SPEECH OF

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HON'BLE MINISTER FOR FINANCE AND
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GOVERNMENT OF TAMIL NADU

AT

THE MEETING OF STATE FINANCE MINISTERS
WITH THE
UNION FINANCE MINISTER

NEW DELHI
30-12-2021

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

Hon'ble Union Ministers of State for Finance,

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 organizing this meeting and seeking our suggestions for the upcoming Union Budget. This meeting is an integral part of fiscal federalism and has assumed even greater significance at a time when the finances of all States are under severe stress due to the COVID 19 pandemic.

2. The Constitutional scheme provides a distribution of subjects between Union and States. Recognizing the importance of adequate fiscal resources and autonomy, the fathers of the Constitution provided the States with some powers of taxation and mandated a sharing of taxes between Union and States. This original balance which was already skewed against true fiscal federalism has been skewed even further towards the Union over a period of time.

3. The increased levy of cesses and surcharges, which do not form part of the divisible pool of taxes, has adversely affected the transfer of resources to the States. Cesses and surcharges as a proportion of the Gross Tax Revenue of the Centre have almost tripled from 6.26% in 2010-11 to

19.9% in 2020-21. In effect, States are deprived of a share in approximately 20% of the revenue collected by the Union. If these taxes were added to the divisible pool, the States would have obtained an additional transfer of approximately Rs.1.5 lakh crores as their share from the pool of central taxes in FY 2021-22.

4. As a consequence of this realignment, the ratio of Grants-in-aid to share in central taxes has increased from 62.67% in FY 2010-11 to 130.7% in FY 2020-21 for Tamil Nadu. While the share in taxes is a legitimate right and provides the State the autonomy to cater to local needs and aspirations, the grants-in-aid are discretionary and tied funds. This greatly impinges on the federal structure enshrined in the Constitution. I strongly urge the

Union Government to merge the cesses and surcharges into the basic rates of tax so that the states receive their legitimate share in devolution.

5. During the introduction of GST, the State accepted to forego its fiscal autonomy with an assurance from the Union Government that our revenues will be protected. In the last five years, there has been a wide gap between the actual revenues realized and the protected revenues guaranteed. This trend was visible even before the pandemic and the gap has been increasingly wide ever since. The States' revenues are yet to recover, and considering the huge revenue shortfall that is expected, I urge the Union Government to extend the period of compensation by atleast two years beyond June 2022 and also

request the immediate release of the pending compensation of Rs.16,725 crores. I request that this announcement may be made and necessary funds may be provided in the upcoming Budget.

6. In recent years, the share of revenue collected from Indirect taxes in the Gross Tax Revenue of the Centre has increased sharply and has surpassed the collections from Direct taxes in 2020-21. This is highly inequitable, as indirect taxes are regressive by their nature, and disproportionately affect the poor. I request the Union Government to maintain a ratio of 60:40 between Direct taxes and Indirect taxes.

7. In the past, the Government of Tamil Nadu has given lands for free or at concessional rates for many Central Public

Sector Undertakings and projects of the Union Government. During the privatization of such organizations, the State Government should be justly compensated for the land either through payment of land cost at current market value or through an equivalent equity stake in the new entity. Further, to incentivize States to show more interest in projects of the Union Government, I request that a policy may be formulated in this regard and announced in the Budget.

8. I would like to highlight that in case of Tamil Nadu, a substantial amount of dues are pending from the Union Government. For schemes shared between Centre and States, approximately Rs.17,000 crores of the Union Government's share remains to be released. Further, the Performance Grants from 2017-18 to

2019-20 to the tune of Rs.2,029.22 crores and the basic grant of Rs.548.76 crores for 2019-20 under the 14^{th} Finance Commission are pending. These dues have a considerable impact on the fiscal calculations of the State which are already under severe stress due to the pandemic. I strongly urge the Government to release the pending dues at the earliest and make appropriate allocation in the upcoming Budget 2022-23.

9. As per the CAG Report of 2016, the Union Government has not acted to devolve an amount of Rs.81,647.70 crores between 1996-97 and 2014-15 to the States. This translates to approximately Rs.4,500 crores which is due to be devolved to the state of Tamil Nadu and I urge the Union Government to take appropriate steps to release this in FY 2022-23.

10. The Union Government has set pre-conditions for availing additional borrowing limit of 1% (0.5% for capital expenditure and 0.5% for Power sector reforms) of the GSDP. The imposition of such conditions adversely affects the state finances and its patterns of expenditure. I urge the Union Government to permit the States to borrow unconditionally within the prescribed limits. Further, as the states have incurred huge expenditure to fight COVID 19 pandemic with substantial reduction in revenues, I urge the Government to permit borrowing of 5% of GSDP without any conditions for FY 2022-23. Going even further still, I request that the borrowing limits under the FRBM and related State Acts should be set dynamically – at 5% or higher levels during recessions (when the base GSDP is dropping, and hence the need for

greater State spending is required) and below 3% during high growth periods (when the base GSDP is rising rapidly and hence State spending should be curtailed to avoid inflation).

11. The Union Ministry of Finance has encouraged a restriction of one project per annum per State from a given external funding agency. Tamil Nadu has a credible track record of efficient implementation of Externally Aided Projects and the required bandwidth to absorb higher investments. Such a restriction will reduce the overall lending into India at an aggregate level, as many states will not qualify for the scale of credit that will be available to developed states with strong track records like Tamil Nadu. Therefore, I urge the Union Government to discontinue this

restriction and not disincentivize well performing states.

12. Under the Pradhan Mantri Fasal Bima Yojana (PMFBY), the Union Government’s decision to cap its subsidy on premium has shifted the burden to State governments leading to an increase of 250% in the State’s share. It is requested that the sharing pattern (of 49% each by Centre and State) followed before 2020-21 may be restored in the Union Budget.

13. In the Vehicle Scrappage Policy 2021, the burden to provide financial incentives for promoting scrappage of vehicles such as rebate on road tax, and incentives for establishment of scrapping centres is to be borne solely by the State Governments. I request that the Union Government should also contribute

financially and the policy may be revised in this Budget.

14. The Union Government is awarding mega industrial park projects (such as Mega Textile Parks, Bulk Drug Parks, etc.) based on challenge method, where states compete to provide fiscal incentives and other concessions to investors. This Policy creates an unhealthy competition of providing unsustainable fiscal concessions to the detriment of state finances and the public in general. It is requested that, instead, such critical projects may be given to States based on their competitive advantages and the existing ecosystem to support such industries.

15. The VOC port in Thoothukudi is of strategic importance to the Nation and has a great potential to be a trans-shipment hub.

I urge that the expansion of Thoothukudi port with Outer Harbour project including dredging of upto 17 m draught be sanctioned in this Budget. This will help in reducing the dependence on Colombo port to trans-ship Indian goods.

16. I request the Union Government to expedite the final sanction by the Cabinet Committee on Economic Affairs for Chennai Metro Rail Phase II project for a 50:50 equity share between the Government of Tamil Nadu and Union Government, and ensure adequate provisions are made for the same in the Budget 2022-23.

17. I request the Union Government to release adequate funds for speedier execution and completion of Railway projects pending in the State of Tamil Nadu. I further urge the Union Government to announce

new projects for the expansion of railway network in the State.

18. In 2009, the National Institute of Pharmaceutical Education and Research (NIPER) was approved for Tamil Nadu to be set up in Madurai. However, the Union Government is yet to provide funds for this project though the state government has already allotted the land. It is requested that funds may be provided in this Budget for this long pending project which is critical to develop the pharmaceutical sector in Tamil Nadu.

19. The second wave of Covid-19 has severely affected the MSME Sector in the State including closure during lockdown, loss of demand, disruptions in supply chain and shortage of labour. Though both the RBI and the Union Government have already

announced a series of stimulus measures, it is apparent from meetings with SLBC and other stakeholders, and available hard data, that the full benefit has not reached the last mile. While we are working to increase the connect through various efforts at the State level, we urge the Union Government to further expand its efforts on this front, as well as to develop a comprehensive revival package for MSMEs including concessional credit, loan moratorium and deferment of statutory dues. A special infrastructure support scheme for creating export related to MSMEs may be announced.

20. The schemes for the benefit of MSMEs that are routed through SIDBI are limited to nationalised banks and have excluded State Finance Corporations (SFC) including well performing ones like

Tamil Nadu Industrial Investment Corporation. The denial of low-cost funds by SIDBI to such SFCs affects the MSME sector and is against the mandate for which the SIDBI was formed. I request the Union Government to re-examine the policy of SIDBI and include SFCs within the fold.

21. The recent decision by the GST council and the Union Government to increase the rate of tax from 5% to 12% for the textile and apparel sector is problematic on several counts. The rise in taxes will increase the financial burden on already-stressed MSME textile and handloom sectors, which are reeling under the effects of the Pandemic. I urge the Union Government to re-examine this decision and roll-back the increase in taxes.

22. An International Furniture Park, the first of its kind, is being set up at Thoothukudi to promote manufacturing and export of furniture to tap the $300 billion global market. In order to make this Park competitive vis-à-vis parks in China and Vietnam, it is requested that the customs duty on wood imported as an input good for exports in these Parks may be waived. This move will offset the comparative cost disadvantage of about 5% and will prove to be a strong boost for furniture exports.

23. The Union Government must intervene immediately to control the rising prices of input goods and raw materials such as steel, copper, aluminium, coke, brass and cotton yarn through suitable modifications such as in import duty structure, as they

have an inflationary effect on the prices of all other commodities.

24. I hope the views of the States will be incorporated in the Budget of 2022-23, which will help in a strong revival of the economy through concerted and coordinated efforts.

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