

## V. DISTRIBUTION OF ADDITIONAL DUTIES OF EXCISE

48. We next deal with the additional duties of excise. We are required to make recommendations in regard to the changes, if any, to be made in the principles governing the distribution of the net proceeds in any financial year of the additional excise duties levied on cotton fabrics, rayon or artificial silk fabrics, woollen fabrics, sugar, tobacco including manufactured tobacco, provided that the share accruing to each State shall not be less than the revenue realised from the levy of sales tax in the financial year 1956-57 in that State.

49. In May 1957, the Government of India, in consultation with State Governments, decided that an additional duty of excise should be levied on mill-made textiles, sugar and tobacco including manufactured tobacco, in replacement of sales tax levied by the State Governments, and that the net proceeds should be distributed among the States, subject to the then income derived by each State being assured to it.

50. The second Finance Commission was required to recommend the principles which should govern the distribution of the net proceeds. It was required to determine also for each State the amount which should be assured to it as being the income derived to it from the levy of sales tax. As the additional duties were to replace sales tax which was tax on consumption, it explored the possibility of adopting consumption as the basis of distribution. It prepared its own estimates of consumption of each of the three commodities on the basis of estimates prepared by the associated official agencies and the estimates furnished by the State Government and applied population as a corrective. It came to the conclusion that the estimates so compiled provided the best index for determining the incomes of the States individually from sales tax on these three commodities.

51. Some of the States have questioned the correctness of the amounts guaranteed in pursuance of the second Commission's recommendation, but, they have been unable to produce material any more reliable than that submitted to that Commission. We consider

that, at this distance of time, it is neither possible nor proper of us to undertake a re-examination of the question. A re-opening of the matter would only complicate a settled issue and create problems which are best avoided.

52. The States urged that the guaranteed amounts should be revised to take account of increases in rates of sales tax effected by them after the amounts guaranteed had been determined. They also complained that as a result of the surrender of sales tax, they lost over a period of years and that they should be insulated against further future losses. The second Commission had rejected the suggestion that not only the revenues currently derived but prospective revenues should also be taken into account in determining the guaranteed amounts. So must we also dismiss the suggestion that we should make an estimate of possible losses sustained and refix the amounts of guarantees. For one thing, such an examination would be outside the terms of our reference; and, for another, such a determination would be impractical on statistical material now available.

53. An additional excise duty having been introduced in lieu of sales tax on silk fabrics as well, we have been asked to provide for its distribution as in the case of the other commodities. The yield from this duty is small, being estimated at Rs. 4 lakhs a year. In our view, the amounts of guarantee prescribed by the second Commission should be adopted with a small addition to take account of the yield from silk fabrics.

54. We consider that a sum equal to 1 per cent of the net proceeds of these additional duties of excise should be retained by the Union as being attributable to Union territories.

55. Further, we recommend that the  $1\frac{1}{2}$  per cent of the net proceeds paid to the State of Jammu and Kashmir be appropriately increased to  $1\frac{1}{2}$  per cent a year. In respect of other States, we recommend that the annual guaranteed amounts with the addition of additional excise duty on silk fabrics should be as shown below:

State	(Rupees in lakhs)
Andhra Pradesh . . . . .	235.24
Assam . . . . .	85.08
Bihar . . . . .	130.16
Gujarat . . . . .	323.45

Kerala	95.08
Madhya Pradesh	155.17
Madras	285.34
Maharashtra	637.77
Mysore	100.10
Orissa	85.10
Punjab	175.19
Rajasthan	90.10
Uttar Pradesh	575.81
West Bengal	280.41
	<u>3254.00</u>

56. We have, however, to recommend on what principles any balance of net collections remaining after meeting the guaranteed amounts should be distributed. We consider that, in view of the fact that this additional levy is in lieu of sales tax, it would be equitable to distribute the excess collections partly on the basis of the percentage increase in the collection of sales tax in each State since the year 1957-58 when the additional excise duties were imposed and partly on the basis of population. We recommend that in addition to the amounts guaranteed, the States should participate in the distribution of collections in excess of amounts so provided in the ratio given below:—

State	Percentage
Andhra Pradesh	7.75
Assam	2.50
Bihar	10.00
Gujarat	5.40
Kerala	4.25
Madhya Pradesh	7.00
Madras	9.00
Maharashtra	10.60
Mysore	5.25
Orissa	4.50
Punjab	5.25
Rajasthan	4.00
Uttar Pradesh	15.50
West Bengal	9.00