

XVI. Distribution of Tax on Railway Fares

177. We now turn to a consideration of the principles of distribution of the net proceeds of the tax under the Railway Passenger Fares Act 1957, which is the second of the additional references made to us.

178. Andhra Pradesh, Kerala, Mysore, Rajasthan and Uttar Pradesh considered population to be an equitable basis. Punjab and Jammu and Kashmir suggested that needs of the States should be taken into account in addition to population. Jammu and Kashmir asked also for a special grant out of the tax for the development of its tourist industry. Assam, Madhya Pradesh and Orissa desired distribution partly on the basis of population and partly on the basis of area. Orissa further wanted the population to be weighted for scheduled tribes, scheduled castes and backward classes. While Bombay suggested distribution according to earnings from passenger fares, excluding season tickets, of stations located in a State, West Bengal wanted the tax to be distributed on the basis of collections of railway stations in each State. Madras suggested that both collection and population be taken into account. Bihar asked for distribution on the basis of railway mileage in each State.

179. Although article 269 does not rule out any principle of distribution, we think that for this tax the principle should be such as to secure for each State, as nearly as possible, the share of the net proceeds on account of the actual passenger travel on railways within its limits. The ideal method would, perhaps, be to split up the tax collected on each ticket according to the mileage of the routes lying in each State. This, however, is impracticable. Collections of passenger fares within a State will not reflect correctly the actual passenger travel within its limits on account of inter-state traffic; distribution based on figures of such collections would also be unfair to the States through which traffic passes without originating or terminating in them. The net proceeds due to passenger travel in a State may, however, be determined with reasonable accuracy by allocating the passenger earnings among the States on the basis of the route mileage within each State, with due allowance for the wide variations in the density of traffic between the various railway zones and as between the various gauges in each zone. Hence, if the earnings of each zonal railway are allocated by route mileage located in each State separately for each gauge this would

(4) the remainder, if any, of the net proceeds be distributed in the percentage ratios applicable to each commodity as set out in the table below:—

State	Percentages		
	Mill-made textiles	Sugar	Tobacco
Andhra Pradesh . . .	7.38	6.65	10.47
Assam	2.72	2.55	2.98
Bihar	11.19	8.20	8.90
Bombay	16.46	20.17	17.41
Kerala	3.10	3.03	3.43
Madhya Pradesh . . .	6.97	7.67	7.10
Madras	7.26	7.43	9.53
Mysore	4.98	5.13	5.58
Orissa	3.32	2.87	3.21
Punjab	5.56	7.21	4.36
Rajasthan	4.36	4.81	3.59
Uttar Pradesh	18.19	15.63	16.13
West Bengal	8.51	8.65	7.31

176. If, for the purposes of the guarantees and the distribution of the net proceeds, the additional duties are to be taken together, we recommend that in lieu of the sums and percentages mentioned in sub-paragraphs (3) and (4) of paragraph 175 above, the sums guaranteed and payable to, and the percentage shares of, the States be as follows:

State	Sum to be guaranteed (Rupees in lakhs)	Percentage
Andhra Pradesh . . .	235	7.81
Assam	85	2.73
Bihar	130	10.04
Bombay	960	17.52
Kerala	95	3.15
Madhya Pradesh . . .	155	7.16
Madras	285	7.74
Mysore	100	5.13
Orissa	85	3.20
Punjab	175	5.71
Rajasthan	90	4.32
Uttar Pradesh	575	17.18
West Bengal	280	8.31
TOTAL	3250	

give, as nearly as possible, an allocation of passenger travel in terms of passenger earnings. The distribution of the tax in the ratio of the earnings thus allocated will give to each State a share that will approximate closely to the actual passenger travel in it.

180. We have next to decide whether the distribution each year should be made on the allocation of the earnings of that year. We feel that this will be a cumbrous and inconvenient arrangement. It is desirable that the States should know in advance the shares of revenue they are entitled to get. It is reasonable to work out the States' shares on the basis of the average of recent earnings and express these shares as fixed percentages applicable for five years from 1957-58. In order to even out fluctuations, we have taken the figures of passenger earnings (exclusive of earnings of suburban services) for the last three years (ending March 1956), for which actuals are available and have worked out the shares of the States on the basis explained above. These come to:

State	Percentage
Andhra Pradesh	8.86
Assam	2.71
Bihar	9.39
Bombay	16.28
Kerala	1.81
Madhya Pradesh	8.31
Madras	6.46
Mysore	4.45
Orissa	1.78
Punjab	8.11
Rajasthan	6.77
Uttar Pradesh	18.76
West Bengal	6.31

181. We recommend that the net proceeds of the tax be distributed in accordance with these percentages after deducting one quarter per cent for proceeds attributable to Union territories.

182. While this recommendation may hold good for the period of five years ending 31st March 1962, we suggest that steps be taken to investigate if the railways could not, without undue labour or expense, maintain state-wise statistics of route mileage, traffic and earnings to facilitate the consideration of alternative methods of distribution.

XVII. Miscellaneous

183. It now remains for us to deal with certain other matters of interest which arose in the course of our work.

184. In our study of the expenditure in recent years of State Governments, we were struck by the dislocation caused to the finances of many of them by unforeseen expenditure on natural calamities like famine, droughts and floods and we were impressed with the need for making some regular provision to meet this type of expenditure. In our estimate of the committed expenditure of the States, we have included a margin for enabling them to set apart annually from their revenue sizeable sums to be accumulated in a fund for meeting expenditure on natural calamities. The annual amounts, based roughly on the average annual expenditure over the last decade, which we have allowed for the individual States, are:

State	Amount (Rupees in lakhs)
Andhra Pradesh	75
Assam	25
Bihar	100
Bombay	40
Kerala	10
Madhya Pradesh	15
Madras	50
Mysore	30
Orissa	50
Punjab	40
Rajasthan	40
Uttar Pradesh	50
West Bengal	80
Jammu and Kashmir	10
Total	<u>615</u>

We suggest that the State Governments be invited to set up separate funds and transfer these amounts every year to such funds. If any State has an existing fund, its scope should, where necessary, be widened to cover all natural calamities. The balances of the funds should be invested in readily marketable Government securities so that they may be available when needed, without the States having, except in very abnormal circumstances, to curtail their other expenditure or approach the Union for assistance. We trust that the State Governments will welcome this suggestion and take appropriate action to implement it.