

CHAPTER 2

GRANT IN LIEU OF TAX ON RAILWAY PASSENGER FARES

4. Under paragraph 4(c) of the Order of the President, we are required to make recommendations as to the changes, if any, to be made in the principles governing the distribution amongst the States of the grant to be made available to the States in lieu of the repealed tax on railway passenger fares.

5. A tax on railway passenger fares was imposed under the Railway Passenger Fares Act, 1957. This Act was repealed with effect from the 1st April, 1961, and the tax was merged in the basic fares. The Government of India decided to make an ad hoc grant of Rs. 12.5 crores per annum to the States in lieu of the tax for a period of five years from 1961-62. The amount of the grant has been revised to Rs. 16.25 crores per annum from 1966-67 for a period of five years.

6. The grant made available at present is being distributed among the States according to percentage shares recommended by the Fourth Finance Commission. These had been worked out by allocating among the States the passenger earnings of each railway zone (exclusive of earnings of suburban services) on the basis of the route length of railway located in each State separately for each gauge, on the basis of the statistics for the three years ending March, 1964.

7. We have received various suggestions regarding the principles for distribution of the grant. These are :

- (i) Continuance of the existing principles;
- (ii) Distribution on the basis of estimated collections in each State;
- (iii) Distribution on the basis of population of each State;
- (iv) Distribution taking into account factors such as the volume of traffic relatable to a State having a short route length but a large number of visitors, and treating of important feeder roads as extensions of the railway for this purpose;
- (v) Taking into account important railway routes likely to be opened in the next few years;
- (vi) Distribution of the grant along with the States' shares of all divisible taxes and duties, solely on the principle of relative need of each State;
- (vii) Taking into account intensity of traffic on particular routes within a railway zone; and

- (viii) If intensity of traffic in States cannot be directly computed, distribution on the basis of route length and population in equal measure.

8. We have carefully considered all these suggestions. We think that the present principles which are based on those enunciated by the Second Finance Commission for the distribution of the proceeds of the railway passenger fares tax are quite suitable and proper. That Commission was of the view that the principle should be such as to secure for each State, as nearly as possible, the share of the net proceeds on account of the actual passenger travel on railways within its limits. It considered that such proceeds may be determined with reasonable accuracy by allocating the passenger earnings for each gauge of each railway zone separately among the States covered by it according to the route length in each State. The Fourth Finance Commission applied the same principles to the distribution of the grant on the ground that it was of a compensatory character, being in lieu of the repealed tax. We think that the adoption of any other criteria, such as population or collections, would not be appropriate. The criterion of collection would give undue weight to States having important terminal stations. As passenger traffic includes a large volume of inter-State travel, it is not reasonable to adopt population as a measure of the passenger travel within a State; nor can population be taken as an indicator of relative traffic intensity. It is also not possible to assess the railway passenger traffic 'relatable' to a particular State as envisaged in the suggestion (iv) in paragraph 7; nor would it be a fair basis for distributing the grant. Further, it would not be correct to treat any road as a railway for the purpose of distribution of this grant; nor would it be possible to take into account likely changes in the railway route lengths in working out the State shares. We have also carefully considered the suggestion that this grant, along with the States' shares of all taxes, should be distributed on the uniform principle of relative need, and we think that the principle suggested cannot provide a proper basis for distribution of this grant, as it is being given specifically in lieu of the tax on railway passenger fares leviable under Article 269, and the needs of different States cannot be regarded as relevant for its distribution.

9. As regards intensity of traffic on particular routes in different zones and gauges, we have been informed by the Railway Board that the necessary statistics for determining such intensity of traffic are not available. In view of this, it is not possible to take into account the relative traffic intensity of particular routes. The principles enunciated by the Second Finance Commission do make reasonable allowances for variations in the intensity of traffic.

10. We therefore recommend that no change be made in the existing principles for distribution of the grant.

11. We have worked out the percentage share of different States in the manner indicated in paragraph 6 on the basis of statistics of railway route lengths and actual passenger earnings from non-

suburban traffic for the three years ending 1966-67 (*vide* Appendix II). They are as follows :—

State	Percentage share
Andhra Pradesh	8.56
Assam	2.88
Bihar	10.86
Gujarat	6.91
Haryana	2.46
Jammu and Kashmir	0.01
Kerala	1.78
Madhya Pradesh	9.92
Madras	5.54
Maharashtra	9.12
Mysore	3.83
Nagaland	0.01
Orissa	2.36
Punjab	4.76
Rajasthan	6.43
Uttar Pradesh	19.06
West Bengal	5.51
Total	<u>100.00</u>

We recommend that the grant to be made available to the States in lieu of the repealed tax on railway passenger fares be distributed in accordance with these percentages.

12. Practically all the States have represented to us, as they did to the Fourth Finance Commission, that the system of a fixed annual grant has deprived them of a potentially elastic source of revenue and they have urged that the quantum of the grant should be suitably increased each year having regard to the growth in railway earnings from passenger fares. Some States have suggested, as an alternative, that the tax should be re-introduced. These suggestions go beyond the scope of item (c) of our terms of reference, with which we are dealing at present. We propose to consider them in our final Report when dealing with item (h) of paragraph 4 of the President's Order, relating to the scope for raising revenue from taxes and duties mentioned in Article 269 of the Constitution.

CHAPTER 3

ESTATE DUTY

13. Paragraph 4(d) of the Order of the President requires us to make recommendations as 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.

14. Article 269 provides that the net proceeds of estate duty, except in so far as they represent proceeds attributable to Union territories, are to be assigned to the States and distributed among them in accordance with the principles formulated by Parliament by law.

15. The existing scheme of distribution is as follows:—

- (i) Out of the net proceeds of the duty in each financial year, a sum equal to two per cent is retained by the Union as proceeds attributable to Union territories;
- (ii) The balance is 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 is 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 is distributed among the States in proportion to their population.

16. Most of the States have suggested the continuance of the present scheme of distribution. Suggestions made by some other States are—

- (i) Distribution of the entire net proceeds of estate duty, along with the States' shares of all other divisible taxes and duties, solely on the basis of needs of each State;
- (ii) Distribution of the entire net proceeds on the basis of population; and
- (iii) Distribution of the entire net proceeds on the basis of collection.

17. The existing principles of distribution were enunciated by the Second Finance Commission, and they were fully endorsed by the subsequent Commissions, with only a minor change in respect of the portion attributable to Union territories. These Commissions were of the view that the levy and collection of the taxes and duties specified in Article 269 of the Constitution had been placed under the Union Government so as to ensure uniformity of taxation and convenience of collection. They considered that although that Article