

APPENDIX IV

PRESS NOTE

(Issued on December 15, 1960)

The Third Finance Commission held its first meeting today in New Delhi and has begun its work.

2. The questions on which the Finance Commission has to make recommendations are:—

- (1) the distribution of the net proceeds of income-tax between the Union and the States and the allocation of the States' share among the States [vide articles 270 and 280 (3) (a) of the Constitution];
- (2) the allocation of other divisible central taxes, like Union excise duties on specific commodities; and the distribution of the net proceeds of additional excise duties on certain commodities levied in lieu of sales tax;
- (3) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India [vide article 280 (3) (b) read with article 275 of the Constitution]; and
- (4) the principles which should govern the distribution of:
 - (a) the net proceeds of estate duty in respect of property other than agricultural land (vide article 269 of the Constitution); and
 - (b) the net proceeds of the tax on railway passenger fares.

3. Having considered various alternatives, the two earlier Commissions had adopted mainly population and collection as the bases for their recommendations for the allocation of Central levies. The present scheme of devolution of revenue from the Centre to the States, which is based on the recommendations of the second Finance Commission, is as follows:—

- (a) 60 per cent. of the divisible net proceeds of income-tax (other than Corporation Tax) are assigned to the States and distributed amongst them on the basis of population (90 per cent.) and collection (10 per cent.);

- (b) 25 per cent. of the net proceeds of the Union duties of excise on certain specified commodities are distributed amongst the States on the basis of population (90 per cent.) and other adjusting factors (10 per cent.);
- (c) the entire tax on railway fares is distributed to the States on the basis of passenger earnings in respective States for the three year period ending March 1956;
- (d) the net proceeds of the estate duty are distributed between the States in proportion to their populations, except that the amounts collected in respect of immovable properties are distributed on the basis of location of those properties;
- (e) the net proceeds of the additional duties of excise on textiles, sugar and tobacco, levied in lieu of sales tax, are distributed among the States at specified percentages determined on the Statewise consumption of these commodities and the relative population of each State; and
- (f) grants-in-aid of the revenues of specified amounts are made to the States on an assessment of their needs based on a review of their budgetary position, the size of their development expenditure out of revenues, Central assistance afforded towards the execution of their plans and an estimate of additional resources they are expected to find by increased taxation.

4. The third Finance Commission will review all these arrangements. It will consider what modifications or adjustments, if any, are called for in the principles hitherto followed either in the determination of the percentages to be distributed and/or the basis of their distribution among the States. In making its recommendations, the third Finance Commission will also take into account the budgetary position of the Central and State Governments, the larger magnitude of the third Five Year Plan involving increased expenditure on revenue account under development heads, and changes in taxation structure such as the conversion of income-tax on companies into Corporation tax.

In regard to the excise duties the Commission will consider whether any alteration should be made in the list of commodities, the duties on which are at present distributed, the proportion of the collections that should be so distributed and the basis on which this should be done.

After examining the budgetary position of States and taking into account such considerations as may be urged for the assessment of their needs, the Commission will determine the States which require grants-in-aid of the revenues, the amounts of such grants to be given and their nature, whether they should be fixed or progressive, general or specific, conditional or unconditional.

5. The Commission would welcome the views of those interested in these questions. Suggestions to the Commission should be sent in the form of a self-contained memorandum, addressed to the Member-Secretary, Finance Commission, New Delhi, on or before February 28, 1961.