

APPENDIX VII

(See paragraph 9)

INTERIM REPORT OF THE COMMISSION.

By the order of the President S.R.O. 1285 dated June 1, 1956 we have been constituted as the Finance Commission, the second such Commission to be set up under article 280 of the Constitution. We assumed office on the forenoon of the same day.

2. We are now only in the preliminary stages of our study of the material available to us. Many States, particularly the re-organised States, have yet to send us the memoranda and the statistical data we have called for. We have had discussions only with the Governments of the States of Assam, West Bengal and Orissa. It is only after we have received and considered all the memoranda and statements and the discussions with the other State Governments have been completed, that we shall be in a position to formulate our final recommendations. As these will not be available in time for the framing of the budgets for the coming year by the Central and State Governments, we consider it desirable to make interim recommendations on the basis of which budgets can be framed and provisional payments may be made.

3. We recommend that the decisions taken by the Government of India on our final report should be given effect to from the 1st. April 1957, and all payments made on the basis of this report readjusted against the final payments. We wish to make it clear that the interim recommendations should not be taken as giving any indication of the views of the Commission. We are engaged in a reassessment of the financial position of the Central and the State Governments and our final decisions will depend upon this reassessment. The interim recommendations should not, therefore, be considered as in any way committing us in regard to the principles of distribution of revenue or assistance by way of grants-in-aid.

4. At the time the first Finance Commission reported, articles 270, 272, 275(1) and 280 did not apply to the State of Jammu and Kashmir. These became applicable to that State by the Constitution (Application to Jammu and Kashmir) Order, 1954. Matters falling under

the provisions of articles 270, 272 and 275(1) were regulated by an agreement executed on the 14th January 1956 between the President of India and the State of Jammu and Kashmir under articles 278 and 295. This agreement was subject to modification by the President after consideration of the report of the second Finance Commission. The Constitution (Seventh Amendment) Act 1956 has repealed article 278. It has also deleted article 280(3) (c) by which the Finance Commission was required to recommend the continuance or modification of the terms of any agreement entered into by the Government of India with any Part B State under clause (1) of article 278. Presumably, therefore, the provisions of the agreement with the State of Jammu and Kashmir have become inoperative with effect from the 1st November 1956. It will thus be necessary to make special provision for the period from 1st November 1956 to 31st March 1957, and we recommend that appropriate action may be taken. From 1st April 1957 the State will take its place along with other States in the all-India scheme for grants-in-aid and the distribution of divisible Union taxes.

5. In formulating the interim recommendations, we have, as far as possible, sought to maintain the existing position for the various States. In the case of those States which have not been affected by the States Reorganisation Act 1956, we have continued the percentage shares of income tax and excise duties as recommended by the first Finance Commission, subject to the small readjustment necessitated by the inclusion of the State of Jammu and Kashmir in the scheme. As regards the States affected by the States Reorganisation Act 1956 and the Bihar and West Bengal (Transfer of Territories) Act 1956, we have adopted the readjusted percentages in relation to income tax and excise duties as embodied in those Acts read with the order issued by the President under the latter Act.

6. In our recommendations for grants-in-aid under the substantive portion of article 275(1) to States in which certain former Part C States have been merged, we have, to some extent, taken into account the assistance received by these Part C States in the past from Central revenues to meet their revenue deficits. We have also for the time being and without prejudice to our final recommendations treated the existing grants for the expansion of primary education as general grants. Otherwise, we have continued the existing grants with the modifications made by the States Reorganisation Act 1956 and by the order issued under section 21 of the Bihar and West Bengal (Transfer of Territories) Act 1956.

7. We have also taken into consideration the effect of reorganisation of States on the revenue position of the States as we do not at the moment have sufficient material at our disposal to enable us to make even a tentative assessment of the assistance that may be required. These will be taken into account in our final recommendations.

8. Subject to the observations contained in the foregoing paragraphs, we make the following interim recommendations in respect of the financial year 1957-58:—

- (a) *Distribution of Income Tax*.—55 per cent of the net proceeds of taxes on income other than corporation tax, exclusive of the proceeds attributable to Union territories or to taxes payable on Union emoluments, may be assigned to the States and distributed among them as follows:—

<i>State</i>	<i>Percentage</i>
Andhra Pradesh	8.01
Assam	2.23
Bihar	9.31
Bombay	18.91
Kerala	3.60
Madhya Pradesh	5.09
Madras	7.95
Mysore	5.93
Orissa	3.46
Punjab	3.96
Rajasthan	3.47
Uttar Pradesh	15.59
West Bengal	11.48
Jammu and Kashmir	1.01

For purposes of sub-clause (2) read with sub-clause (3) of article 270 of the Constitution, the proceeds attributable to Union territories may be taken at 1 per cent.

- (b) *Distribution of Estate Duty in respect of property other than agricultural land*.—For the distribution of the net proceeds of the estate duty, the recommendations contained in sub-para (a) above may be followed.

- (c) *Distribution of Union Excises*.—40 per cent of the net proceeds of Union duties of excise on matches, tobacco and

vegetable products may be distributed among the States as set out below:

<i>State</i>	<i>Percentage</i>
Andhra Pradesh	8.92
Assam	2.58
Bihar	11.04
Bombay	13.59
Kerala	3.86
Madhya Pradesh	6.17
Madras	8.54
Mysore	5.45
Orissa	4.17
Punjab	4.60
Rajasthan	4.34
Uttar Pradesh	18.00
West Bengal	7.49
Jammu and Kashmir	1.25

(d) *Grants-in-aid in lieu of a share of the export duty on jute and jute products.*—For the States mentioned below the sums shown against each may be prescribed under article 273:

<i>State</i>	<i>Amount</i> (Rupees in lakhs)
Assam	75.00
Bihar	72.31
Orissa	15.00
West Bengal	152.69

(e) *Grants-in-aid under the substantive part of clause (1) of article 275 of the Constitution.*—The States mentioned below may be paid the sums mentioned against each:

<i>State</i>	<i>Amount</i> (Rupees in lakhs)
Andhra Pradesh	24
Assam	100
Bihar	80
Bombay	130
Kerala	41
Madhya Pradesh	251
Madras	5
Mysore	46
Orissa	107
Punjab	163
Rajasthan	115
West Bengal	83
Jammu and Kashmir	175

(i) *Rates of interest and terms of repayment of loans made to State Governments by the Government of India between the 15th August 1947 and 31st March 1956.*

▲ We do not consider it necessary to make any interim recommendations.

K. SANTHANAM, *Chairman.*

UJJAL SINGH, *Member.*

L. S. MISRA, *Member.*

M. V. RANGACHARI, *Member.*

B. N. GANGULI, *Member.*

H. B. BHAR, *Secretary.*

NEW DELHI,

the 27th November 1956.

APPENDIX VIII

(See paragraph 10)

DATES OF DISCUSSIONS WITH STATE GOVERNMENTS AND REPRESENTATIVES OF CENTRAL MINISTERS.

(1) DATES OF DISCUSSIONS WITH STATE GOVERNMENTS

	Dates of discussions at	
	State Headquarters	New Delhi
Assam . . .	21st to 26th October 1956	22nd July 1957
West Bengal . . .	30th October to 3rd November 1956.	23rd July 1957
Orissa . . .	4th to 7th November 1956	22nd July 1957
Uttar Pradesh . . .	3rd to 6th December 1956	27th July 1957
Bihar . . .	10th to 15th December 1956	24th July 1957
Rajasthan . . .	10th to 13th January 1957	24th July 1957
Andhra Pradesh . . .	11th to 14th February 1957	25th July 1957
Madras . . .	18th to 21st March 1957	29th July 1957
Punjab . . .	29th March to 1st April 1957	25th July 1957
Madhya Pradesh . . .	8th to 11th April 1957	26th July 1957
Bombay . . .	15th to 18th April 1957	1st August 1957
Mysore . . .	28th April to 2nd May 1957	29th July 1957
Jammu and Kash- mir.	7th to 11th June 1957	30th July 1957
Kerala . . .	24th to 27th June 1957.	30th July 1957