

## TERMS OF REFERENCE OF THE SIXTH FINANCE COMMISSION

Paragraphs 4-7 of the Presidential Order dated 28th June, 1972, containing the Terms of Reference of the Sixth Finance Commission are reproduced below:-

4. The Commission shall make recommendations as to be 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 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 of Constitution for purposes other than those specified in the provisos to clause (1) of that article having regard, among other considerations, to:-
  - (i) the existing practice in regard to determination and distribution of Central assistance for financing State Plans;
  - (ii) the revenue resources of those States for the five years ending with the financial year 1978-79 on the basis of the levels of taxation likely to be reached at the end of the financial year 1973-74;
  - (iii) the requirements on revenue account of those States to meet the expenditure on administration taking also into account such provision for emoluments of Government employees, teachers and local body employees as obtaining on a specified date as the Commission deem it proper in the light of the States' capacity and needs, interest charges in respect of their debt, transfer of funds to local bodies and aided institutions and other committed expenditure;
  - (iv) adequate maintenance and upkeep of the capital assets and maintenance of Plan schemes completed by the end of 1973-74, the norms, if any, on the basis of which specified amounts are allowed for the maintenance of different categories of capital assets being indicated by the Commission;
  - (v) the requirements of States which are backward in standards of general administration for upgrading the administration with a view to bringing it to the levels obtaining in the more advanced States over a period of ten years; and
  - (vi) the scope for better fiscal management and 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 tax under the repealed Railway Passenger Fares Tax Act, 1957;

- (d) the changes, if any, to be made in the principles governing the distribution amongst the States under Article 269 of the Constitution of the net proceeds of any financial year of estate duty in respect of property other than agricultural land;
  - (e) 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 Additional Duties of Excise (Goods of Special Importance) Act, 1957, on each of the following commodities, namely:-
    - (i) Cotton fabrics
    - (ii) woolen fabrics
    - (iii) rayon or artificial silk fabrics
    - (iv) sugar; and
    - (v) 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 sales tax for the financial year 1956-57 in that State; and
  - (f) the principles governing the distribution among the States of the grant to be made available to the States on account wealth tax on agricultural property.
5. The Commission may make an assessment of the non-plan capital gap of the States on a uniform and comparable basis for the five years ending with 1978-79. In the light of such an assessment, the Commission may undertake a general review of the States' debt position with particular reference to the Central loans advanced to them and likely to be outstanding as at the end of 1973-74 and suggest changes in the existing terms of repayment having regard inter-alia to the overall non-plan gap of the States, their relative position and the purposes for which the loans have been utilised, and the requirements of the Centre.
6. The Commission may review the policy and arrangements in regard to the financing of relief expenditure by the States affected by natural calamities and examine inter-alia the feasibility of establishing a National Fund to which the Central and State Governments may contribute a percentage of their revenue receipts.
7. 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 expenditure or liabilities."