

# **Explanatory Memorandum as to action taken on the recommendations of the Fifth Finance Commission in its final Report**

**Dated the 31st July, 1969**

The Final Report of the Fifth Finance Commission is being laid on the Table of the House. A summary of the main recommendations in the Report relating to devolution of taxes and duties and grants-in-aid is summarised in Chapter 9 of the Report.

The Recommendations relating to the sharing of income tax, Union excise duties and additional duties of excise in lieu of States sales tax and payment of grants-in-aid of the revenues of certain States under Article 275(1) of the Constitution have been accepted. It will be recalled that recommendations in respect of estate duty and grants in lieu of the repealed tax on Railway fares made in the Commission's Interim Report submitted in October, 1968 have already been accepted. Necessary adjustments in the devolution of taxes and duties and grants-in-aid to States for the current year (1969-70) consequent on the acceptance of the Commission's recommendations in the Final Report will be made.

The Commission's recommendation that it would not be desirable to maintain the existing arrangements in respect of additional excise duties in lieu of State sales tax formerly levied thereon unless Government after discussing the matter further with the State Governments can arrive at a general agreement for the continuance of the present arrangements with suitable modification has been noted. The matter is proposed to be placed before the National Development Council.

The Commission's recommendations regarding devolution will result as pointed out in the Commission's Report in large revenue surpluses for certain States. The question of their utilisation is proposed to be discussed in consultation with the Planning Commission and the concerned States.

The Commission has expressed the view that there is hardly any scope in the present circumstances for levying any of the taxes and duties mentioned in Article 269 of the Constitution which are not levied at present, except in the case of tax on advertisement in newspapers where it sees some scope for raising revenue. The Commission has recommended that the question of the levy of this tax, its rate structure, exemptions etc. should be examined by Government. This question will be examined as recommended.

The Commission has made a number of comments in regard to the effort at resource mobilisation in various States and has also made several suggestions in respect of scope for raising revenue by the States. These also will be examined in consultation with the State Governments.

Sd/-  
(I.G. Patel)  
Special Secretary to the Government of India

New Delhi.  
August 26, 1969.