

Our experience as the first Commission has impressed us with the need for a small organisation being set up, preferably as part of the secretariat of the President, to make a continuous study of the finances of the State Governments so that whenever the Commission are constituted in the future, they will have sufficient material available to them at the very commencement of their enquiry. This organisation should work in close liaison with the Finance Ministry and should make a study of the budgets of the State Governments, the changes in their finances from time to time, the rates of taxes in operation, the effects of the further measures of taxation undertaken by them, the working of their commercial enterprises and their effect on the State finances and cognate matters. A study should be made of the various reports on the administration of State Governments, the reports of the proceedings of the State Legislatures and the reports of their Public Accounts and Estimates Committees, and points of interest affecting the State finances noted. The organisation should also obtain direct from the State Governments periodical information in regard to the progress of various social services such as education, medical and public health. Current data about the number of schools, the number of children attending schools, the number of hospitals and dispensaries, the number of beds provided, the number of patients treated and the dispersal of facilities, both medical and educational, in rural as distinct from urban areas, should be obtained periodically and tabulated. Information should be collected regarding the progress of local self-government in each State, the resources raised by local bodies, their dependence on the State Government for their finance and the extent to which the local bodies provide services in the field of education, public health and other social services. Information about the facilities provided by non-government agencies in these fields should also be obtained. Data about the development and maintenance of communications should be obtained periodically from the State Governments. Annual returns may be prescribed so that there is a continuous flow of information for tabulation and study. The results of these studies should be embodied in periodical papers, copies of which should be made available to the Commission. We suggest that the question of setting up this organisation be taken up immediately and the details worked out in consultation with the appropriate Ministries.

2. We would also like to draw attention to the need for improving the available statistics in regard to income-tax. At present, apart from the collection figures available in the accounts by broad categories, there are no other statistics except those relating to assessments published by the Central Board of Revenue. The latter

## UNDER THE COMMISSION'S SCHEME.

(In lakhs of rupees)

Share of Income Tax and Union Excise	Grants-in-aid under Article 273	General Grants-in-aid under substantive portion of Article 275(1)	"Revenue Gap Grants"	Total	Primary Education Grants	Grand Total
1,70	75	1,00	...	3,45	...	3,45
7,30	75	...	...	8,05	50	8,55
11,25	...	...	...	11,25	...	11,25
3,35	...	...	...	3,35	24	3,59
1,35	...	...	...	1,35	11	1,46
3,90	...	...	...	3,90	30	4,20
11,10	...	...	...	11,10	...	11,10
1,70	...	40	1,58*	3,68	...	3,68
2,65	15	75	...	3,55	19	3,74
60	...	...	...	60	5	65
2,40	...	1,25	...	3,65	17	3,82
2,65	...	...	...	2,65	24	2,89
75	...	40	1,87*	3,02	...	3,02
1,80	...	45	98*	3,23	...	3,23
11,70	...	...	...	11,70	...	11,70
7,30	1,50	80	...	9,60	...	9,60
71,50	3,15	5,05	4,43	84,13	1,80	85,93

teed "Revenue Gap Grants" the States will receive the latter. The balance of these grants in addition receive grants under the two provisos to Article 275 (1) of the Constiution. Article 275(1).

States will also receive the outstanding arrears of their share of income-tax in respect of the arrears will be Rs. 5 crores and, if the actual amount is of this order, Madras will receive Rs. 90 lakhs, Punjab Rs. 27 lakhs, Bihar Rs. 63 lakhs, Madhya Pradesh Rs. 30 lakhs, Assam.

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.

K. C. NEOGY  
V. L. MEHTA  
R. KAUSHALENDRA RAO\*  
B. K. MADAN  
M. V. RANGACHARI

NEW DELHI;  
*The 31st December, 1952.*

\*Subject to the appended Minute,

## MINUTE

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