

crores likely to be received by the States under article 282. With the levy of estate duty and tax on railway passenger fares, article 269 is emerging as an important source of revenue to the States. Further in Section II we have pointed out that the scope of the work of the Finance Commission in assessing the needs of the States has become restricted as a result of the setting up of the Planning Commission. For all these reasons, it is for consideration whether the time is not ripe for a review of the constitutional provisions dealing with the financial relations between the Union and the States.

XVIII. Recommendations

198. Our recommendations to the President are set out below:—

I. Under article 270 of the Constitution—

- (a) the percentage of the net proceeds in any financial year of taxes on income other than agricultural income, except in so far as those proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, to be assigned to the States be 60 (sixty);
- (b) the percentage of the net proceeds of taxes on income which shall be deemed to represent proceeds attributable to Union territories be 1 (one); and
- (c) the percentage of the net proceeds assigned to the States be distributed among those States as follows:—

State	Percentage
Andhra Pradesh	8.12
Assam	2.44
Bihar	9.94
Bombay	15.97
Kerala	3.64
Madhya Pradesh	6.72
Madras	8.40
Mysore	5.14
Orissa	3.73
Punjab	4.74
Rajasthan	4.09
Uttar Pradesh	16.36
West Bengal	10.58
Jammu and Kashmir	1.13

Revenue, which is mainly concerned with the collection of revenue at the point of production, is not in a position to maintain statistics of consumption. If this is correct, we suggest that other arrangements be made through agencies like the National Sample Survey for the collection of these statistics. If the ordinary rounds of the National Sample Survey are not adequate, special enquiries may be instituted for this purpose, preferably with a sample design based on multiple stratification according to regional variations in consumption as well as variations between rural and urban areas. We also noticed that reliable figures of collection of sales taxes on individual commodities were not available in many States. We suggest that State Governments should be invited to take necessary steps to have this information collected in future. The importance of having reliable statistics of consumption and of collection of sales tax by commodities has now been underlined by the proposal to levy an additional excise duty on certain commodities in replacement of sales taxes on them. We trust that urgent attention will be paid to both these matters.

196. Our predecessors had recommended the establishment of a cell in the President's Secretariat to collect and maintain up to date data likely to be of use for future Commissions. We understand that this was tried and found unsuitable and that, following the recommendation of the Taxation Enquiry Commission, this cell has since been merged in the Finance Ministry. We, however, consider it essential that a nucleus staff with experience of the work of the Finance Commission should be retained within the Finance Ministry and made available to future Commissions. We also suggest that arrangements be made by the Finance Ministry for the necessary statistical and other research work likely to be of assistance to them.

197. Finally, we would like to draw attention to certain constitutional implications of the changing pattern of financial relations between the Union and the States. Among the shared taxes, income-tax is losing its dominant position. The amount of excise revenue given to the States by the first Finance Commission was about one-third of the amount devolved through share of income tax. According to our recommendations, the proportion will rise to nearly one-half and it seems inevitable that it will continue to rise still further. The change is even more striking in respect of grants. The grants given under article 282 are already greater than the grants-in-aid of revenues given under article 275 (1). According to our recommendations, the latter will amount to Rs. 190 crores as against Rs. 275

II. Under article 272 of the Constitution, a sum equal to 25 per cent of the net proceeds of the duties of excise on sugar, matches, tobacco (including manufactured tobacco), vegetable products, coffee, tea, paper and vegetable non-essential oils, be paid out of the Consolidated Fund of India to the States and distributed among them as follows:—

State	Percentage
Andhra Pradesh	9.38
Assam	3.46
Bihar	10.57
Bombay	12.07
Kerala	3.84
Madhya Pradesh	7.46
Madras	7.86
Mysore	6.52
Orissa	4.46
Punjab	4.59
Rajasthan	4.71
Uttar Pradesh	15.94
West Bengal	7.59
Jammu and Kashmir	3.75

III. Under article 273 of the Constitution, the following sums be prescribed as grants-in-aid of the revenues of the States of Assam, Bihar, Orissa and West Bengal, in lieu of assignment of any share of the net proceeds of the export duty on jute and jute products, in each of the three financial years beginning on 1st April 1957:—

	(Rupees in lakhs)
Assam	75.00
Bihar	72.41
Orissa	15.00
West Bengal	154.69

IV. Under the substantive portion of article 275(1) of the Constitution, in each of the five financial years beginning

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on 1st April 1957, the sums shown in the table below be charged on the Consolidated Fund of India as grants-in-aid of the revenues of the States mentioned against them:

State	(Rupees in crores)				
	1957-58	1958-59	1959-60	1960-61	1961-62
Andhra Pradesh	4.00	4.00	4.00	4.00	4.00
Assam	3.75	3.75	3.75	4.50	4.50
Bihar	3.50	3.50	3.50	4.25	4.25
Kerala	1.75	1.75	1.75	1.75	1.75
Madhya Pradesh	3.00	3.00	3.00	3.00	3.00
Mysore	6.00	6.00	6.00	6.00	6.00
Orissa	3.25	3.25	3.25	3.50	3.50
Punjab	2.25	2.25	2.25	2.25	2.25
Rajasthan	2.50	2.50	2.50	2.50	2.50
West Bengal	3.25	3.25	3.25	4.75	4.75
Jammu and Kashmir	3.00	3.00	3.00	3.00	3.00
Total	36.25	36.25	36.25	39.50	39.50

V(A) With effect from 1st April 1957:

- (1) out of the net proceeds in each financial year of estate duty in respect of property other than agricultural land, a sum equal to 1 (one) per cent be retained by the Union as proceeds attributable to Union territories;
- (2) the balance of the net proceeds be apportioned between immovable property and other property in the ratio of the gross value of all such properties brought into assessment in that year;
- (3) the sum thus apportioned to immovable property be distributed among the States in proportion to the gross value of the immovable property located in each State; and

(4) the sum apportioned to property other than immovable property be distributed among the States as follows:—

State	Percentage
Andhra Pradesh	8.76
Assam	2.53
Bihar	10.86
Bombay	13.52
Kerala	3.79
Madhya Pradesh	7.30
Madras	8.40
Mysore	5.43
Orissa	4.10
Punjab	4.52
Rajasthan	4.47
Uttar Pradesh	17.71
West Bengal	7.37
Jammu and Kashmir	1.24

(B) In respect of the period prior to 1st April 1957, the distribution already made be legally ratified.

VI. In regard to the loans made by the Government of India to the States between 15th August 1947 and 31st March 1956—

(a) With effect from 1st April 1957, in respect of loans made to the States for the rehabilitation of displaced persons and relief by them, the States be allowed to pay to the Union only the amounts of principal and interest collected, including arrears, if any;

(b) no modification be made in the rate of interest or terms of repayment of interest-free loans; and

(c) of the remaining loans—

(i) the balances on 31st March 1957 of all loans carrying interest at three per cent or more per annum

- and repayable on or after 1st April 1977, be consolidated into one single loan at 3 (three) per cent per annum repayable on 31st March 1987;
- (ii) the balances on 31st March 1957 of all loans carrying interest at 3 (three) per cent or more per annum and repayable on or before 31st March 1977 be consolidated into one single loan at 3 (three) per cent per annum repayable on 31st March 1972;
- (iii) the balances on 31st March 1957 of all loans carrying interest at less than three per cent per annum and repayable on or after 1st April 1977 be consolidated into one single loan at $2\frac{1}{2}$ (two and a half) per cent per annum repayable on 31st March 1987; and
- (iv) the balances on 31st March 1957 of all loans carrying interest at less than 3 (three) per cent per annum repayable on or before 31st March 1977 be consolidated into one single loan at $2\frac{1}{2}$ (two and a half) per cent per annum repayable on 31st March 1972.

VII. Out of the net proceeds of the additional duties of excise levied in replacement of sales taxes on mill-made textiles, sugar and tobacco (including manufactured tobacco)—

(A) If each of the additional duties is to be distributed separately—

- (1) a sum equal to 1 (one) per cent of the net proceeds of each additional duty be retained by the Union in respect of Union territories;
- (2) a sum equal to $1\frac{1}{4}$ (one and one quarter) per cent of the net proceeds of each additional duty be paid to the State of Jammu and Kashmir; and
- (3) a sum equal to the balance of the net proceeds of each additional duty, *i.e.*, after deduction of the sums mentioned in sub-paragraphs (1) and (2) above, be distributed as follows:—
 - (a) the sums mentioned below representing the present income of the States on account of sales

taxes, by whatever name called, on the three commodities be first paid to them.

(Rupees in lakhs)

State	Mill-made textiles	Sugar	Tobacco
Andhra Pradesh	120	40	75
Assam	40	15	30
Bihar	80	30	20
Bombay	600	245	115
Kerala	38	20	37
Madhya Pradesh	83	40	32
Madras	168	60	57
Mysore	48	25	27
Orissa	50	20	15
Punjab	95	50	30
Rajasthan	50	25	15
Uttar Pradesh	400	112	63
West Bengal	204	36	40
Total	1976	718	556

(b) The remaining sum, if any, be distributed as follows:—

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

(B) If the total net proceeds of the three additional duties taken together are to be distributed—

- (i) A sum equal to 1 (one) per cent of the net proceeds be retained by the Union in respect of Union territories;
- (ii) a sum equal to $1\frac{1}{4}$ (one and one-quarter) per cent of the net proceeds be paid to the State of Jammu and Kashmir; and
- (iii) a sum equal to the balance of the net proceeds, *i.e.*, after deduction of the sums mentioned in sub-paragraphs (i) and (ii) above, be distributed as follows:—
 - (a) the sums mentioned below, representing the present income of the States on account of sales taxes, by whatever name called, on the three commodities, be first paid to them—

State	(Rupees in lakhs)
Andhra Pradesh	235
Assam	85
Bihar	130
Bombay	960
Kerala	95
Madhya Pradesh	155
Madras	285
Myosre	100
Orissa	85
Punjab	175
Rajasthan	90
Uttar Pradesh	575
West Bengal	280
Total	3250

(b) The remainder, if any, of the net proceeds be distributed as follows:

State	Percentage
Andhra Pradesh	7.81
Assam	2.73
Bihar	10.04
Bombay	7.52
Kerala	3.15
Madhya Pradesh	7.16
Madras	7.74
Mysore	5.13
Orissa	3.20
Punjab	5.71
Rajasthan	4.32
Uttar Pradesh	17.18
West Bengal	8.31

VIII. (a) Out of the net proceeds in each financial year of the tax on railway fares a sum equal to $\frac{1}{4}$ (one-quarter) per cent be retained by the Union as proceeds attributable to Union territories; and

(b) the balance of the net proceeds of the tax on railway fares be distributed among the States as follows:

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

XIX. Conclusion

199. The scheme of devolution recommended by us is an integrated scheme. It takes into account the needs of the States with due regard to the ability of the Union, with its immense responsibilities particularly for defence and national development, to transfer resources to the States. It maintains a balance between devolution by transfer of shares of taxes and devolution by fixed grants-in-aid. We would like to emphasize that any modification of individual recommendations will upset this balance.

200. We recommend that the decisions taken by the Government of India on this report be given effect to from 1st April 1957, and all payments made on the basis of the interim report submitted by us be readjusted against the final payments. This will be without prejudice to the settlement of past arrears, if any.

201. Our scheme provides for a devolution of about Rs. 140 crores a year against an average sum of Rs. 93 crores received by the States under the last Commission's recommendations in the five years ending 31st March 1957. The table below summarises what each State may expect to receive under our recommendations taken together in each of the five years beginning on 1st April 1957. The figures shown against shares of taxes are only estimates and indicate the order of the sums to be received; the actuals will vary from year to year.

State	Shares of taxes	Grant under article 273*	(Rupees in crores)	
			Grant under substantive portion of article 275(I)	Total
Andhra Pradesh	8.50	..	4.00	12.50
Assam	2.75	0.45	4.05	7.25
Bihar	10.00	0.43	3.80	14.23
Bombay	14.75	14.75
Kerala	3.75	..	1.75	5.50
Madhya Pradesh	7.00	..	3.00	10.00
Madras	8.25	8.25
Mysore	5.50	..	6.00	11.50
Orissa	4.00	0.09	3.00	7.44
Punjab	4.25	..	2.25	6.50
Rajasthan	4.25	..	2.50	6.75