

## CHAPTER 1

### INTRODUCTORY

This Finance Commission is the fifth Commission to be appointed under Article 280 of the Constitution, and was constituted by an Order of the President dated the 29th February, 1968, which is reproduced below. We assumed office on the 15th March, 1968.

"In pursuance of the provisions of article 280 of the Constitution of India and of the Finance Commission (Miscellaneous Provisions) Act, 1951 (33 of 1951), the President is pleased to constitute with effect from the 15th March, 1968, a Finance Commission consisting of Shri Mahavir Tyagi, former Union Minister of Rehabilitation, as the Chairman and the following four other members, namely:

- (1) Shri P. C. Bhattacharyya, former Governor, Reserve Bank of India.
  - (2) Shri M. Seshachalpathy, retired Judge, Andhra Pradesh High Court.
  - (3) Dr. D. T. Lakdawala, Professor, Department of Economics, Bombay University.
  - (4) Shri V. L. Gidwani, former Chief Secretary, Government of Gujarat, Member-Secretary.
2. The members of the Commission shall hold office until the 31st day of July, 1969.
  3. Shri Mahavir Tyagi shall render part-time service as Chairman of the Commission until such date as the Central Government may specify in this behalf and thereafter, he shall render whole-time service as Chairman of the Commission. Of the other members, Shri P. C. Bhattacharyya shall render part-time service as member of the Commission until such date as the Central Government may specify in this behalf and, thereafter, he shall render whole-time service as member of the Commission. The other three members will render whole-time service.
  4. The Commission shall make recommendations as to the following matters:—
    - (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I of Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
    - (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States

which are in need of assistance by way of grants-in-aid of their revenues under Article 275 for purposes other than those specified in the provisos to clause (1) of that article and other than the requirements of the Five Year Plan, having regard, among other considerations, to—

- (i) the revenue resources of those States for the five years ending with the financial year 1973-74 on the basis of the levels of taxation likely to be reached at the end of the financial year 1968-69;
  - (ii) the requirements on revenue account of those States to meet the expenditure on administration, interest charges in respect of their debt, maintenance and upkeep of Plan schemes completed by the end of 1968-69, transfer of funds to local bodies and aided institutions and other committed expenditure;
  - (iii) the scope for better fiscal management as also for economy consistent with efficiency which may be effected by the States in their administrative, maintenance, developmental and other expenditure;
- (c) 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;
- (d) the changes, if any, to be made in the principles governing the distribution amongst the States under article 269 of the net proceeds in any financial year of estate duty in respect of property other than agricultural land;
- (e) the desirability or otherwise of maintaining the existing arrangements under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, in regard to the levy of additional duties of excise on sugar, textiles and tobacco in lieu of the States' sales taxes thereon, with or without any modifications and the scope for extending such arrangements to other items or commodities;
- (f) irrespective of the recommendation made under item (e) above, 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 leviable under the 1957 Act aforesaid on each of the following commodities, namely,
- (i) cotton fabrics,
  - (ii) silk fabrics,
  - (iii) woollen fabrics,
  - (iv) rayon or artificial silk fabrics,

(v) sugar, and

(vi) tobacco including manufactured tobacco,

in replacement of the States' sales taxes formerly levied by the State Governments:

Provided that the share accruing to each State shall not be less than the revenue realised from the levy of the sales tax for the financial year 1956-57 in that State.

- (g) the principles which should govern the distribution of the net proceeds of such additional items or commodities as may be recommended under item (e) above for levy of additional excise duties in lieu of the States' sales taxes thereon;
  - (h) the scope for raising revenue from the taxes and duties mentioned in article 269 of the Constitution but not levied at present;
  - (i) the scope for raising additional revenue by the various State Governments from the sources of revenue available to them; and
  - (j) the problem of unauthorised overdrafts of certain States with the Reserve Bank and the procedure to be observed for avoiding such overdrafts.
5. The Commission in making its recommendations on the various matters aforesaid shall have regard to the resources of the Central Government and the demands thereon on account of the expenditure on civil administration, defence and border security, debt servicing and other committed expenditures or liabilities.
6. The Commission shall make an interim Report by the 30th September, 1968 covering as many of the matters mentioned in para 4 above as possible and in particular, in respect of the financial year 1969-70; and make the final Report by the 31st July, 1969 on each of the said matters and covering a period of five years commencing from the 1st day of April, 1969, indicating in its Reports the basis on which it has arrived at its findings and making available the relevant documents."

Under paragraph 6 of the Order we were required to make an interim Report by the 30th September, 1968 covering as many as possible of the matters mentioned in paragraph 4 of the Order, and in particular, in respect of the financial year 1969-70. The date for submission of the interim Report was extended to 31st October, 1968, by the President's subsequent Order dated 24th September, 1968.

2. We decided that in the interim Report we should deal with items (c), (d) and (j) of paragraph 4, and make interim recommendations in respect of the financial year 1969-70. For this purpose, we obtained from the State Governments Memoranda containing their views on those items and their forecasts of revenue receipts and

expenditure for that year. We had detailed discussions with the representatives of each State Government at New Delhi during the period from June to August, 1968. The Accountants-General of the respective States were present at these discussions. We also had discussions with representatives of the Central Government in regard to the forecast for 1969-70 furnished by them, and with the Deputy Chairman, Planning Commission, and the Governor of the Reserve Bank of India. Some other persons also appeared before us at our request to explain elucidate their views on some of the matters in our terms of reference. The dates of discussions held with representatives of the State Governments, the Central Government and others are given in Appendix I.

3. In Chapters 2 to 4 of this interim Report, we have made our final recommendations regarding items (c), (d) and (j) of paragraph 4 of the Presidential Order. In Chapter 5, we have made interim recommendations for the devolution of taxes and duties and for grants under Article 275 of the Constitution for the financial year 1969-70. We wish to make it clear that except so far as the distribution of the proceeds of estate duty and the grant in lieu of the tax on railway passenger fares is concerned, these recommendations for the year 1969-70 have been made provisionally on an interim basis and they are subject to such readjustment as may be necessary on the basis of our final Report. We have still to have further discussions with the State Governments and other parties and to examine carefully the material already with us and the further information and memoranda which we shall receive regarding all the items of our terms of reference. The interim recommendations in this Report should not, therefore, be regarded as indicating our final views or recommendations or as committing us in any way regarding the principles of devolution of taxes or duties, other than estate duty, or grants under Article 275 of the Constitution or any other matters referred to us under the Presidential Order.