns and the competing claims. I am persuaded about a clear disability that our commodity taxation inflicts on the indigenous goods vis-a-vis the imported goods. While the former are subjected to sales tax and other local taxes and levies, the import sector escapes them by their very nature. In order to provide a level playing-field to the domestic industry, I propose to impose an additional non-modvatable levy of 8% on imports which is approximately equal to the burden of local taxes on domestic producers. This duty should not be viewed as a protectionist measure but only as a response to a legitimate demand for a level playing field. The new levy would not apply to crude oil, newsprint, capital goods sector under a special tariff regime or goods which are subjected to additional duties of excise in lieu of sales tax, gold and silver imported by passengers or other nominated agencies and life saving drugs that are free from customs duties. The levy would also not apply to goods which are currently exempt both from basic and additional duties of customs. Similarly, goods imported for subsequent trading have also been left out of its purview, since they bear the burden of Sales tax at the time of first sale. The new levy will also not apply to inputs imported under export-promotion schemes. In addition, there may be other sectors eligible for exemptions. These would be examined and if considered appropriate notified separately.

122. The gradual reduction of import duties in the past few years has resulted in certain distortions and anomalies. My proposals seek to correct them as far as found feasible without causing abrupt disruption in the duty structure.

123. The steel industry has shown considerable resilience in the past to withstand gradual reduction in customs duties. Last year, however, the steel industry has not shown any appreciable growth. I propose to increase the customs duty on cold rolled coils of iron and steel from 25% to 30%. I also propose to reduce the duty on stainless steel melting scrap from 10% to 5% and on refractory ceramic goods from 40% to 30%. I am confident that these changes alongwith the imposition of the special additional duty that I have proposed on the imports in general would provide adequate relief to the steel industry.

124. The duty on wrought copper is being raised from 30% to 35%.

125. I do not intend to make any other changes in the duty structure applicable to ferrous and non-ferrous metals.

126. Textile intermediates like DMT, PTA, MEG attract customs duty at 25%. However, caprolactum which is the raw material for making nylon yarn is subjected to a higher duty of 30%. I am reducing the duty on caprolactum also to the level of 25% so that all the major textile intermediates attract the same rate of duty. The import duty on paraxylene, an important input for synthetic fibres and yarn, is being reduced from a total of 15% to 5%.

127. The decentralised sector of the textile industry generates avenues for employment. It deserves to be encouraged by reducing cost. I propose to reduce customs duty on apparel grade raw wool from a total of 25% to 20%. The duty on wool waste and garnetted stock of wool is also being reduced by the same extent. I also propose to reduce the duty on acetate and cuprammonium filament yarn from 30% to 20%. In the same vein, machinery required for viscose filament yarn and woollen industry is being accorded the concessional duty of 10%.

128. The import of paper and paper board has shown phenomenal growth in terms of quantity. In order to improve the competitiveness of the domestic producers, I propose to increase the customs duty on paper and paper board from 20% to 30%.

129. Mr. Speaker, Sir, my government values the right to information. With a view to further strengthen this right, I propose to reduce customs duty on standard newsprint from 10% to 5%. I also propose to rationalise the duty structure by subjecting glazed newsprint to the same rate of duty. Furthermore, I also intend to exempt newsprint from the applicability of 8% across the board special additional duty.

130. I also propose to reduce the duty on light weight coated paper weighing upto 51 grams per square metre for printing of magazines to a total of 5%.

131. The customs duty on photographic chemicals is being raised from 25% to 30%. Similarly, the duty on citric acid is being increased from 30% to 40%.

132. I propose to reduce the customs duty on jumbo rolls of cinematographic film from 25% to 10%.

133. Motor vehicle parts are generally subjected to customs duty at 40%. However, I.C. engines and parts thereof for motor vehicles attract a lower rate of 20%. I propose to raise the customs duty thereon to 30%.

134. I propose to reduce the duty on industrial diamonds from 30% to 20%. This would help the diamond cutting tool industry.

135. As a measure of rationalisation, I propose to reduce the duty on rayon-grade wood pulp from 10% to 5%.

136. Thalassaemia is a life-threatening blood-disorder. There have been requests for exempting maltol, an input used in the manufacture of drugs for the treatment of this disorder. I propose to fully exempt maltol from customs duty. Hydroxy ethyl starch and dextran are used in the manufacture of artificial plasma which is free from import duty. I propose to reduce the burden of duty on artificial plasma by reducing the duty on hydroxy ethyl starch and dextran from 30% to 5%. I also propose to exempt Lamivudine, which is used for the treatment of AIDS, from customs duty.



137. Leather industry contributes significantly to our export effort. In order to encourage its export, I propose to reduce the duty on specified machinery for leather industry from 20% to 5%. This would also be the rate applicable to leather splitting machinery. I also propose to reduce the duty on saddle trees from 30% to 10%.

138. Sir, the House is aware that India has joined the Information Technology Agreement. We are committed to abolish the import duty on products of information technology. This is not because we are bound by the ITA but because we are convinced that spread of information technology and freer exchange of information is the key to success and human welfare. I propose to reduce the duty on floppy disk drives, hard disk drives and CD-ROM drives from a total of 12% to 5%. The duty on ICs of value exceeding one thousand rupees per piece is also being reduced to 5%. I also propose to reduce the duty on computer parts excluding PPCB from a total of 15% to 12%. The duty on PPCB is being reduced from a total of 25% to 22%. I also propose to reduce the duty on cathode ray tubes for colour monitors for computers from a total of 15% to 5% and on deflection components for colour monitors for computers from a total of 25% to 5%. My proposals also include reduction in duty on telecom software from 40% to 30%. Such software henceforth will not be subject to any additional duty of customs.

139. In order to encourage the domestic telecom equipment sector, I propose to reduce the duty on parts of such equipment to 20%.

140. As a measure of environmental protection, I propose to reduce the import duty on sawn wood and certain other varieties of wood from 30% to 25%. I also propose to reduce the duty on biopesticides, which are eco-friendly, from 30% to 5%. With the same objective, I have proposed reduction of duty on membrane electrolyzers and parts from 25% to 10%.

141. The duty on spodumene, which is an energy saving material, is being reduced from 25% to 10%. On silicon, which is widely used in solar energy applications, I propose to reduce the duty to half of the existing 10%.

I propose to reduce the duty on -

- \* Solar cells and modules from 30% to 20%
- \* Button cells from 20% to 10%
- \* Watch movements from 25% to 20%
- \* DC micro motors from 40% to 20%
- \* CD mechanism from 40% to 30%

142. Mr. Speaker Sir, good roads are a necessity for social and economic development. I am sure that those of us who are privileged to afford personalised vehicles can afford to contribute to the faster development of good roads in the country. I propose to charge an additional tax at the rate of rupee one per litre on petrol with immediate effect. This is expected to generate an amount of Rs.790 crore in a year which will be used for the development of roads and entirely go towards augmenting the corpus of the National Highways Authority of India. I propose to extend the concessions presently available to import of equipment for construction of National Highways to other road-construction projects also.

143. The importers of precious yellow metal can certainly afford to contribute a bit more to the national exchequer. I propose to increase the import duty on gold from 220 rupees per ten grams to 250 rupees per ten grams.

144. The duty free allowance for baggage is Rs.6000 at present. Many countries do not impose any such restrictions. While we may not follow them there is need to increase the present limit to reduce delays in clearance of passengers. I propose to increase the baggage allowance from Rs.6000 to Rs.12000 for passengers returning to India after a stay exceeding three days. I also propose to extend free allowance of Rs.3000 to Indian residents returning from Nepal, Bhutan, Myanmar or China by air, after a stay exceeding three days.

145. There are a number of items on which it is necessary to reduce the customs duties marginally on account of GATT binding. I do not wish to take the time of the House in going into the details.

146. The government is committed to provide a tax code which is consistent with dismantling of administered pricing mechanism of petroleum products in a phased manner. By the year 2001, the import duty on crude has to be reduced from the current level of 27% to not more than 5%. The import duty on down stream products like furnace oil, LSHS, HSD oil, motor spirit and ATF has also to be reduced to the level of 10% to 15%. In this process, we will ensure an effective protection not exceeding 20% for downstream industry by suitable differential and calibration of import duty structure.

147. I have initiated the process of implementing the decisions arising from the dismantling of administered pricing mechanism. I propose to reduce the customs duty on crude from a total of 27% to 22%. This is estimated to result in a revenue loss of Rs.965 crore in a year. In order to recoup the loss, I propose to increase the excise duty on motor spirit from 20% to 35%. I also propose to impose customs duty on kerosene imported for parallel marketing at 32%, including special duty of 2%.

148. I now come to my proposals on central excise.

149. Mr. Speaker, Sir, the contribution of the small scale sector in the economy cannot be over emphasised. It is a critical fast track for generating employment thus promising support to thousands of families. The predecessor governments have been sympathetic to the small scale sector but I am afraid they have not done enough to encourage them so as to exploit their full potential. The fiscal incentives provided to the small scale sector have been rather meagre for a number of years.

150. I have taken certain important steps in this direction. I propose to raise the exemption limit for excise purpose from Rs.30 lakhs to Rs.50 lakhs, an increase of about 65%. The clearances between Rs.50 lakhs to Rs.100 lakhs shall be charged to a flat nominal rate of 5%. These proposals would result in a revenue loss of Rs.300 crore in a year. This is a small price to pay to restore to health this vital sector of our economy.

151. Over the years the scheme of Modvat credit has been considerably liberalised. However, the amount of Modvat credit availed has grown unexpectedly fast in recent years, suggesting misuse of the Modvat credit scheme in the absence of a

comprehensive computer net work for cross-checking modvatable invoices from a-flung ranges. Until such a computer network becomes functional, and as a transitional measure, I propose to restrict the availability of Modvat credit by 5% of the duty paid in the case of inputs used in the manufacture of excisable goods. However, no restriction is placed on the Modvat credit in respect of capital goods.

152. My proposals regarding other changes in excise duty are guided by the overall need to rationalise the rate-structure so as to reduce the multiplicity of rates and ensure convergence towards a mean rate of 18% ad valorem. An ideal tax structure would be one where, barring the mean rate, there is one lower rate for items deserving concession and a higher rate for what may be described as demerit goods. This would minimise the oscillations in rates and call for compression of intermediate rates.

153. As a first step towards a convergence to the mean rate, I propose to impose excise duty of 8% on certain commodities. These include :

- \* Packaged tea
- \* Branded butter, cheese and ghee
- \* Sewing machines, other than hand operated
- \* Branded spices
- \* Branded edible preparations when produced in factories
- \* Preparations of meat and fish sold under a brand name
- \* Skimmed milk powder other than for infant feeding
- \* Tractors not exceeding 1800 cc
- \* Spectacle lenses and frames
- \* Slide fasteners

154. I also propose to charge excise duty on exempted articles of plastics at a flat rate of 5% on clearances in excess of Rs.1 crore in a financial year.

155. In the same spirit, I propose to increase the excise duty on medical instruments and appliances as also on pollution control equipment from 5% to 8%.

156. A good number of commodities are subject to excise duty at 8%. Some of them can bear a higher duty. I , therefore, propose to increase the excise duty on these commodities to 13%.

157. As a result, malt, certain types of cartons, medical furniture, sun glasses and unrecorded audio cassettes will henceforth be subjected to duty at 13%.

158. As a measure of rationalisation, I propose to increase the duty on arms and ammunition from 18% to 25%. I, however, assure the House that arms and ammunition for the military services will continue to be exempt from excise duty.

159. I propose to raise the duty on multi-utility vehicles from 25% to 30% and on solid or cushion tyres also from 25% to 30%.

160. I also propose to raise the duty on marble tiles from Rs.30 to Rs.40 per square metre.

161. My proposals also include reduction of excise duty on:

- \* Effluent treatment plants from 13% to 8%
- \* Diesel engine sets upto 10 HP from 13% to 8%
- \* Surgical and medical examination gloves from 18% to 8%
- \* Potassium iodate from 18% to 8%
- \* Electronic calculators from 18% to 8%
- \* Pagers from 18% to 13%
- \* Cellophane from 25% to 18%.
- \* PVC compound from 25% to 18%.

162. I propose to exempt 100% wood-free particle boards and fibre boards made from agro-based residues from excise duty. Henceforth, cement bonded particle board, jute particle board, rice husk board, glass fibre reinforced gypsum board, sisal fibre board and bagasse board will also be free from excise duty. I also propose to exempt blocks and bricks containing more than 25% fly ash, ready mixed concrete, jute blankets and jute felt from excise duty. Henceforth, pultruded jute articles shall also be free from excise duty.

163. I propose to exempt recorded audio cassettes from excise duty. I also propose to exempt recorded video cassettes intended for television broadcasting from excise duty. The exemption for computer software will now be broad-banded to cover all software.

164. The domestic nylon industry is stagnating for various reasons. I propose to reduce the duty on nylon filament yarn from 30% to 25%.

165. Finance Ministers are often criticised by the tax payers for their compulsive habit to increase the burden of taxes. However, such complaint cannot be justified by compulsive smokers. I propose to increase the excise duty on cigarettes by varying degrees ranging from 6% to 11% of the specific rates.

166. I have no intention of being harsh on smokers all the way. Accordingly, I propose to reduce excise duty on matches manufactured in the cottage sector by half from Rs.0.50 to Rs.0.25 per hundred boxes. A smaller reduction is also being made in respect of matches manufactured by other sectors.

167. High rates of duties are known to induce evasion and avoidance. I propose to reduce the excise duty on alcohol-based toilet preparations from 100% to 50%. I expect that this will improve compliance and States will get more revenue.

168. The Maximum Retail Price (MRP) based excise levy introduced last year in respect of certain products has been welcomed by the industry. This scheme provides

for simplification and certainty in taxation. I propose to extend this scheme to a few more commodities, such as chocolates, malted food preparations, glazed tiles, razor blades, radio sets, domestic electrical appliances and pan masala.

169. In the last budget, a number of services were added in the tax net. These included the service rendered on transportation of goods by road. The House is aware that it led to wide spread resistance and protests. As a result, this service tax was virtually kept in abeyance and rightly so. I have decided to abolish the service tax on transportation of goods by road. I have also decided to abolish the service tax payable by outdoor caterers and pandal contractors. However, I have proposed service tax on some new services. These are services provided by :

- \* Architects
- \* Interior decorators
- \* Management consultants.
- \* Chartered Accountants.
- \* Cost Accountants.
- \* Company Secretaries
- \* Private security services
- \* Real estate agents and real estate consultants
- \* Market research agencies
- \* Credit Rating Agencies
- \* Underwriting agencies
- \* Slaughter houses using mechanised means for large animals

We will examine how in respect of certain segments liable to Service Tax, the manner and mode of payment could be further simplified to improve compliance. These new service taxes will yield Rs.220 crore in a full year.

170. My proposals relating to customs duties are estimated to result in a net gain of Rs.3,304 crore in one year. In case of excise duties, my proposals are estimated to result in gain of Rs.5,009 crore.

171. Mr. Speaker, Sir, there can be no two opinions that we must increase the level of voluntary compliance and our tax procedures should be simple, transparent and hassle free. Our tax laws are yet to achieve this objective even though considerable efforts have been made in the past.

172. Our laws are not in tune with the need of the times. It is imperative that they should be rebuilt on a comprehensive basis and modified to make them truly modern. I am conscious that it is not an easy task. But it is also not impossible. I have decided to set up an Expert Group to recast the central excise law. It will be my Government's endeavour to bring a new excise law before Parliament in the next budget session of this House.

173. The government have also decided to set up a Settlement Commission for settlement of certain categories of disputes relating to customs and excise duties. The details of the scheme are contained in the Finance Bill. I also propose to set up an authority for Advance Tax Rulings for Excise and Customs in view of the need for foreign investors to be assured in advance of their likely indirect tax liability. A bill to this effect will be introduced in Parliament in due course of time.

174. Mr. Speaker, Sir, with our courage, determination and conviction, we freed ourselves from the British Raj more than fifty years ago. This year the nation takes pride in celebrating the 50th year of Independence. Our trade and industry, however, is still not free from another Raj, namely, the Inspector Raj. We are committed to put an end to this in the shortest possible time. I am of the view that we owe it to our taxpayers to provide a competent, efficient, sensitive and responsive tax administration. Indeed, it is long overdue.

175. There is a widespread feeling that the operation and implementation of excise laws leads to harassment of the assesseees. We are earnestly desirous of bringing about systemic changes to remedy the situation. Some of the more important measures that are proposed, are:

- \* Minimising the contact points between the officials and assesseees
- \* Reducing areas which require permission or approval
- \* Providing respectability to orders passed by Commissioner (Appeals) and the Tribunal
- \* Simplifying the procedure for second appeal in Modvat cases
- \* Restricting factory visits by the staff

176. I am conscious of the fact that there is strong resentment against the procedures and legal obligations relating to service tax. I have removed a number of obnoxious and deterrent provisions in law. I also propose to abolish several of the redundant and irritating central excise rules very shortly.

177. On the customs side, I have decided to strengthen the initiatives already taken in the form of Fast Track Clearance Systems and the Self-Assessment System in import clearance. Computerisation in both Customs and Central Excise departments will be completed expeditiously so that information can be obtained from the assesseees and the importers and exporters through electronic media thereby reducing contact between the assesseees and the department.

178. I am introducing a new culture of time-bound action by officials of the Customs and Central Excise department. A Citizens' Charter is being released shortly to lay down the citizen's rights and the obligations cast on the customs and excise officials.

179. Copies of notifications giving effect to the above changes in customs and excise duties will be laid on the Table of the House in due course.

180. Finally, I have something to say on behalf of my Hon'ble colleague, the Minister of Communications. Postal service is highly employment-intensive and salary and allowances constitute a major part of the operating expenses of the postal department. A revision of tariff for postal services has become unavoidable. However, in the interest of the common man and the role of the print media in a democracy, there will be no change in the tariff for postcard and registered newspapers. However, the rate of competition postcard is being raised from Rs.2 to Rs.3, Inland letter from Re.1 to Rs.1.50, letter from Rs.2 to Rs.3 for every 20 gms. or part thereof and parcels from Rs.8 to Rs.10 for every 500 gms. or part thereof. There are also certain other changes which are explained in the Memorandum circulated along with the budget documents. The changes would take effect from a date to be notified after the Finance Bill is passed. The revisions proposed are estimated to yield an additional revenue of about Rs.270 crore in a full year and about Rs.180 crore in 1998-99. Even this modest increase, which is necessary for sustaining postal development, will only partially meet the cost of postal services leaving an uncovered postal deficit of about Rs.695 crore.

181. As a result of my tax proposals and the postal tariff revision, total expenditure of the Central government for the year 1998-99 would be marginally reduced to Rs.2,67,927 crore while the net revenue receipts and non-debt capital receipts would increase to Rs.1,76,902 crore. The revenue deficit is placed at Rs.48,068 crore which is 3% of GDP. The fiscal deficit is placed at Rs.91,025 crore which is 5.6% of GDP. With the present state of the economy and in view of the need for expenditure stimulus to growth, I believe further compression is not warranted this year.

182. Sir, it is my firm conviction that in the days to come India will stand tall on the world's stage because of our commitment to democracy and the pursuit of prosperity. I call upon you to join us to strengthen freedom and opportunity, I call upon you to join us to build a better future for every man, woman and child. As we move together and with discipline, the future is ours. In the words of Ramdhari Singh Dinkar :

सेनानी करो प्रयाण अभय,  
भावी इतिहास तुम्हारा है;  
ये नखत अमा के बुझते हैं,  
सारा आकाश तुम्हारा है।

Rise O' warrior march ahead undaunted  
You are the Creator of future history  
The stars of the dark night are fading  
The whole sky belongs to you.

183. Mr. Speaker, Sir, with these words, I commend the budget to this august House.