

CHAPTER 3

ESTATE DUTY

23. Paragraph 4(b) of the Order of the President constituting the Fourth Finance Commission requires us to make recommendations in regard to the changes, if any, to be made in the principles governing the distribution among the States under article 269 of the Constitution, of the net proceeds in any financial year of estate duty in respect of property other than agricultural land. We are also required under that article to determine the proceeds attributable to Union territories.

24. A number of suggestions were made by the States in regard to the principles of distribution. The different suggestions were: (i) distribution of estate duty wholly on the basis of population, (ii) distribution partly on the basis of collection and partly on the basis of location, (iii) distribution on the basis of population with weightage to Scheduled Castes and Scheduled Tribes, (iv) distribution on the basis of 80 per cent population and 20 per cent location, and (v) continuance of the existing scheme of distribution. We are in agreement with the principles laid down by the earlier Commissions and recommend the continuance of the following principles. We recommend, however, that the share of Union territories may be raised to two per cent, taking into account population and the value of immovable property assessed in these territories in recent years.

(i) Out of the net proceeds of the duty in each financial year, a sum equal to two per cent be retained by the Union as proceeds attributable to Union territories;

(ii) The balance 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;

(iii) 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

(iv) The sum apportioned to property other than immovable property be distributed among the States in proportion to their population.

25. On the basis of the 1961 Census figures, the percentage will be as follows:

| States | Percentage |
|-----------------|---------------|
| Andhra Pradesh | 8.34 |
| Assam | 2.75 |
| Bihar | 10.76 |
| Gujarat | 4.78 |
| Jammu & Kashmir | 0.83 |
| Kerala | 3.92 |
| Madhya Pradesh | 7.50 |
| Madras | 7.80 |
| Maharashtra | 9.16 |
| Mysore | 5.46 |
| Nagaland | 0.09 |
| Orissa | 4.07 |
| Punjab | 4.70 |
| Rajasthan | 4.67 |
| Uttar Pradesh | 17.08 |
| West Bengal | 8.09 |
| Total | <u>100.00</u> |

26. One of the considerations which the Commission is required to take into account in determining the sums to be paid to the States in need of assistance by way of grants-in-aid of their revenues under article 275 is the creation of a fund out of excesses, if any, over a limit to be specified by the Commission, of the net proceeds of estate duty on property other than agricultural land accruing to a State in any financial year, earmarked for the repayment of the State's debt to the Central Government. As the total annual net proceeds of estate duty assignable to the States are only about Rs. 7 crores at the current levels of taxation, it would not be of any practical value to create a fund by contributing a part of these proceeds. The whole question of making provision for amortisation of the debts owed by all the States both to the public and to the Central Government has been dealt with elsewhere in this report.