

for the purpose of distribution of excise duties. We urge that information on consumption data, both household and non-household, on excisable articles should be collected and maintained on an up-to-date basis.

155. Our terms of reference include the study of the effect of the combined incidence of States' Sales tax and Union duties of excise on the production, consumption or export of commodities or products, the duties on which are shareable with the States. We have said elsewhere that due to lack of statistics, we are not in a position to study the problem. Only one or two States have made any real attempt to collect information on commodity-wise yield of Sales tax. Even in those States, the information collected is far from satisfactory. We recommend that immediate steps should be taken to collect commodity-wise information on Sales tax and excise duties. This information would be useful to the State Governments themselves.

156. Some States urged that *per capita* income should be taken as a criterion for the distribution of excise duty and income-tax. We examined the available data on State income and found that they are not comparable from State to State and therefore not usable for the purpose. We urge that the process of building up reliable and comparable estimates of State income should be accelerated.

CHAPTER 12

SUMMARY OF RECOMMENDATIONS

157. Our recommendations to the President in regard to devolution and grants-in-aid are set out below :—

Under article 269 of the Constitution :

I. **Estate Duty.**—In each of the five years commencing from 1st April, 1966 :—

- (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 as follows :—

State	Percentage
Andhra Pradesh	8·34
Assam	2·75
Bihar	10·76
Gujarat	4·78
Jammu and 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
	100·00

was thought to be consistent with a welfare State. Even with this leavening of optimism budgets were not balanced in every case. Such situations, it was claimed would be met by ways and means overdraft. While as yet such attitudes and occurrences are rare, the very fact that they are beginning to come to the surface indicates that a thorough revision of the policy underlying borrowing by States, especially from the Centre, is urgently called for. In their turn borrowers from State Governments are developing attitudes which reflect similar ideas of optimism and complaisance. A sounder and more rational arrangement between the purposes and the terms of loans must be reinstated to secure and enhance the strength of the fiscal system.

VI. Statistical data required by the Commissions.

151. The earlier Finance Commissions had emphasised the need for collecting reliable Statistical data on a continuous basis and making them available to Finance Commissions at the very commencement of their work. We have mentioned elsewhere that very little information had already been collected and compiled. We had to make our own arrangements for collection and analysis of the statistical data required by us. We issued a questionnaire to the State Governments requesting them to furnish information on 30 subsidiary points which were relevant to the work of the Commission. The questionnaire will be found in Appendix III(iv).

152. The task of the Commission involved the assessment of revenue receipts and expenditure of the States over the Fourth Plan period. This in turn required the estimation of the past and current growth rates of a number of components of receipts and expenditure. The data available in the budget papers could not be used for trend analysis without adjustment. There were many elements which made it difficult to compare the data over time. Changes introduced from time to time in budget classifications and accounting practices, step-up in receipts on account of additional taxation measures and take-over by corporations of departmentally run industrial and commercial enterprises are some of the major causes of non-comparability in the statistics of revenue receipts and expenditure of the States. Some of the items of statistics that should be collected are the following:—

- (i) Information on additional taxation and other elements necessary for adjustments to make budget figures comparable over time;

- (ii) rates of the principal taxes, duties and fees levied and the changes made from time to time in the rates;
- (iii) details of schemes outside the plan financed partly or wholly by the Central Government or commodity committees;
- (iv) regular comparable data on arrears of taxes in different States;
- ✓ (v) loans advanced by State Governments to corporations, electricity boards etc.; rate of interest and other terms and conditions;
- (vi) debt position of the States—Central and Public Debts—interest rates, terms of repayment and provision for appropriation;
- (vii) number and pay ranges of State Government employees and employees of local bodies including Panchayat institutions and teachers in aided schools;
- (viii) data on financial and economic results of irrigation (commercial), multipurpose river schemes and departmentally run commercial and industrial enterprises; and
- (ix) details of transfer of resources to local bodies in each State and the manner of utilisation of these funds.

153. It has been stated in the Chapter on Income-tax that we have been obliged to accept collection as the only available measure of contribution for the distribution of income tax proceeds amongst the States. It may be said that a better indicator of contribution would be provided by measures of income originating in an area or accruing to the residents of an area but adequate data are not available. An early attempt should be made to collect such information in future.

154. Successive Commissions have felt the need to have reliable data on State's contribution to excise duties, on the basis of consumption. The commodities concerned fall under two categories: (i) excisable goods consumed by households, and (ii) producer and intermediate goods. There is no readily available information in respect of the second category. As regards the first category, the National Sample Survey collects information on household consumer expenditure annually, but State-wise information is not available for any round except for the 13th round (1957-58); the 13th round data were considered by the Third Commission and found not usable

II. **Grant in lieu of taxes on Railway Fares.**—In each of the five years commencing from 1st April 1966, the amount of grant made available on the basis of the recommendations of the Railway Convention Committee be distributed among the States as follows:—

State	Percentage
Andhra Pradesh	9.05
Assam	2.79
Bihar	9.99
Gujarat	7.11
Jammu and Kashmir	—
Kerala	1.85
Madhya Pradesh	9.85
Madras	5.81
Maharashtra	8.98
Mysore	3.98
Nagaland	0.01
Orissa	2.12
Punjab	7.43
Rajasthan	6.40
Uttar Pradesh	18.23
West Bengal	6.40
	100.00

Under article 270 of the Constitution:

III. **Income-tax.**—In each of the five years commencing from 1st April, 1966:—

(i) the percentage of the net proceeds in any financial year of taxes on income other than agricultural income, except in so far as these proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments to be assigned to the States be 75 (Seventy Five) per cent;

(ii) the percentage of the net proceeds of taxes on income which shall be deemed to represent proceeds attributable to Union territories be 2½ (Two and a half) per cent; and

(iii) the percentage of the net proceeds assigned to the States be distributed among them as follows:—

State	Percentage
Andhra Pradesh	7.37
Assam	2.44
Bihar	9.04
Gujarat	5.29
Jammu and Kashmir	0.73
Kerala	3.59
Madhya Pradesh	6.47
Madras	8.34
Maharashtra	14.28
Mysore	5.14
Nagaland	0.07
Orissa	3.40
Punjab	4.36
Rajasthan	3.97
Uttar Pradesh	14.60
West Bengal	10.91
	100.00

Under article 272 of the Constitution:

IV. **Union Excises.**—In each of the five years commencing from 1st April, 1966, a sum equal to 20 (twenty) per cent of the net proceeds of the Union duties of excises on all articles levied and collected in that particular year, excepting regulatory duties, special excises and duties and cesses earmarked for specific purposes be paid out of the Consolidated Fund of India to the States and distributed among them as follows:—

State	Percentage
Andhra Pradesh	7.77
Assam	3.32
Bihar	10.03
Gujarat	4.80
Jammu and Kashmir	2.26
Kerala	4.16
Madhya Pradesh	7.40
Madras	7.18
Maharashtra	8.23
Mysore	5.41
Nagaland	2.21
Orissa	4.82
Punjab	4.86
Rajasthan	5.06
Uttar Pradesh	14.98
West Bengal	7.51
	100.00

V. **Additional Duties of Excise.**—In each of the five years commencing from 1st April 1966, out of the total net proceeds of additional duties of excise on cotton fabrics, silk fabrics, rayon or artificial silk fabrics, woollen fabrics, sugar and tobacco including manufactured tobacco :—

- (i) a sum equal to 1.00 (one) per cent of the net proceeds be retained by the Union as proceeds attributable to Union territories;
- (ii) a sum equal to 1.50 (One and a half) per cent of the net proceeds be paid to the State of Jammu and Kashmir ;
- (iii) a sum equal to 0.05 (one twentieth) per cent of the net proceeds be paid to the State of Nagaland ; and
- (iv) out of the balance (i.e. 97.45 per cent.) of the net proceeds of the duties, i.e., after the deduction of the amounts mentioned in sub-paragraphs (i) to (iii) above, the following sums representing the revenue realised in 1956-57 by each State on account of Sales Taxes on the six commodities, be first paid to the following States :—

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
TOTAL	3254.00

- (v) The remaining sum, if any, be distributed among the 14 (fourteen) States, as specified below :—

State	Percentage
Andhra Pradesh	7.42
Assam	1.98
Bihar	6.17
Gujarat	7.43
Kerala	5.65
Madhya Pradesh	4.62
Madras	11.13
Maharashtra	19.87
Mysore	5.21
Orissa	2.58
Punjab	5.01
Rajasthan	3.17
Uttar Pradesh	7.83
West Bengal	11.93
TOTAL	100.00

Under article 275(1) of the Constitution:

VI. **Grants-in-aid.**—Under the substantive portion of article 275(1) of the Constitution, in each of the five financial years commencing from 1st April 1966, the sums specified below be charged on the Consolidated Fund of India as grants-in-aid of the revenues of the States mentioned against them :—

State	Rs. Crores
Andhra Pradesh	7.22
Assam	16.52
Jammu and Kashmir	6.57
Kerala	20.82
Madhya Pradesh	2.70
Madras	6.84
Mysore	18.24
Nagaland	7.07
Orissa	29.18
Rajasthan	6.73
TOTAL	121.89