

CHAPTER 13SUMMARY OF RECOMMENDATIONS

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

- I. Estate Duty (1) The net proceeds of Estate Duty in respect of property other than agricultural land attributable to Union territories in each of the years 1979-80 to 1983-84 should be determined in the same manner and on the same principles as for the determination of the shares of each State, taking the Union territories as one unit for the purpose.
- (2) The balance of the net proceeds of Estate duty in each year should be distributed among the States in proportion to the gross value of the immovable property and property other than immovable property taken together located in each State and brought into assessment. For this purpose property located abroad should be deemed to be located in the State where it is brought to assessment.
- (3) Sikkim will also be entitled to a share in the net proceeds of this duty, calculated in the same manner as for the other States, as from the date the duty may become leviable in that State in the period covered by our Report.
- II. Additional Duties of Excise in lieu of sales tax. (1) There is no need to set apart any guaranteed amounts to the States out of the net proceeds of additional duties of excise as in our view there is no risk of the share of any States falling short of the revenue realised in the financial year 1956-57 in a State from the levy of the sales tax on the commodities subject to additional duties of excise in lieu of sales tax.
- (2) Sikkim should have a share in the net proceeds of these duties except the duties on textiles on which the State levies sales tax;
- (3) A sum equal to 3.271 per cent of the net proceeds of the additional duties of excise on sugar in each of the years from 1979-80 to 1983-84 should be retained by the Central Government as attributable to the Union territories and the balance of 96.729 per cent of the net proceeds should be distributed among the States in the percentages shown below:

<u>States</u>	<u>Percentages</u>
1. Andhra Pradesh	5.245
2. Assam	2.408
3. Bihar	5.933
4. Gujarat	8.742
5. Haryana	2.656
6. Himachal Pradesh	0.860
7. Jammu & Kashmir	0.831
8. Karnataka	4.901
9. Kerala	3.783
10. Madhya Pradesh	6.019
11. Maharashtra	17.082

<u>States</u>	<u>Percentages</u>
12. Manipur	0.143
13. Meghalaya	0.029
14. Nagaland	0.115
15. Orissa	2.178
16. Punjab	6.220
17. Rajasthan	4.729
18. Sikkim	0.057
19. Tamil Nadu	6.449
20. Tripura	0.172
21. Uttar Pradesh	13.184
22. West Bengal	8.254

- (4) A sum equal to 2.192 per cent of the net proceeds of additional duties of excise on textiles and on tobacco in each of the years from 1979-80 to 1983-84 be retained by the Central Government as attributable to the Union territories.
- (5) The balance of 97.808 per cent of such net proceeds of the additional duties of excise on textiles and tobacco be distributed among the States in the percentages shown below:

<u>States</u>	<u>Textiles</u>	<u>Tobacco</u>
1. Andhra Pradesh	8.020	8.018
2. Assam	2.298	2.297
3. Bihar	7.221	7.219
4. Gujarat	6.015	6.013
5. Haryana	2.790	2.789
6. Himachal Pradesh	0.734	0.734
7. Jammu & Kashmir	0.744	0.744
8. Karnataka	6.083	6.081
9. Kerala	4.020	4.019
10. Madhya Pradesh	6.422	6.419
11. Maharashtra	13.510	13.506
12. Manipur	0.185	0.185
13. Meghalaya	0.171	0.171
14. Negaland	0.084	0.084
15. Orissa	3.457	3.456
16. Punjab	4.270	4.268
17. Rajasthan	4.366	4.365
18. Sikkim	-	0.034
19. Tamil Nadu	7.710	7.707
20. Tripura	0.257	0.256
21. Uttar Pradesh	12.549	12.544
22. West Bengal	9.094	9.091

- (6) In any year in which the State Government of Sikkim gives up its sales tax on textiles, it would be entitled to a share, as from the date such sales tax is given up, in the net proceeds of the additional duties of excise thereon. The State-wise

percentage shares would then be as shown below:

<u>States</u>	<u>Percentage</u>
1. Andhra Pradesh	8.018
2. Assam	2.297
3. Bihar	7.219
4. Gujarat	6.013
5. Haryana	2.789
6. Himachal Pradesh	0.734
7. Jammu & Kashmir	0.744
8. Karnataka	6.081
9. Kerala	4.019
10. Madhya Pradesh	6.419
11. Maharashtra	13.506
12. Manipur	0.185
13. Meghalaya	0.171
14. Nagaland	0.084
15. Orissa	3.456
16. Punjab	4.268
17. Rajasthan	4.365
18. Sikkim	0.034
19. Tamil Nadu	7.707
20. Tripura	0.256
21. Uttar Pradesh	12.544
22. West Bengal	9.091

III. Grant in lieu
of Tax on
Railway
Passenger
Fares.

The grant to be made available to the States in each of the five years commencing from 1979-80, in lieu of tax under the repealed Railway Passenger Fares Tax Act 1957 be distributed among the States as under:

<u>States</u>	<u>Percentage shares</u>
1. Andhra Pradesh	6.99
2. Assam	2.46
3. Bihar	9.50
4. Gujarat	5.28
5. Haryana	1.97
6. Himachal Pradesh	0.13
7. Jammu & Kashmir	0.74
8. Karnataka	3.21
9. Kerala	2.61
10. Madhya Pradesh	5.84
11. Maharashtra	15.87
12. Manipur	-
13. Meghalaya	-
14. Nagaland	0.26
15. Orissa	1.73
16. Punjab	3.81
17. Rajasthan	5.48

<u>States</u>	<u>Percentage shares</u>
18. Sikkim	-
19. Tamil Nadu	6.85
20. Tripura	0.04
21. Uttar Pradesh	18.58
22. West Bengal	8.65

IV. Grant on account of Wealth Tax on Agricultural Property The grant to be made available to the States in each of the years 1979-80 to 1983-84 should be an amount equivalent to the net collection in that State in each year. Sikkim will become entitled to a grant in each year on the same basis if and when the levy of the wealth tax is extended to that State in the period covered by our Report.

V. Income-Tax In respect of distribution of the net proceeds of income tax in each of the financial years from 1979-80 to 1983-84;

- (1) Out of the net proceeds of taxes on income in each financial year a sum equal to 2.19 per cent thereof should be deemed to represent the proceeds attributable to Union territories;
- (2) the percentage of the net proceeds of taxes on income, except the portion representing the proceeds attributable to Union territories, to be assigned to the States, should be eighty-five; and
- (3) the distribution among the States inter-se of the share assigned to the States in respect of each financial year should be on the basis of the following percentages:

	<u>Without Sikkim</u>	<u>With Sikkim</u> (if the income-tax becomes leviable in that State)
1. Andhra Pradesh	8.023	8.021
2. Assam	2.522	2.521
3. Bihar	9.540	9.536
4. Gujarat	5.959	5.957
5. Haryana	1.819	1.819
6. Himachal Pradesh	0.595	0.595
7. Jammu & Kashmir	0.818	0.818
8. Karnataka	5.442	5.440
9. Kerala	3.950	3.948
10. Madhya Pradesh	7.356	7.354
11. Maharashtra	10.953	10.949
12. Manipur	0.188	0.188
13. Meghalaya	0.178	0.178
14. Nagaland	0.085	0.085
15. Orissa	3.739	0.738
16. Punjab	2.714	2.713
17. Rajasthan	4.364	4.362
18. Sikkim	-	0.035
19. Tamil Nadu	8.050	8.048
20. Tripura	0.258	0.258
21. Uttar Pradesh	15.429	15.422
22. West Bengal	8.018	8.015

VI. Union Excise Duties.

(1) During each of the years 1979-80 to 1983-84 the entire net proceeds of the Union Excise duty on generation of electricity should be paid out of the Consolidated Fund of India to each State in an amount equal to the collection in or attributed to that State; and

(2) forty per cent of the balance of the net proceeds of the Union duties of excise on all other articles levied and collected during each of the years 1979-80 to 1983-84, excluding cesses levied under Special Acts and earmarked for special purposes, should be paid out of the Consolidated Fund of India to the States and distributed among them on the basis of the following percentages:

<u>States</u>	<u>Percentages</u>	
	<u>Excluding Sikkim</u>	<u>Including Sikkim (if and when Union excise duties become leviable in that State)</u>
1. Andhra Pradesh	7.698	7.691
2. Assam	2.793	2.793
3. Bihar	13.025	13.021
4. Gujarat	4.103	4.101
5. Haryana	1.177	1.177
6. Himachal Pradesh	0.521	0.521
7. Jammu & Kashmir	0.839	0.839
8. Karnataka	4.877	4.876
9. Kerala	4.036	4.035
10. Madhya Pradesh	8.727	8.725
11. Maharashtra	6.633	6.632
12. Manipur	0.218	0.218
13. Meghalaya	0.200	0.200
14. Nagaland	0.097	0.097
15. Orissa	4.682	4.682
16. Punjab	1.226	1.226
17. Rajasthan	4.813	4.813
18. Sikkim	-	0.028
19. Tamil Nadu	7.641	7.637
20. Tripura	0.373	0.373
21. Uttar Pradesh	13.293	13.290
22. West Bengal	8.023	8.025

VII. 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 of

Article 275 of the Constitution:

Grants-in-aid to States over 1979-84

States	(In Rs. crores)					Total amount to be paid in five years
	1979-80	1980-81	1981-82	1982-83	1983-84	
1. Himachal Pradesh	37.60	40.54	41.63	43.00	44.30	207.07
2. Jammu & Kashmir	41.06	40.82	39.20	39.40	39.08	199.56
3. Manipur	26.19	28.00	29.27	30.76	32.10	146.32
4. Meghalaya	16.97	17.67	18.44	19.48	20.05	92.61
5. Nagaland	38.29	41.34	43.65	46.48	48.59	218.35
6. Orissa	41.55	37.74	29.03	19.16	9.44	136.92
7. Sikkim	6.32	6.70	7.11	7.54	8.05	35.72
8. Tripura	24.38	25.75	27.29	28.85	30.32	136.57
Total:	232.34	238.56	235.62	234.67	231.93	1173.12

OUR RECOMMENDATIONS ON OTHER TERMS OF REFERENCE

1. Financing of Relief Expenditure. In the light of review of the existing policy and arrangements in regard to the financing of relief expenditure and after considering the expenditure incurred by the State Governments in providing gratuitous relief and on repair and restoration works of public properties after natural disasters. We recommend the following annual provisions (margins) under the head of account 289 - Relief on account of natural calamities for different States:

(Rs. lakhs)

1. Andhra Pradesh	858
2. Assam	346
3. Bihar	1308
4. Gujarat	956
5. Haryana	147
6. Himachal Pradesh	51
7. Jammu & Kashmir	130
8. Karnataka	200
9. Kerala	159
10. Madhya Pradesh	183
11. Maharashtra	457
12. Manipur	8
13. Meghalaya	7
14. Nagaland	14
15. Orissa	871
16. Punjab	268
17. Rajasthan	774
18. Sikkim	1
19. Tamil Nadu	859
20. Tripura	18
21. Uttar Pradesh	1080
22. West Bengal	1360
Total	<u>10055</u>

In our view the present policy and arrangements of Central assistance to States for relief expenditure should be modified. For drought relief expenditure in excess of the

margin we have provided, the State Government should make a contribution from its Plan for providing relief employment. The extent to which the State Government should contribute from its Plan in this manner should be assessed by a Central Team after consultation with the State Government and approved by the Central Government. This contribution should not exceed about 5 per cent of the Annual Plan outlay. This Plan contribution of the State Government should be treated as an addition to the Plan outlay in that year and covered by advance Plan assistance as in the present scheme. The adjustment of the advance Plan assistance against a ceiling of the Central assistance for the Plan of the State should be effected within five years following the end of the drought. If the expenditure requirement, as assessed by the Central Teams and the High Level Committee cannot be adequately met in a particular case after the State Plan contribution is taken into account, the extra expenditure should be taken as an indication of the special severity of the calamity which would justify the Central Government assisting the State to the full extent of the extra expenditure, half as grant and half as loan. In regard to the expenditure on relief and repairs and restoration of public works following floods, cyclones and other calamities of this nature, Central assistance should be made available as non-Plan grant, not adjustable against the Plan of the State or against Central assistance for the State Plan, to the extent of 75 per cent of the total expenditure in excess of the margins. Where a calamity is of rare severity, it may be necessary for the Central Government to extend assistance to the States concerned even beyond the scheme/s we have suggested.

II. Non-plan capital gap of the States. We have made an assessment of the non-plan capital gap of the States on a uniform and comparable basis for the five years ending with 1983-84. The methodology adopted by us and the State-wise non-Plan capital gaps so assessed by us are indicated in Chapter 11 and Appendix VI. 2.

In the light of the non-Plan capital gaps of the States as assessed by us, we have reviewed the States' debt position with particular reference to the Central loans advanced to them and likely to be outstanding as at the end of 1978-79. 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, we have recommended the following measures for dealing with the non-Plan capital gap of the States:—

- (i) The existing terms of repayment of Central loans advanced to Orissa for Hirakud Project Stage I and to all States for rehabilitation of displaced persons, repatriates, etc., and outstanding at the end of 1978-79, may remain undisturbed;
- (ii) Short-term loans, if any, by the Central Government to the States that may remain outstanding at the end of 1978-79 may be recovered according to the existing terms applicable to such loans;
- (iii) Central loans advanced to State Governments by way of share out of net collections of small savings, and outstanding at the end of 1978-79, may be converted into loans in perpetuity, in respect of which the States need make no repayment of principal from 1979-80 but should continue to pay interest at the existing rate;
- (iv) The balance of the Central loans outstanding against the State Governments at the end of 1978-79 may be consolidated, in respect of each State, into one loan as on 1st April, 1979;

- (v) A portion of the Central loans so consolidated equivalent to the percentage shown against the respective State in column 3 of the table in paragraph 25 of Chapter 11 may be written off;
- (vi) A further portion of the loans so consolidated equivalent to the percentage shown against the respective State in column 4 of the table in paragraph 25 of Chapter 11, may be converted into 30-year loan, recoverable in equal annual instalments commencing from 1979-80, together with interest at the rate of 4.75 per cent per annum;
- (vii) The balance of the Central loans so consolidated equivalent to the percentage shown against the respective State in column 5 of the table in paragraph 25 of Chapter 11, may be converted into 15-year loan recoverable in equal annual instalments commencing from 1979-80 together with interest at 5 per cent per annum; and
- (viii) While making financial assistance available to the States from 1979-80, whether for Plan or for non-Plan purposes, the Government of India and the Planning Commission should determine the loan and the grant components with due regard to the end-use of the assistance and, having so determined the loan component, prescribe the terms of repayment thereof consistently with the terms that we have recommended in relation to the loans that may be outstanding against the States at the end of 1978-79.

J.M. Shelat

Raj Krishna

C.H. Hanumantha Rao

H.N. Ray

New Delhi,
October 28, 1978

V.B. Eswaran

We the four of us wish to place on record our indebtedness and gratitude to our very industrious Member-Secretary, Shri V.B. Eswaran, whose vast knowledge and experience of this field was reflected in the range and quality of the material collected and analysed for the use of the Commission, and for the advice which he rendered to us on various intricate matters. He was also an able leader and coordinator of his team which made it possible to process the voluminous materials.

J.M. Shelat

Raj Krishna

C.H. Hanumantha Rao

H.N. Ray

NOTE BY SHRI H. N. RAY, OUTLINING HIS VIEWS ON THE RETURNS FROM STATE ELECTRICITY BOARDS ETC. TO BE TAKEN INTO ACCOUNT FOR THE PURPOSES OF THE FORECASTS OF THE STATE GOVERNMENTS, AND THE TARGETS OF ADDITIONAL RESOURCE MOBILISATION.

1. I have not been able to agree with the decision of the majority of the Commission that in projecting the returns from State Electricity Boards, a rate of 6 per cent per annum on the total investment should be stipulated, including the revenue obtained from the electricity duty levied by the State Government and the Central excise duty levied by the Central Government on the generation of the State undertaking. It has been further decided by the majority of the Commission that the return should be calculated on the total investment of the State Government till the end of 1978-79, and ignoring any fresh investments during the period of our Report.

2. Annex (1) to this note prepared by the Secretariat of the Commission $\bar{\quad}$ except the percentage calculations in Columns 4(b) and 5(b) $_/_$ shows separately the electricity duty and the Central Excise duty for 1978-79 collected from "own generation" as a percentage of the total Government investment in the undertaking for each State.

3. I find it difficult to accept the proposition that the amounts collected by the Central Government as excise duty should be set off against the stipulated return of 6 per cent. In law, the Central excise duty accrues to the Central Government. When imposing the duty, the Finance Minister in his Budget Speech of February 1978 stated as follows:—

"I feel that with our enormous investment in power, there is ample justification for claiming a contribution from those who benefit from these investments. I am, therefore, proposing to levy a duty of 2p. per Kilowatt hour on electricity generated".

The intention, presumably, was to levy the duty so as to increase the return from the investments in electricity undertakings and to realise a higher amount from the consumers, so that the overall resources of the Central and State Governments would increase, and would be available for developmental and other essential purposes. Our information is that most of the States have taken steps to pass on the Central excise duty burden to the consumer. Whatever justification there might or might not be for setting off the electricity duty (which accrues to the State Government), there appears to be no justification for setting off the Central excise duty accruing by law to the Central Government from the returns which the State Government is assumed to derive during the forecast period from its investments in electricity undertakings. In fact, setting off the amounts collected as Central excise duty from the stipulated return, as decided by the majority of the Commission, would frustrate the purpose for which the duty was imposed in the first instance. That the Central Government has recently decided to make over the non-shareable portion of the duty from 1979-80 onwards to the various State Governments and that we are recommending the transfer of the entire Central Excise duty levied on electricity generated to the concerned States does not, in my view, vitiate the legal point. This money is now un-doubtedly available to the State Government for various purposes - but this factor by itself would not absolve the State Electricity Board from earning a reasonable cash return on the State Government's investment through efficient operation of the system.

4. The combined effect of setting off both the electricity duty and the Central excise duty is somewhat anomalous in respect of the following States as the aggregate set off is in excess of 6 per cent:—

<u>States</u>	<u>Percentage of total investment</u>		<u>Total percentage</u>
	<u>Electricity duty</u>	<u>Central excise duty</u>	
Gujarat	4.922	2.512	7.434
Kerala	3.444	4.297	7.741
Orissa	3.325	3.011	6.336

The would mean that according to the Commission's decision, no further return as such need be expected from the State Electricity Boards of these States as the stipulated return and more is already being earned by way of electricity duty and Central excise duty. On the contrary, the excess amounts over 6 per cent have been set off against the other receipts of these 3 States, so as not to "penalise" them for their better management compared to the other States. For some other States, the set off of these duties against the stipulated return of 6 per cent would be quite significant as shown below:—

<u>State</u>	<u>Percentage of total investment</u>		<u>Total percentage</u>
	<u>Electricity duty</u>	<u>Central Excise Duty</u>	
Haryana	3.59	1.92	5.51
Karnataka	1.88	2.25	4.13
Madhya Pradesh	2.35	1.65	4.00
Maharashtra	0.93	2.51	3.44
Punjab	1.84	1.01	2.85

5. My distinguished colleagues have argued that the Central Excise duty on electricity generation, has inhibited tariff revisions, and additional resource mobilisation in this sector. Central excise duties are levied on a vast number of commodities, and it could be similarly argued that these duties have inhibited State Governments from levying Sales tax etc. at higher rates, and generally hindered their additional resource mobilisation efforts. For all other commodities also, the Central excise duty is being shared with the States. Nevertheless, it is not the practice, whether in a public sector enterprise or in the private sector, to set off the Central Excise duty paid to the Central Government, when computing the return on the investment in a commercial organisation (which the State Electricity Board is meant to be). What is really sought is a genuine cash return from the investments made. The principle implicit in the majority recommendation of the Commission, if conceded, could lead to unsound practices in various undertakings both in the Central and the State spheres for determining returns on the investments made. The principle adopted may thus blur the line of demarcation between what is a cost of production, and what is a return on the investment made. Taking the case of the State Electricity Boards a step further, there is no logical reason why the arrangement should cover only the Central Excise duty on electrical energy, and not the excise duty on coal (levied in the same budget) or the duty on furnace oil, which also raised the cost of generation to a corresponding extent. It is significant that inclusion of the Central excise duty in the stipulated return would have widely disparate results so far as different States are concerned. Even if we were to omit the atypical States, the incidence of the Central excise duty is only 0.84 per cent in Assam and 1.03 per cent in Uttar Pradesh, but is as high as 4.30 per cent in Kerala. Thus, in making the projections, although the stipulated rate of return taken as a whole is 6 per cent, Kerala would have a substantial advantage as compared with Assam or Uttar Pradesh. Such discrimination to my mind appears to be unjustified. Again, it is open to the Government of India to withdraw or modify the rates of the Central Excise duty on electricity. There is no assurance that this will not be done in the next 5 years. Any such decision would thus cause deviations from the State forecasts, beyond the control of the State Government. This consideration would suggest that the recommended linkage is wrong in principle and should be avoided.