

Explanatory Memorandum as to the action taken on the recommendations of the Sixth Finance Commission in its Report

Dated the 28th October, 1973

The Report of the Sixth 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 and changes in the terms of repayment of Central loans outstanding against the States is summarised in Chapter _ XVIII of its report.

The recommendations of the Commission relating to sharing of income tax, union excise duties (including auxiliary duties in the three years 1976-77 to 1978-79), additional excise duties in lieu of States' sales tax, and Estate Duty, and to the payment of grants in lieu of the repealed tax on Railway fares and on account of Wealth Tax on agricultural property have been accepted.

The Commission has recommended the payment of grants-in-aid of the revenues of certain States under article 275(1) of the constitution aggregating Rs. 2509.61 crores during the five year period commencing from 1974-75, after taking into account the needs of backward States for improvement of standards of essential administrative and social services. This recommendation of the Commission has been accepted. In computing the grants-in-aid of the order of Rs. 2509.61 crores the Commission has not taken into account the net interest liability of the States on account of fresh borrowings and lendings during the Fifth Plan Period. The Commission has recommended that the net interest liability on this account should be computed and the grants-in-aid suitably modified. Necessary action on this will be taken in due course.

The Commission has not favoured the establishment of a National Fund for financing the relief expenditure of the States affected by natural calamities. Instead it has made detailed suggestions in this regard and these will be examined in consultation with the Planning Commission.

The Commission was also required to make an assessment of the non-Plan capital gaps of States on uniform and comparable basis for the five years ending 1978-79 and in the light of its assessment recommend changes in the existing terms of repayment of Central loans outstanding at the end of 1973-74. In the light of the assessment made by the Commission it has recommended debt relief to the States of the order of Rs. 1969.62 crores for the five year period ending 1978-79, as detailed in the summary appended.

The Commission's recommendations fall into three categories (i) those to be implemented by an Order of the President, (ii) those to be implemented by law of Parliament, and (iii) those to be implemented by executive orders. The recommendations under article 270 (relating to income tax) and 275(1) (relating to grants-in-aid) of the Constitution fall in the first category and the necessary Order will be submitted to the President for approval. Recommendations relating to distribution of Union Duties of Excise, additional duties and estate on property other than agricultural land fall in the second category. Necessary legislation will be promoted to implement them. The recommendations relating to distribution of grants to State in lieu of the repealed tax on Railway Fares and grant on account of Wealth Tax on agricultural property and

The Report of the Sixth Finance Commission is being laid on the Table of the House. A summary also changes in terms of repayment of Central loans will be implemented by executive orders.

The Commission has made certain general suggestions in the above Report. These do not require any immediate decision and will be considered in due course.

Sd/-
(M.G. Kaul)
Secretary to the Government of India

New Delhi.
December 11, 1973.