

MINUTE

1. I am in agreement with the recommendations of the Commission. I, however, deem it necessary to deal with some aspects of the income-tax question which in my view are important. On previous occasions the decision on this question was in the nature of an award. But on this occasion the question has been discussed at length. We have chosen a constitutional system influenced by the three leading federal systems—America, Canada and Australia. There is need for appreciation of the issues raised in the light of the experience of those federal systems.

2. The fundamental fact about the distribution of income-tax among the States is that about 74.4 per cent of the divisible income-tax is collected in only two of the States: Bombay 45.8 per cent and West Bengal 28.6 per cent. These States have a population of about 17.5 per cent of the total population in Part A and B States (Bombay 10.37 per cent and West Bengal 7.16 per cent).

3. No doubt, each State is putting forward a scheme of distribution which is most advantageous to it. But, broadly, the main controversy in the country is between two schools of thought. One is that the tax should be distributed on the basis of contribution, if not collection, and the other on the basis of needs of the States measured by the population within their jurisdiction.

4. The experience of the three leading federal systems offers no ready-made solution to the specific problem with which we are concerned. But that experience has a lesson. It conveys a warning that in a federal system uniform distribution of powers between the Federation and the States does not necessarily mean the equal allocation of resources to fulfil the functions assigned under the Constitution.

5. The division of powers in any federal system is a matter of ideals or convenience, political and economic, and has no reference to any criterion of economic or much less social justice. But the Constitution is designed to secure economic and social justice in all the States of the Union. The yield from the State heads of revenues varies in each State according to its conditions and resources. But the extent of financial responsibility of a State would primarily, though not necessarily, depend upon the number of people within its charge. Inequalities become apparent after the costs of the basic administration are met.

6. The vast majority of Indians are not directly interested in industry. Development of industries is part of a plan to raise the

contain a volume of useful information but these relate only to assessments and not to actual collections. We suggest that the question of compiling statistics with similar details but related to the actual collections should be considered. Information should also be readily available State-wise in regard to the collections of personal income-tax. In respect of assesseees having an income of over Rs. 25,000 a year, we suggest, moreover, that information under the heads suggested in the statement given in Appendix X should be collected and be kept for reference.

3. A doubt was expressed to us whether, in view of Section 54(2) of the Indian Income-tax Act, Commissioners of Income-tax can supply us with particulars relating to the income of assesseees and the tax assessed thereon. It is necessary that the Finance Commission should have whatever information they may consider necessary for the proper discharge of their duties and we suggest that this doubt be removed by amending the Finance Commission (Miscellaneous Provisions) Act, 1951, so as to include a provision similar in terms to that in Section 6(1) of the Taxation on Income (Investigation Commission) Act, 1947.

ACKNOWLEDGMENTS

4. We should like to place on record our appreciation of the help given to us by our staff. Among these we would particularly make mention of our Assistant Secretary, Dr. N. A. Sarma, who facilitated our work considerably by the zeal and ability which he brought to bear on his duties. The Research Officer, Shri B. S. Mahajan, and our Superintendent Shri A. G. Krishnan, worked assiduously and willingly and bore more than their usual share of the burden. We are greatly indebted to all of them for the ready help which they, along with the rest of the staff, rendered to us.

5. In conclusion, the rest of us on the Commission desire to express our high sense of appreciation of the valuable services rendered by Shri Rangachari as Member-Secretary. His long and intimate acquaintance with problems of Central and State finances, and particularly his association with the Expert Committee on the financial provisions of the Union Constitution, has equipped him with an uncommon measure of specialised knowledge which was of great assistance to his colleagues.

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NEW DELHI;
The 31st December, 1952.

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standards of living in the country. The growth of economic inequalities has been an inevitable accompaniment of industrialisation in the West. It is that problem with which most governments are now grappling. That general problem is apt to be further complicated in a federation by regional disparities. The compromise between economic integration and political autonomy which is involved in federalism may, in the absence of a corrective, result in the accentuation of economic inequalities in the different States in a Federation. That has been the common experience of the three leading federal systems, United States of America, Australia and Canada. The inequalities were noticed and discussed in Australia in the 3rd Report of the Commonwealth Grants Commission (1936), in Canada in the Rowell-Sirois Report (1940) and in America in the Report presented to the Senate in 1943⁽¹⁾. Each federation is trying to solve the problem under the limitations set by its own Constitution and history.

7. In America a tax on income could not at one time be levied without apportionment⁽²⁾. Direct taxation by the Federal Government was originally subject to the rule of apportionment. That rule meant that once the Federal Government decided on a sum to be raised by direct taxation that sum had to be divided up among the States according to their respective populations. The purpose of the apportionment clause was to prevent any State being called upon to contribute more than its due share of the burden of the Federal Government. That seemed an eminently just procedure in an age of pre-occupation with state rights without appreciation of all the implications of economic integration. In 1913, the 16th Amendment dispensed with the necessity of apportionment in the case of taxes on income⁽³⁾. The Federal Government was thus enabled to raise a tax on the principle of ability to pay irrespective of state lines. The grants to the State by the Federal Government were at first made to stimulate specific State services rather than from the necessity of enabling the States to provide a minimum of essential services⁽⁴⁾. But the recourse to the Welfare Clause by the Federal Government and the increasing number of grants made to the States have resulted in some diversion of financial resources from the States where they are raised to the States where they are needed. It is not that this

(1) U.S. Senate Document No. 69, Federal, State and Local Government Fiscal Relations, 1943.

(2) 158 U.S. 601.

(3) 240 U.S. 1.

(4) U.S. Senate Document No. 69, Federal, State and Local Government Fiscal Relations 1943, p. 160.

process has gone without the criticism familiar in federations or that the criticism has not been met⁽¹⁾.

8. In Canada the exigencies of the last War favoured the adoption of the scheme of uniform taxation. But the movement towards it was recommended by the Rowell-Sirois Commission on their study of the inequities in the income-tax structure as a whole as well as "the great inequity as between Provinces in the revenues available for provincial services; the impossibility at times for some Provinces of providing services of average Canadian standards."⁽²⁾ The Commission also favoured Dominion administration of unemployment relief and national adjustments grants with a view to enabling the Provinces to meet the costs of major subjects of public welfare within the provincial sphere.

9. Though under the options given to the Provinces which subscribe to the uniform tax proposals the amount receivable by one of the Provinces like Ontario is in absolute terms higher than the amount of the estimated collections in that State prior to the uniform tax, its relative share in the total payments is reduced⁽³⁾.

10. In Australia the intention under the Act of 1946 to make by 1957 population the dominant criterion is in the direction of equalisation⁽⁴⁾. Financial assistance to the States under section 96 which was originally intended to have but a temporary operation now seems to have become a permanent feature with the establishment of the Grants Commission. Assistance was considered necessary to correct the inequality of financial resources of the members of the federation.

11. A significant fact both in Australia and Canada is that the prosperous States are the populous States as well. Thus New South Wales and Victoria account for about 66 per cent of the population

(1) "It has been argued by some of the wealthiest states to refuse such aid that it is not fair to them for the federal government to take, for the help of other states money raised from estate taxes and income taxes paid by the citizens of those states. It is probably inevitable that estate taxes and income taxes especially if highly graduated will be for the most part paid by the people of some of our largest cities, because that is where the people paying these kinds of taxes largely reside. But the taking of tax money raised in this way for the purposes of state aid in other states is not unfair as it first seems. For one thing, the people in these cities who object to having highways built by the federal government in other states are just as likely to use the highways in those states as the people of those states; and for another thing, the people in all the states of the Union have helped to contribute to the making of the fortunes of the people in our large city centres."
(1936) Wills : Constitutional Law, p. 411.

(2) Report of the Royal Commission on Dominion-Provincial Relations, 1940, Book II, p. 111.

(3) Proceedings of the Conference of Federal and Provincial Governments, Ottawa, 1950, pp.145-146.

(4) Section 7, States Grants (Tax Reimbursement) Act, 1946 (No. 1 of 1946).

of Australia. Ontario and Quebec account for about 60 per cent of the population of Canada. In neither country the well-being of two such States is by itself regarded as a satisfactory test of national welfare.

12. The original theory upon which federal systems were based in regarding indirect taxation as the main support of the federal government and direct taxation as within the legitimate province of the units has, in no small measure, been responsible for the maladjustments between the resources and the functions of the units in a federation. These maladjustments are being corrected either by recourse to the levy of a uniform progressive tax like the tax on incomes and the equitable distribution of it among the units or by the federal government making grants to the units or itself assuming responsibilities in a wider field⁽¹⁾.

13. The limited conception about the functions of the federal government and about the role of a tax on income has changed or is changing. In the three federations the emphasis is shifting from the units to the people in whichever unit they may be. In federal finance the theory of contribution is yielding ground to the theory of equalisation. The federal government is raising taxes from territories where there is ability to pay and is appropriating the proceeds more and more to uses in territories where they are needed.

14. Further, there is a noticeable change in the old ideas about the contribution made by a community or an area to national economy. Even in America there is awareness of the fact that under the prevailing economic conditions "the production of important raw materials does not insure a high place in the income scale"⁽²⁾.

15. There are certain special features about the position of the States in the Indian Union which require to be noticed. Unlike in Australia or America, the States in India have not the same significance so far as territorial integrity is concerned⁽³⁾. The creation

(1) *Australia* : The amendment of section 51 of the Australian Constitution after the decision in 71 C.L.R. 237 by introducing clause (xxiiiA) is a recognition of the new responsibility of the Commonwealth as a social service State : See Nicholas : *The Australian Constitution*.

U.S.A. : C.F. the implications of the Supreme Court on the Social Security Act: 301 U.S. 548, 301 U.S. 619.

(2) U.S. Senate Document No. 69, *Federal, State and Local Government Fiscal Relations, 1943*, pp. 185, 187 & 198.

(3) Article 3 of the Constitution.

of autonomous Provinces was not a concession to economic independence: it was in recognition of the need to administer certain functions and services in closer contact with the people than the Central Government. Aspirations for self-government were first met by affording scope for autonomous administration in matters of provincial concern.

16. The development of the ports and the railways are not invariably a federal responsibility. In Australia, each one of the States had its own access to the sea, its own railway feeding its capital city and its own debt representing the costs of its development⁽¹⁾. Even after the establishment of the Commonwealth a State is free to favour its manufacturers by determining the scale of freights on its railways⁽²⁾. In Canada, the Provinces are authorized to construct railways within the Province⁽³⁾ and two of them own railways.

17. The establishment of the ports and their development in India was determined by geographical and national rather than provincial considerations. During the First Great War extensions and improvements to the port of Bombay costing some Rs. 10 crores were effected by 1919⁽⁴⁾. An expenditure of Rs. 8 crores is now recommended by the Planning Commission for the creation of port facilities for the oil refineries proposed to be set up at Bombay. Loans to the extent of Rs. 12 crores by the Centre are recommended for the development of the five major ports, including Calcutta and Bombay. Apart from benefitting the national economy, the development of the ports cannot but result in improving the economic activity at the port centres, in raising the incomes and in further concentrating tax collections there. Of the total sea-borne trade valued at Rs. 1166 crores in 1950-51, imports and exports of the value of Rs. 1147 crores passed through the ports in the three States—West Bengal, Bombay and Madras. The distribution trade which is largely centred at Bombay and Calcutta is assessed to over 18 and 9 crores (including super-tax) respectively in 1949-50.

18. It is not a universal feature of federal systems that a company incorporated in one State can transact business as of right in another State. In the United States though there has been a tendency towards uniformity of treatment of corporations, the right of a State to exclude a company incorporated in another State of the Union from doing business within the territory of the former or subject it to discriminatory taxation as a condition to its doing business has been recognized and affirmed⁽⁵⁾. The States viewed with

(1) The Australian Constitution by Nicholas, page 57.

(2) Page 243 *ibid.* Section 102 of the Australian Constitution.

(3) Lefroy, Canada's Federal System, p. 452.

(4) 'The Economic Development of India' by Vera Anstey, p. 149.

(5) 125 U.S. 181 at p. 184 & U.S. Reports 45 L.Ed. 269.

apprehension the expansion of business by companies incorporated in other States of the Union⁽¹⁾.

In Australia, it would appear that the guarantee given to the subjects resident in one State against disability or discrimination is not available to a company incorporated under the law of one State but carrying on business in another⁽²⁾. A non-resident corporation may be taxed at a higher rate than that applicable to a resident corporation⁽³⁾.

In Canada, the Provinces have the right to raise revenue for provincial purposes by taxing extra-provincial corporations including Dominion corporations under the powers of licensing and of direct taxation⁽⁴⁾. For example, a Province can impose a tax on a bank incorporated in another Province, proportioned to the paid-up capital of the bank and the number of office opened by the bank in the taxing Province⁽⁵⁾.

19. The States in India can tax professions, trades, callings and employments. But the power is limited by Article 276 of the Constitution. The total amount payable by any one person to the State or to any local authority etc. cannot exceed Rs. 250.

20. The magnitude of the corporate enterprise located in the two collection States is evident from the fact that out of about Rs. 567 crores of paid-up capital of companies registered in Part A and Part C States, Rs. 203 crores is accounted for by companies registered in Bombay and Rs. 225 crores by companies registered in West Bengal⁽⁶⁾. The companies are assessed annually to about Rs. 53 crores. The assessment in Bombay is over Rs. 25 crores and in West Bengal over Rs. 18 crores⁽⁷⁾. The presence of corporate enterprise of such magnitude influences even the level of personal incomes.

21. Even in the working of Devolution Rule 15 some *ad hoc* arrangements had to be made with regard to the allocation of income-tax of companies carrying on production in one Province but assessed

(1) The prevailing attitude was well expressed by Mr. Justice Field in *Paul v. Virginia* (8 Wall. 168): "It is not too much to say that the wealth and business of the country are to a great extent controlled by them. And if, when composed of citizen of one State, their corporate powers and franchises could be exercised in other States without restriction, it is easy to see that, with the advantages thus possessed, the most important business of those States would soon pass into their hands. The principal business of every State would, in fact, be controlled by corporations created by other States."

(2) Quick & Garran, p. 961.

(3) The rate payable by a non-resident company is forty-two pence in a pound while the rate payable by a resident company is 36 pence. See Sixth Schedule to the Income Tax Act, N.S.W. Act 47 of 41.

(4) Lefroy, *Canada's Federal System*, p. 373.

(5) *Bank of Toronto v. Lambe* (1887) 12 A.C. 573.

(6) *Statistical Abstract, India, 1950*, p. 453.

(7) *All India Income-tax Revenue Statistics, 1949-50*.

to tax in another. The Province in which the production was carried on was credited with 70 to 85 per cent of the tax and the rest was credited to the Province in which the tax was paid (1). The question was then regarded as one concerning only these two Provinces. But this is only a superficial view. For example, the leading steel company which is now paying about a crore as tax has its production works in Bihar, but the sources of its mineral ores are in Orissa, Bihar and Madhya Pradesh. Though its registered office is in Bombay, the head sales office is in Calcutta with branches in different States of the country.

22. The Commission have rejected collection as the sole or even a major factor in the distribution of the tax. That uniform tax has a tendency to concentrate collections is evident from the shift in collections from some of the territories now comprised in Part B States as a result of integration. The non-residents who used to pay tax in those States need no longer pay them there.

23. But the question is whether the contribution of a State should not enter into any scheme of distribution. The surplus which is taxed is the result of the efforts of individuals, the States and the nation as a whole. It is not that each State is a self-sufficient economic unit free to pursue its own economic policies joined in the Union only for the limited purposes of defence, external affairs and free commerce. With respect to the development and regulation of the national economy as a whole and particularly the industrial sector, the power of the Centre is either exclusive or dominant when concurrent. Central policies to augment production, though justifiable in the national interest, may have different results in different States. The extent of benefit or burden need not be the same in all the States. Under the Constitution the Centre when authorised by the Parliament can even pursue a policy of preference or discrimination for the purposes of dealing with a situation arising from scarcity of goods in any part of the territory of India (2).

24. The two collection States are among the States deficit in food. The deficit is made good by procuring food at controlled prices from the surplus States and by the import of foodgrains. The Central Government has borne a part of the cost of the food subsidy in these two States. During the last six years from 1946-47 to 1951-52 the subsidising of imported foodgrains cost the Central Government about Rs. 112 crores. Of the above expenditure, over Rs. 40 crores was in Bombay

(1) R. Dis. File No. 23-I.T./32, Central Board of Revenue, Income-tax.

(2) Clause (2) of Article 303.

and nearly Rs. 10 crores in Bengal ⁽¹⁾. Procurement and subsidy are ensuring the equitable supply of a vital necessity like food irrespective of provincial considerations. The result can, however, be viewed in two aspects—either as a direct benefit to the residents in the collection States or partly as an indirect subsidy to the industries concentrated there.

The Five Year Plan recognizes food control to be executed as an all-India policy. The objective in view is to secure from each surplus State the maximum it can make available and to organize the procurement and distribution of grains in each deficit State.

25. The prices of important raw materials like cotton, coal and rubber are also being controlled. The textile industry in Bombay is assessed to over Rs. 11 crores (including super-tax). The rubber goods industry is assessed in Bombay and West Bengal to over Rs. 180 lakhs (including super-tax). The object of price control may be either to ensure floor prices or to ensure that the prices do not go beyond the ceiling. It is not to purpose to begin analysing what has been the effect of price control—whether it has benefited the producer of the raw material or the manufacturer. The level of the price of coal may have influenced the industrial profits in Bombay or the profits of the collieries in Bihar but assessed to tax in Bengal. The point is the Centre is in a position either to initiate or co-ordinate policies in regard to prices, the result of which may either depress incomes in certain States or raise them in others.

26. The right of the States to tax mineral rights within their jurisdiction is subject to regulation by the Centre in the public interest ⁽²⁾. States like Bihar, Orissa and Madhya Pradesh have invited our attention to the loss resulting from the regulation of the rates of royalties under the rules recently made by the Centre ⁽³⁾.

27. An Act of Parliament ⁽⁴⁾ now governs the development and regulation of 37 industries engaged in the manufacture or production of textiles, cement, vanaspati, batteries, bicycles, machine tools, pharmaceutical drugs, rubber goods, leather goods, small and hand tools, etc. No person can start an industry unless he gets a licence from the Central Government. The permission may impose conditions as to the location of the industry and the minimum standards in respect of the size to be provided therein. The main object of this legislation is to conserve the national resources. Competition is reduced by eliminating ill-thought-out ventures. In the long run the law may also be conducive to the further expansion of some of the industries already well established in the collection States.

(1) 'Bulletin on Food Statistics' Jenu ry 1952, p. 22 (the subsidy in 1946-47 and 1947-48 relates to the undivided province of Bengal).

(2) Mines and Minerals (Regulation and Development) Act, 1948 (No. LIII of 1948).

(3) Mineral Concession Rules, 1949.

(4) The Industries (Development and Regulation) Act, 1951 (No. LXV of 1951).

28. The Commission are not concerned with the merits of any particular policy which is in the sole discretion of the Central Government. It is not suggested that the policies are pursued with an intention to discriminate between the States. But the question here is about the results and not the intention.

29. Some States are more favourably endowed with natural resources than others. But the economy of the States is interdependent. As the economy of the country is being planned, it is coming to be regulated more according to national or social objectives than by the freeplay of individual or regional interests. It is not possible to measure by the quantum of the taxes paid the relative contributions made by the States which are producing food and raw materials, supplying them at controlled prices and providing a market for finished goods and those which are increasing wealth by manufacture and sale of finished goods—also at times at controlled prices.

Nor is it possible to measure by reference to collections the contribution made by the consumer all over the country in respect of the tax paid by industries helped by tariffs. To illustrate, the match industry developed as a result of an almost prohibitive tariff amounting to 100 to 200 per cent *ad valorem*. One of the leading match companies pays tax between 16 to 31 lakhs a year at Bombay. It has its manufacturing units in three other States and also in the Andamans.

30. It was, however, urged that a *per capita* distribution of the tax may be unfair as it ignores the additional burdens imposed on the States in which the industries are concentrated. The point has some force and requires careful consideration. The high level of prices and wages in such a State results in increasing the costs of provincial administration. The cost of maintenance of law and order and general administration is comparatively high in Bombay and West Bengal.

But all the burdens of an industrial economy are not on the States concerned. The Central Government is subsidising industrial housing schemes and has been advancing loans. The provision in the current year's budget for industrial housing is Rs. 9 crores. Out of this amount the allocation between subsidies and loans is Rs. 324 and 392 lakhs respectively.

31. An industrial and commercial economy confers benefits as well which are apt to be reflected under the State heads of revenue. Thus Bombay and Bengal which together have 21.8 per cent of the population in Part A States are, largely because of the concentration of industry and commerce within their States, in a position to tax for State purposes about 52 (24 and 28) per cent of the motor vehicles ⁽¹⁾, 42 (25 and 17) per cent of motor spirit consumed ⁽²⁾ and subject to

(1) Statistical Abstract, India, 1950, p. 693.

(2) Figures relate to 1952-53; supplied by Ministry of Transport [vide their D.O. No. 51-TAG (15)/52, dated 29-10-52].

Arts. 287-288, 67 (41 and 26) per cent of the electricity sold (1) in all the Part A States.

32. The wages and salaries paid in the two collection States by the manufacturing industries alone indicate the comparative strength of their economic position. In 1948 out of about Rs. 132 crores of the total wages paid to workers and about Rs. 26 crores of salaries paid in the Part A States, the workers in Bombay received over Rs. 62 crores and the workers in Bengal received over Rs. 33 crores. The salaries paid are over Rs. 8 crores in Bombay and over Rs. 7 crores in Bengal (2). Because of this large purchasing power, relative to the population, the receipts under the taxes on sales, luxuries, amusements and entertainments are likely to be higher. Again the yield under the head of 'general stamps' must necessarily be higher in the States in which the commercial and business activities of the nation are centered.

It is not suggested that in an industrial State every head of State revenue can be taken to the highest pitch. But the sources of revenue available to such a State are more varied and lucrative than in other States.

33. In the industrial States in urban areas the local authorities are in a position to relieve the State Government from the responsibility of providing certain social services. The budgets of the corporations of the two collection cities are of nearly the same dimensions as of some of the smaller States in the Union. The scope for the taxes on professions, trades and callings in the very nature of things is comparatively large in States where industry and commerce are most concentrated.

34. Even if some allowance has to be made because of the higher costs of administration to be maintained in an industrial State, it is worthwhile to consider whether the factor of industrial labour in each State, suggested by Bombay, is not a more satisfactory factor to enter into the formula for distribution than the concept of collection.

35. The relevance of industrial labour as a factor in the distribution of the tax is not on the ground that labour alone produces the incomes which are taxed or that labour has any particular right to share in the tax. We are concerned with the distribution of a tax on non-agricultural incomes. The presence of industrial labour may furnish a much truer index than collection of the degree of industrialization and the burdens thrown upon a State by the nature of the

(1) Statistical Abstract, India, 1950, p. 860-61.

(2) Statistical Abstract, India, 1950, p. 630.

economy. For example, Bihar has large industrial labour. But its collections do not bring out the benefits of industrialization to the same extent as in other States as a substantial part of the incomes accruing in that State is assessed to tax elsewhere. So the State is left with the burden of having to deal with an industrialized economy without the corresponding advantage reflected in the collections in that State. The difference in the strength of the industrial labour, employed in Bombay and Bengal, is not of the same degree as the difference in collections. The statistics available from the Part B States are, however, not all maintained on the same basis as in the Part A States. Until proper statistics are available, this factor, though probably very useful, has to be excluded from consideration.

36. For the very reason another basis of allocation cannot be considered on this occasion. As has been suggested before it is possible to allocate the divisible pool by permitting, for example, each State to retain the taxes on incomes below the super-tax limit and distributing the rest of the pool on a *per capita* basis. If the tax on incomes of local origin were to be permitted to be retained by the States, this may be a more satisfactory basis than giving weight to collection.

37. Either of the above factors can, if at all, be taken into account in substitution of the factor of collection and not in addition to it.

38. It is not necessary to pursue the discussion. The Commission are called upon to deal with the problem not in the abstract but as it has developed in the country. The formula of Sir Otto Niemeyer was based partly on residence and partly on population. There is nothing to indicate in what proportions the two factors were taken into account. Nor is there anything to show whether collection figures based on residence were separately available to him. It is also not clear how the factor of residence was used with reference to corporations. The result of the formula was that it gave to Bombay with 7.1 per cent of the population 20 per cent of the tax and the same percentage to Bengal also with a population of 19.9 per cent ⁽¹⁾. The adjustments made by Shri Deshmukh were largely based on population. It is at that point that the Commission are called upon to deal with the problem.

39. It is true that the right of the States to share in the tax had its origin in the claim put forward by the industrial Provinces. But the claim was advanced on the basis of contribution as well as the special needs of the industrial States ⁽²⁾.

40. A claim on the basis of contribution or special needs cannot be divorced from its context. The relative position of land revenue and income-tax in the total revenues of the country is today not the same

⁽¹⁾ 1931 Census.

⁽²⁾ Report of the Financial Relations Committee, 1920, pp.2 & 3.

as at the beginning of the century or in the twenties. The divisible pool of income-tax in the first year of its distribution was Rs. 1 crore 25 lakhs (1937-38). It has passed Rs. 45 crores in 1949-50. The States have now the right to tax sales and the other heads of revenue are much more developed in Part A States than in the twenties.

41. The principal data available to the Commission are the population figures, the collection figures and the assessment figures. The adjustment which has been made in the formula is in the right direction. It is in the circumstances equitable and all that can be done. The disparities in the resources of the States which arose as a result of the distribution of only the tax on incomes and the omission to give effect to the recommendation of Sir Walter Layton to distribute some of the duties on excise on a population basis are to some extent corrected by the scheme of distribution now recommended.

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