

CHAPTER 9

SUMMARY OF RECOMMENDATIONS

9.1 Our recommendations to the President in regard to devolution of taxes and grants-in-aid of the revenues of the States are set out below:—

I—Income-tax :

- (a) In respect of distribution of the unadjusted balance of advance tax collections upto the year 1966-67:
 - (i) Out of the amount of such advance tax collections, as determined by the Comptroller and Auditor-General of India, a sum equal to $2\frac{1}{2}$ (two and a half) per cent thereof be deemed to be the portion which represents the proceeds attributable to Union territories, as constituted immediately prior to the Punjab Reorganisation Act, 1966;
 - (ii) The percentage of the amount of advance tax as determined by the Comptroller and Auditor-General of India except the portion attributable to Union territories, to be assigned to the States should be 75 (seventy-five) per cent;
 - (iii) The distribution among the States *inter se* of the share assigned to the States should be made on the basis of the percentages recommended by the Fourth Finance Commission, with appropriate adjustments in regard to the share of reorganised Punjab and Haryana States and Union territories in accordance with the Punjab Reorganisation Act, 1966;
 - (iv) The share of each State should be paid to the State Government in three equal annual instalments during the years from 1971-72 to 1973-74.
- (b) In respect of distribution between the Union and the States of the net proceeds of income-tax in the years 1967-68 and 1968-69, there should be no change in the distribution as prescribed in the Constitution (Distribution of Revenues) Order, 1965, in the event of the said net proceeds being certified by the Comptroller and Auditor-General of India on the revised basis;
- (c) In respect of the distribution of net proceeds of income-tax in the financial years from 1969-70 to 1973-74;
 - (i) Out of the net proceeds of taxes on income in each financial year, a sum equal to 2.6 per cent thereof be deemed to be the portion which represents the proceeds attributable to Union territories;
 - (ii) The percentage of the net proceeds of taxes on income, except the portion which represents proceeds attributable to Union territories, to be assigned to the States should be 75 (seventy-five) per cent; and

- (iii) The distribution among the States *inter se* of the share assigned to the States in respect of each financial year should be made on the basis of the following percentages:—

State	Percentage
Andhra Pradesh	8.01
Assam	2.67
Bihar	9.99
Gujarat	5.13
Haryana	1.73
Jammu and Kashmir	0.79
Kerala	3.83
Madhya Pradesh	7.09
Maharashtra	11.34
Mysore	5.40
Nagaland	0.08
Orissa	3.75
Punjab	2.55
Rajasthan	4.34
Tamil Nadu	8.18
Uttar Pradesh	16.01
West Bengal	9.11
TOTAL	<u>100.00</u>

11.—Union Excise Duties :

- (a) During each of the years 1969-70 to 1971-72 a sum equivalent to 20 (twenty) per cent. of the net proceeds of Union duties of excise on all articles levied and collected in that year, excluding special excises, regulatory duties and duties and cesses levied under special Acts and earmarked for special purposes, should be paid out of the Consolidated Fund of India to the States;
- (b) during the years 1972-73 and 1973-74, a sum equivalent to 20 (twenty) per cent. of the net proceeds of Union duties of excise on all articles levied and collected in the respective year, including special excises, but excluding regulatory duties and duties and cesses levied under special Acts and earmarked for special purposes, should be paid out of the Consolidated Fund of India to the States; and

- (c) the distribution among the States of the sum payable to the States in respect of each financial year should be made on the basis of the following percentages:—

State	Percentage
Andhra Pradesh	7.15
Assam	2.51
Bihar	13.81
Gujarat	4.17
Haryana	1.49
Jammu and Kashmir	1.12
Kerala	4.28
Madhya Pradesh	8.48
Maharashtra	7.93
Mysore	4.65
Nagaland	0.08
Orissa	4.72
Punjab	2.17
Rajasthan	5.28
Tamil Nadu	6.50
Uttar Pradesh	13.82
West Bengal	6.84
TOTAL	<u>100.00</u>

III—Additional Duties of Excise:

- (1) (a) It would not be desirable to maintain the existing arrangements in regard to the levy of additional duties of excise on textiles, sugar and tobacco, unless the Government of India, after discussing the matter further with the State Governments, can arrive at a general agreement for the continuance of the present scheme with suitable modifications;
- (b) While the arrangements are continued, the rates of duties may be made *ad valorem* as far as possible, and may be revised periodically so as to secure reasonable incidence having regard to the prevailing prices and the general level of sales taxes on similar items levied by the States;
- (2) There is no scope at present for extending such arrangements to other items or commodities;

(3) The net proceeds of the additional excise duties during each financial year in which the existing arrangements continue, should be distributed on the following basis:—

- (a) A sum equal to 2.05 per cent. of such net proceeds be retained by the Union as attributable to Union territories;
- (b) A sum equal to 0.83 per cent. of such net proceeds be paid to the State of Jammu and Kashmir as its share;
- (c) A sum equal to 0.09 per cent. of such net proceeds be paid to the State of Nagaland as its share;
- (d) Out of the remaining balance of 97.03 per cent. of such net proceeds the sums specified below, representing the revenue realised in the financial year 1956-57 by each respective State from the levy of sales taxes on the commodities subject to additional excise duties, be first paid as guaranteed amounts to the following States:—

State	Guaranteed amount (Rs. lakhs)
Andhra Pradesh	235.24
Assam	85.08
Bihar	130.16
Gujarat	323.45
Haryana	65.49
Kerala	95.08
Madhy Pradesh	155.17
Maharashtra	637.77
Mysore	100.10
Orissa	85.10
Punjab	96.07
Rajasthan	90.10
Tamil Nadu	285.34
Uttar Pradesh	575.81
West Bena ^l	280.41

(e) The balance be distributed among the States other than Jammu and Kashmir and Nagaland in accordance with their respective percentage shares of such balance as under:—

State	Percentage distribution of excess amount
Andhra Pradesh	8.13
Assam	2.47
Bihar	8.40
Gujarat	6.33
Haryana	1.70
Kerala	4.84
Madhya Pradesh	6.34
Maharashtra	13.89
Mysore	6.00
Orissa	3.13
Punjab	2.98
Rajasthan	4.42
Tamil Nadu	9.63
Uttar Pradesh	12.99
West Bengal	8.75
TOTAL	100.00

(f) In case the existing arrangements are discontinued during the course of a financial year, the sums specified in clause (d) above, be reduced *pro rata* to the period for which the arrangements have continued.

IV—Grants -in-aid:

The following States be paid the sums specified against each of them as grants-in-aid of their revenues in the respective years indicated in the table below, under the substantive part of Clause (1) 7—60 M. of Fin.

of Article 275 of the Constitution:—

(Rs. crores)

State	Total of the sums to be paid in the five years	Grants-in-aid to be paid in				
		1969-70	1970-71	1971-72	1972-73	1973-74
Andhra Pradesh	65.01	15.54	14.27	13.00	11.73	10.47
Assam	101.97	20.80	20.60	20.39	20.19	19.99
Jammu and Kashmir	73.68	16.81	15.77	14.74	13.70	12.66
Kerala	49.65	9.93	9.93	9.93	9.93	9.93
Mysore	17.99	6.48	5.04	3.60	2.16	0.71
Nagaland	77.95	17.40	16.49	15.89	14.69	13.78
Orissa	104.67	24.51	22.72	20.94	19.14	17.36
Rajasthan	51.49	12.36	11.33	10.30	9.27	8.23
Tamil Nadu	22.82	6.61	5.59	4.56	3.54	2.52
West Bengal	72.62	22.29	18.41	14.52	10.64	6.76
TOTAL	637.85	152.73	140.15	127.57	114.99	102.41

These sums are inclusive of the amounts specified in paragraph 6.45, as recommended by the majority of the Members.

9.2 With reference to Clause (e) of paragraph 76 of our interim Report, we recommend that the payments made to the States on the basis of recommendations in clauses (a) to (d) of that paragraph be adjusted against the respective amounts payable to them in accordance with the recommendations made in this Report.

9.3 The position regarding the estimated amounts of transfer of funds to the States by way of their share of taxes and duties and grants under Article 275(1) in the five years 1969-70 to 1973-74 in accordance with the recommendations made in our interim Report and in this Report, as compared with such transfers envisaged by the Fourth Finance Commission for the period 1966-67 to 1970-71, is shown in Appendix VI.

MAHAVIR TYAGI,
Chairman

M. SESHACHELAPATI,
Member

D. T. LAKDAWALA,
Member

G. SWAMINATHAN,
Member

V. L. GIDWANI,
Member-Secretary.

NEW DELHI,
July 31, 1969.