

D.O. letter No.F.13(13)-B(S)/78 dated the 20th September, 1978 from Shri K.N. Row, Joint Secretary (Budget), Ministry of Finance, Department of Economic Affairs, to Shri V.B. Eswaran, Member Secretary.

Please refer to your D.O. letter No.7FC.11(2)-Res/77 dated the 16th September 1978 regarding additional duties of excise.

2. The Additional Duties of Excise (Goods of Special Importance) Act, 1957 provides for levy of additional excise duties on certain commodities. The duties are levied by agreement with the State Governments in lieu of the sales tax levied by them on those commodities. The Act does not debar the levy of sales tax by a State on any of the commodities covered by it. But such a course is discouraged by virtue of (a) inclusion of these commodities in the list of "declared goods" and thereby subject them to the restriction specified in Section 15 of the Central Sales Tax Act 1956 i.e. a ceiling of 4% for the levy of sales tax and (b) the proviso in the Second Schedule to the Act which provides for discontinuance of the share of additional duties in the event of levy of any sales tax by a State. In the original Act of 1957, the proviso appeared under each of the three parts of the Second Schedule dealing with one of the commodities covered by the Act. Thus the intention of the Government was to cease payment of additional duties realised from a commodity to a State if that State levied and collected any sales tax on that commodity. By the Amendment made in 1962, the distribution of net proceeds of additional duties, commodity-wise, was discontinued in pursuance of the recommendation of the Third Finance Commission. The wording of the proviso in the Second Schedule in the Amendment Acts of 1962 and 1965, however, later led to an interpretation that no part of the payment of additional duties can be discontinued to a State so long as it did not levy and collect sales tax on all the commodities mentioned in the proviso. Since the intention was to make pro-rata reduction in the payment due to a State if it levied and collected sales tax on any one or more of the Commodities covered by the Act, the proviso was reworded when the Act was amended in 1969. In terms of this amendment, the payment of share of additional duties would cease if a State levies sales tax on any of the commodities mentioned in the proviso; at the same time the special order envisaged in the same proviso was intended to regulate suitably the payment due to the States with such reductions as were necessary consequent on the levy of sales tax by that State.

Incidentally, there has so far been no occasion since the introduction of additional duties in 1957, to invoke the above proviso in the Second Schedule.

We hope this clarifies the issue.

EXPENDITURE ON FAMINE RELIEF & NATURAL CALAMITIES

(Rs. crores)

STATES	1974-75 (Actuals)		1975-76 (Actuals)		1976-77 (Pre-Actuals)		1977-78 (Estimates)	
	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan
1. Andhra Pradesh		6.42		3.03		N.I		N.I
*2. Assam		4.17		2.15		2.48		1.45
*3. Bihar		9.31		9.40		10.36		4.63
4. Gujarat	59.30	12.66	53.07	14.71	4.25	2.59	10.43	2.30
5. Haryana	2.00	4.04	-	1.63	-	1.55	-	1.24
*6. Himachal Pradesh		0.13		1.02		0.56		0.30
7. Jammu & Kashmir	-	3.09	-	1.35	-	2.29	-	1.97
8. Karnataka	-	2.18	-	2.54	12.24	9.51	15.00	1.75
9. Kerala	0.22	1.49	0.41	2.40	0.02	2.05	0.70	1.60
10. Madhya Pradesh	11.74	5.71	8.82	7.79	18.02	2.44	-	9.00
*11. Maharashtra	-	2.41	-	1.09	-	2.15	-	4.44
12. Manipur		0.01		0.01		0.30		N.I
*13. Meghalaya		0.22		0.10		0.10		0.04
14. Nagaland	-	-	-	-	-	-	-	-
15. Orissa	7.91	3.85	7.55	3.40	5.10	3.66	8.52	3.59
*16. Punjab		0.30		3.35		13.14		1.52
17. Rajasthan	15.39	7.09	16.25	10.26		N.I		N.I.
18. Sikkim	-	-	0.73	-	-	-	-	-
*19. Tamil Nadu		21.42		33.76		33.51		N.I.
*20. Tripura	-	0.09	-	0.42	-	0.10	-	-
21. Uttar Pradesh	4.70	4.57	7.52	5.31	16.41	10.38	18.67	13.25
22. West Bengal	10.00	5.25	-	10.83	-	12.10	-	N.I
<u>TOTAL:</u>	<u>111.26</u>	<u>94.41</u>	<u>94.35</u>	<u>114.55</u>	<u>56.04</u>	<u>109.38</u>	<u>53.32</u>	<u>47.08</u>

Source:- Subsidiary Point No.30

*The State Government has not furnished bifurcation of the expenditure into Plan and Non-Plan separately.

N.I. = Not indicated by the State Government.

D.O. No.52/70-Economic dated 10.2.1971 from Shri A. Mitra, Secretary, Planning Commission, New Delhi, addressed to Shri P. Govindan Nair, Secretary, Ministry of Finance, Department of Revenue & Insurance, New Delhi.

I am enclosing for your perusal a copy of the summary record of the meeting of the Committee of the National Development Council held at Vigyan Bhawan on 28th December, 1970, at 10.30 A.M. to discuss replacement of sales tax on sugar, tobacco and mill-made textiles by additional excise duty. As you are aware, the agreed conclusions, as summed up by Deputy Chairman, Planning Commission, on which you may like now to proceed were :

- (i) The ad valorem system of additional excise duties be extended to all items except un-manufactured tobacco in respect of which specific rates may continue subject to periodical review and adjustments on the recommendations of Standing Review Committee.
- (ii) The incidence of additional excise duties be raised to 10.8 per cent of the value of clearances as soon as possible during the next two or three years.
- (iii) While making upward adjustments in basic excise duties in future, the Government of India need not rigidly adhere to, but always keep in view, a ratio of 2:1 between the yield of basic and special excise duties on the one hand and additional excise duties on the other.
- (iv) The Ministry of Finance will restructure the rates of additional excise duties with a view to reaching the incidence of 10.8 per cent of the value of clearances of all the three items taken together. While doing so the Ministry of Finance could make differential increases in the rates of additional excise duties on individual items or their components on the basis of their assessment of the burden that different items or components will be able to bear. They will also have the option of making some compensatory adjustments in the rates of basic excise duties if the total incidence on any individual item calls for such adjustment.
- (v) A Standing Review Committee be set up with Member(Tariff), Board of Indirect Taxes, Government of India, and Finance Secretaries/Finance Commissioners of all States Governments as Members and Economic Adviser, Planning Commission, as Convenor. The Committee will meet at least once a year to review the working of the new arrangement and make such recommendations as may be necessary for its further improvement.

A separate Order for the appointment of the Standing Review Committee is being issued by the Commission.

STATEMENT SHOWING INCIDENCE OF BASIC DUTY, ETC AND
ADDITIONAL EXCISE DUTY (IN LIEU OF SALES TAX)

(Rupees in crores.)

Year	Value of clearances (Approx.)	BED+SED+RED+AYED	Addl. duty of Excise.	Incidence of	
				Basic + Spl. + Reg. + Aux duty.	Addl. duty
1.	2.	3.	4.	5.	6.
				%	%
1972-73	1732.83	440.00	135.62	25.39	7.83
1973-74	2007.38	488.85	173.75	24.35	8.66
1974-75	2409.49	553.65	187.89	22.98	7.80
1975-76	3417.77	623.67	223.43	18.25	6.53
1976-77	4061.65	673.74	257.13	16.59	6.33
1977-78 (RBE)	4295.67 (Provl.)	693.02	292.76	16.13	6.82
1978-79	N.A.	754.22.	325.70	-	-

Source : i) Directorate of Statistics & Intelligence for Col.2.
 ii) Explanatory Memorandum of Budget Division for Col.3 and Col.4.

Note :- BED = Basic excise duty
 SED = Special excise duty
 RED = Regulatory excise duty
 AYED = Auxiliary excise duty.

(Received vide D.O. F.No.333/7/77-TRU dt.12.9.78 from Shri G. Sankaran, Commissioner, (Tax Research) Department of Revenue, Ministry of Finance to Member-Secretary, Finance Commission.

STATEMENT SHOWING RATIO BETWEEN BASIC AND ADDITIONAL
EXCISE DUTIES 1971-72 TO 1978-79.

Commodity	Basic duty+ Spl. duty+ Regulatory duty + Auxili- ary duty.	Additional excise duty	Ratio between Col.2 & Col.3
(1)	(2)	(3)	(4)
	(Rupees in Crores)		
	<u>1971-72</u>		
Sugar	133.55	33.12	4.03:1
Tobacco	234.19	43.32	5.40:1
Cloth	72.08	29.77	2.42:1
	<u>439.82</u>	<u>106.21</u>	<u>4.14:1</u>
	<u>1972-73</u>		
Sugar	140.66	36.60	3.84:1
Tobacco	226.37	62.43	3.62:1
Cloth	72.97	36.54	2.00:1
	<u>440.00</u>	<u>135.62</u>	<u>3.24:1</u>
	<u>1973-74</u>		
Sugar	154.60	43.33	3.56:1
Tobacco	244.64	88.95	2.75:1
Cloth	89.61	41.47	2.16:1
	<u>488.85</u>	<u>173.75</u>	<u>2.81:1</u>
	<u>1974-75</u>		
Sugar	153.67	42.29	3.64:1
Tobacco	295.22	99.27	2.97:1
Cloth	104.76	46.42	2.25:1
	<u>553.65</u>	<u>187.89</u>	<u>2.95:1</u>

(Received vide D.O. F. No.333/7/77-TRU dated 12th September, 1978 from Shri G. Sankaran, Commissioner (Tax Research), Department of Revenue, Ministry of Finance to Member Secretary, Finance Commission).

(1)	(2)	(3)	(4)
<u>1975-76</u>			
Sugar	194.84	46.85	4.16:1
Tobacco	343.50	113.26	3.03:1
Cloth	85.33	53.31	1.35:1
	<u>623.67</u>	<u>223.43</u>	<u>2.79:1</u>
<u>1976-77</u>			
Sugar	102.73	48.47	4.98:1
Tobacco	338.47	125.35	3.07:1
Cloth	92.54	82.31	1.12:1
	<u>673.74</u>	<u>257.13</u>	<u>2.62:1</u>
<u>1977-78 (RE)</u>			
Sugar	155.84	53.46	2.93:1
Tobacco	437.23	139.85	3.13:1
Cloth	98.95	98.45	0.99:1
	<u>693.02</u>	<u>292.76</u>	<u>2.37:1</u>
<u>1978-79 (IE)</u>			
Sugar	154.91	65.07	2.38:1
Tobacco	488.36	148.07	3.30:1
Cloth	110.95	112.56	0.99:1
	<u>754.22</u>	<u>325.70</u>	<u>2.32:1</u>

D.O. letter No. 60(34)/77-Excise dated 17th September, 1978 from Shri Ram N. Lal Director (I), Ministry of Finance, New Delhi to Shri K.K. Dar, Joint Secretary, Finance Commission, Vigyan Bhawan Annex, New Delhi.

Kindly refer to your D.O. letter No. 7/FC/7(1)-Res/77 of August 8, 1978 regarding the reasons for not convening the meeting of the Review Committee constituted in 1974 for keeping under review the working of the arrangements in respect of the additional excise duties. The Ministry of Finance had requested us in 1975 for convening a meeting of this Committee to discuss the proposal for withdrawal of additional excise duty in lieu of sales tax on art silk fabrics and restoration of the right to levy sales tax on such fabrics to the State Governments. We felt that the meeting of the Committee could not be called for this limited purpose only. The meeting would have provided an opportunity to discuss the wider question of the working of the scheme itself. It was, therefore, considered necessary to prepare a position paper reviewing the working of the entire scheme before convening the meeting of the Review Committee.

2. As the preparation of the position paper took time, it was suggested to the Ministry of Finance that they might themselves take a view in regard to the revision of additional excise duties insofar as the budget proposals for 1976-77 were concerned and the question of convening the meeting of the Review Committee could be considered thereafter.

3. Subsequently, the Government set up the Indirect Taxation Enquiry Committee. The terms of reference of this Committee covered review of the existing structure of indirect taxes of the Centre, States and Local bodies in all its respects. It appears that some of the State Governments had already posed, in their memoranda submitted to this Committee, the question of working of the scheme of additional excise duties. In the circumstances, convening of the meeting of the Review Committee might have involved duplication of work and making of overlapping recommendations by two different bodies. Hence it was decided not to convene the meeting of the Review Committee.

Appendix IV.1(i)

Total Transfer of Resources from Centre to the States
1951-52 to 1978-79

	(Rs. crores)			
	Share in taxes	Grants	Loans	Total
<u>First Five-Year Plan</u>				
1951-52	53	32	73	158
1952-53	74	35	112	221
1953-54	72	46	155	273
1954-55	71	70	221	362
1955-56	74	105	238	417
<u>Total:</u>	<u>344</u>	<u>288</u>	<u>799</u>	<u>1431</u>
<u>Second Five Year Plan</u>				
1956-57	79*	84	209	372
1957-58	116*	119	284	519
1958-59	151*	153	284	588
1959-60	157*	195	295	647
1960-61	165*	238	339	742
<u>Total.</u>	<u>668</u>	<u>789</u>	<u>1411</u>	<u>2868</u>
<u>Third Five-Year Plan</u>				
1961-62	179	217	452	848
1962-63	224	223	523	970
1963-64	259	231	624	1114
1964-65	258	285	680	1223
1965-66	276	348	821	1445
<u>Total:</u>	<u>1196</u>	<u>1304</u>	<u>3100</u>	<u>5600</u>
<u>Three Annual Plans</u>				
1966-67	373	419	916	1708
1967-68	417	471	869	1757
1968-69	492	499	891	1882
<u>Total:</u>	<u>1282</u>	<u>1389</u>	<u>2676</u>	<u>5347</u>
<u>Fourth Five-Year Plan</u>				
1969-70	622	531	1029	2182
1970-71	755	544	1002	2301
1971-72	944	854	1191	2989
1972-73	1067	944	1926	3937
1973-74	1174	958	1560	3692
<u>Total:</u>	<u>4562</u>	<u>3831</u>	<u>6708</u>	<u>15101</u>