<u>Speech of Hon'ble Deputy Chief Minister for the pre-Union Budget 2021-22 meeting</u>

Hon'ble Union Finance Minister,
Smt. Nirmala Sitharaman,

Hon'ble Union Minister of State for Finance,
Shri.Anurag Singh Thakur,

Hon'ble Finance Ministers of State Governments and Union Territories,

Senior Officers of the Union Government and State Governments,

Vanakkam,

I thank the Hon'ble Union Finance Minister for inviting us to this meeting and seeking our views on the upcoming Union Budget, despite the several constraints of time.

2. We are in the midst of an unprecedented situation. The COVID-19 pandemic has caused considerable economic disruption and placed the finances of all Governments in disarray. Unprecedented times call

for unprecedented measures. The Atma Nirbhar Bharat initiatives included many bold measures that supported the economy and ensured a speedy revival. We thank the Hon'ble Prime Minister and the Hon'ble Union Finance Minister for having supported the States through this difficult period. Permission has been accorded for additional borrowings of upto 2 per cent of GDP. The long pending issue of incorrect allocation of IGST in 2017-18 has been resolved. An arrangement has been worked out to ensure flow of funds for a significant portion of the GST compensation dues. While we recognize these initiatives, much more needs to be done – not just to support the States, but to ensure a sustained revival of the economy and to protect the vulnerable sections of the population.

3. While the early signs of economic revival are apparent, the finances of the State Governments will take more time to recover. Hence, no abrupt fiscal correction should be attempted during 2021-22. The transition back to fiscal targets should be a gradual glide path over two to three years. Borrowing of upto 5 per cent of GDP should

be permitted to all State Governments in 2021-22 as well to enable States to sustain expenditure on capital works and on COVID-19 prevention measures. The Hon'ble Union Finance Minister has emphasized that all the ammunition should not be exhausted early in the crisis and enough should be held in reserve to kick start the economy when the support is required. The possibility of using all measures to support growth, including the escape clause in the FRBM Act to permit the RBI to subscribe to the Central Government's loans, should be explicitly placed on the table for consideration. This will engender confidence that the Government will do what it takes to sustain growth, and thereby build the virtuous cycle.

4. The initial period of five years of the GST compensation regime ends with 2021-22. States joined the GST reform on the assurance that the reform would be revenue neutral in the long run. They gave up autonomy on their main source of revenue on the basis of this understanding. The expectations of revenue growth

with the implementation of GST have been belied. The reasons for this tepid revenue growth have to be analysed in detail. The State Governments will need to have their revenues protected, particularly in these difficult times. Alternatives, including continuance of the compensation mechanism and devolving further taxation powers on States will have to be discussed in the GST Council in order to ensure that States are not put to hardship in 2022-23. I urge the Hon'ble Union Finance Minister to address this very crucial issue with the urgency that it warrants and to ensure that the interests of the States are not affected.

5. The levy of cesses and surcharges by the Central Government deprives the States of their legitimate share of the Centre's tax revenue. Collections by way of cesses and surcharges have increased substantially as a proportion of the Gross Tax revenue of the Centre in recent years. All such cesses and surcharges should be merged into the basic rate of tax, so that the States also receive their due share from the additional revenue.

6. We are eagerly awaiting the recommendations of the 15th Finance Commission for the period from 2021 to 2026. In the case of the local body grants in the first report of the 15th Finance Commission, the all-India ratio of rural to urban population was applied uniformly for all States. In more urbanized States like Tamil Nadu, this deprived urban areas of much needed funding. I request that this anomaly may be set right when the final report of the 15th Commission is implemented by the Government of India in 2021-22. I also urge the Hon'ble Union Finance Minister that no further conditions are imposed by the Government of India for the release of grants recommended by the Finance Commission. This would ensure that the States receive their full share of the grants in a timely fashion. Tamil Nadu is yet to receive grants of Rs.2,577.98 crore recommended by the 14th Finance Commission for rural and urban local bodies in the State. In fact, performance grants recommended by the 14th Finance Commission have not been released in the last 3 years to any State so far, which is unfair. Hence I request the Government of India to release the arrears

pertaining to the 14th Finance Commission grants at the earliest.

7. Tamil Nadu is a water deficient State. To overcome the water deficit, Tamil Nadu seeks the implementation of several critical projects, which include:

- The Peninsular River Link project to transfer water from the Godavari and subsequently the Mahanadhi to the Cauvery. Tamil Nadu has commenced the implementation of the Cauvery-Gundar Link project at a total cost of Rs.14,400 crore. Central Government funding is sought for the Cauvery-Gundar Link project under the National Perspective Plan.

- The "Nadanthai Vazhi Cauvery" project is envisaged along the lines of "Namami Gange" project to rejuvenate the Cauvery River and its tributaries. The proposal sent to Government of India for financing under the National River Conservation Programme may be approved at the earliest.

- The multiple elements of the Cauvery Extension, Renovation and Modernisation Scheme need to be taken up urgently.

- Under the Support for Irrigation Management Programme, Tamil Nadu has proposed 4 schemes for modernisation of the Krishnagiri Reservoir Project Canal system, the Vaigai River System in Madurai and Sivagangai districts and the Kodayar Left Bank Canal system at a total cost of Rs.730.05 crore.

These projects are expected to significantly augment the water resources of drought affected areas of Tamil Nadu. I strongly urge the Union Government to approve these projects and provide adequate Budget allocation in the Union Budget 2021-22.

8. To enhance and diversify farm incomes there is a need to invest in the Agriculture, Animal Husbandry, Dairy and Fisheries sectors. To augment the State's efforts to expand the infrastructure in these sectors, I request the Hon'ble Union Finance Minister to increase the allocation for the "Rashtriya Krishi Vikas Yojana" (RKVY), the 'Rural Infrastructure Development Fund' (RIDF) of NABARD, the 'Agriculture Marketing Infrastructure Fund' (AMIF), the 'Dairy Processing & Infrastructure Development Fund' (DIDF) and the

'Fisheries and Aquaculture Infrastructure Development Fund' (FAIDF).

9. The Chennai Metro Rail Project, inaugurated by our leader, the late Hon'ble Chief Minister Puratchi Thalaivi Amma has been a resounding success. Phase-I of the project is already operational. The work on Phase II of the project for a length of 118.9 kilometres at an estimated cost of Rs.61,843 crore has been inaugurated by the Hon'ble Union Home Minister. Financing has also been tied up with JICA, Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). I request the Union Government to approve the implementation of Phase-II of the project with equal equity shares of at least 15 per cent each of the Central and State Governments as was done for Phase-I of the project.

10. Tamil Nadu has a long track record of efficient implementation of Externally Aided Projects, which later serve as models for other States and countries in project

design and execution. Several multilateral aid agencies have recognised Tamil Nadu’s achievement record and have worked with different departments and agencies in the State to design projects in multiple sectors. However, we learn that the Ministry of Finance now intends to approve only one externally aided project per agency per State in a year. Such an abrupt change in policy greatly disrupts the development plans of Tamil Nadu, which has already gone ahead based on the Department of Economic Affairs Screening Committee approval with project preparation and with securing readiness. Hence I request that projects that are at an advanced stage of consideration are approved for implementation by the Ministry of Finance without any restrictions and limitations. Such projects in Tamil Nadu include the three phases of the Chennai City Partnership Project to be implemented with World Bank and AIIB assistance, the Second Housing Sector Strengthening Programme with World Bank support, the Inclusive Resilient and Sustainable Housing for the Urban Poor in Tamil Nadu with ADB support, the Chennai Peripheral Ring Road

Project Phases II and III with AIIB and OFID support, the Rights : Inclusion, Accessibility and Opportunities for Persons with Disabilities in Tamil Nadu Project with World Bank assistance, the Extension, Renovation and Modernisation of Grand Anaicut Canal System Project with AIIB support, the Tamil Nadu Industrial Connectivity Project with ADB support, the Integrated Storm Water Drain in the Kosasthalaiyar Basin Project Cost with ADB assistance and the Tamil Nadu Biodiversity Conservation and Greening Project Phase II – Project with JICA assistance. I request that all of these projects are permitted to be implemented at the earliest.

11. The Hon'ble Union Finance Minister had an ambitious plan of investing Rs.100 lakh crore in infrastructure through the National Infrastructure Pipeline. This requires not only Central Government investment, but also from States and the private sector. Innovative funding mechanisms like Alternate Investment Funds need to be promoted. The Tamil Nadu Infrastructure Fund Management Corporation Ltd in a pioneering effort

has created two such funds - the Tamil Nadu Infrastructure Fund (TNIF) and the Tamil Nadu Shelter Fund (TNSF), widely appreciated at national and international forums. I reiterate my request that the National Infrastructure Investment Fund (NIIF) invest in these alternate investment funds from its “Fund of Funds”. I strongly urge the Hon’ble Union Finance Minister to proactively support the State’s efforts at innovative fund raising in domestic and international markets.

12. We have continuously apprised the Government of India of the funds pending release to Tamil Nadu. At present Rs.19,591.63 crore including pending GST compensation claims, arrears related to 13th and 14th Finance Commission grants to Local bodies, and pending grants for programmes including ‘Sarva Shiksha Abhiyan’, ‘Rashtriya Madhyamik Shiksha Abhiyan’, ‘Right to Education Act’, ‘Flood Management Programme’, and ’Post-matric Scholarship Scheme’, is due to Tamil Nadu. I request the Government of India to release the dues at the earliest.

13. Under both the urban and rural components of the Pradhan Mantri Awas Yojana, the unit costs and Government of India's share of the cost need to be urgently enhanced to reflect the field situation. Under the Pradhan Mantri Awas Yojana (Urban), the contribution of Government of India towards the components of 'Affordable Housing under Partnership' and 'In-situ Rehabilitation Scheme' is only Rs.1.5 lakh whereas the actual cost is Rs.10 lakh per unit excluding land cost. The share of Government of India should be revised to reflect the 60:40 ratio followed for Centrally Sponsored Schemes. Similarly, under the 'Pradhan Mantri Awas Yojana' (Grameen), the present unit cost of Rs.1.2 lakh is too low and needs to be urgently revised upwards to Rs.4 lakh on a 60:40 sharing basis.

14. Under the National Social Assistance Programme, the Government of India contributes Rs.200 per beneficiary as monthly pension under the Old age pension scheme and Rs.300 per month per beneficiary for widows and differently abled. These amounts were fixed

many years ago. Since this amount is inadequate to lead a dignified life, Tamil Nadu has been topping up this amount to provide a monthly pension of Rs.1,000 to each beneficiary. In the present pandemic situation, the most vulnerable require special protection, I urge the Government of India to increase the pension to at least Rs.1,000 per month and provide adequate allocation in the upcoming Budget.

15. The Tamil Nadu Defence Industrial Corridor was launched by the Hon'ble Union Finance Minister in January, 2019. Financial assistance of Rs.5,000 crore may be provided by the Government of India to develop the critical infrastructure and common facilities required for defence / aerospace industries in the 5 nodes of the TNDIC- Chennai, Salem, Hosur, Coimbatore and Trichy.

16. A peripheral rail corridor connecting the industrial parks and clusters around Chennai, including Gummidipoondi, Manallur, Sriperumpudur, Irungattukottai, Thervai Kandigai, Oragadam and

Mahabalipuram, with the ports and other main rail lines will greatly help major industrial units around Chennai. A high speed passenger and freight rail corridor connecting Chennai and Thoothukudi must be prioritised as part of the Chennai-Kanyakumari Industrial Corridor.

17. In the Finance Act, 2013, the then UPA Government introduced Section 40 (a)(iib) in the Income Tax Act, which excluded several State Government statutory levies as eligible deductions from the definition of income for State Government PSUs. This highly iniquitous and anti-federal provision was strongly protested by the Chief Ministers of Tamil Nadu and Gujarat at the time. An earnest request was also made to your predecessor to remove this amendment. Now the issue is under challenge as being against the Constitution in the High Court. Rather than waste time on needless litigation, I request you Madam to reconsider the issue and remove the amendment introduced in the Finance Act, 2013 through the Finance Act to be presented in the

Parliament with the Union Budget for 2021-22 and to restore the status quo ante.

18. Large international automobile companies have made substantial investments in India and specifically in Tamil Nadu. They have requested an extension of the period under the tax loss carry forward (TLCF) scheme. At present, under the Income Tax Act, losses can be carried forward up to 8 years and adjusted against future profits. Internationally this period is 20 years or even longer. An extension of at least five years, especially in the light of the COVID-19 pandemic, would definitely enhance India's competitiveness in attracting and retaining foreign investments.

19. MSMEs have been reeling under the impact of several setbacks in the past few years. They were particularly hard hit by the COVID-19 pandemic and are now struggling with rising prices of raw materials including steel, coke, pig iron, cast iron, steel scrap, copper, brass, aluminium and PVC. The Government of

India must urgently step into bring down raw material costs including by removing tariff and non-tariff barriers on imported raw materials, imposing a ban on export of such raw materials and ease the terms of payment with the National Small Industries Corporation for such raw materials.

20. MSMEs are also facing cash flow issues in the GST regime, as they have to remit taxes monthly on accrual basis although the actual recovery of the dues from customers takes longer. The man-made fibre spinning sector, where Tamil Nadu has a very large presence, continues to face the issue of an inverted duty structure as the fabric tax rate at 5 per cent is lower than that of inputs. Processing industries like leather which frequently move intermediate products from one premises to another have difficulties in adhering to the e-way bill regime. A detailed representation on these issues is also being submitted separately for necessary action.

21. The GST rate on property transactions was changed from 12% with Input Tax Credit (ITC) to 5% without ITC, with effect from 1 April 2019. For affordable housing, the corresponding reduction was from 8% to 1%. While the new tax rate without ITC applied to all new projects, builders were given a one-time option to pick between the old and the new rates for projects which were incomplete as on March 31, 2019. Many builders have been repeatedly representing that the option of levy of GST at 12 per cent with ITC should be retained as it captures value addition at multiple stages and does not over burden the builders and home buyers. Since the construction industry is a prime mover with considerable employment potential, the option of levy of GST at 5 per cent without ITC and at 12 per cent with ITC may be provided to builders.

22. I am confident that you will consider the various suggestions offered by the States and other stake holders in preparing the much awaited and anticipated Union Budget 2021-22 and set the stage for a rapid and

sustained revival of the Indian economy. The hopes of the nation are resting on you.

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