

TERMS OF REFERENCE OF THE SEVENTH FINANCE COMMISSION

Paras 4 to 9 of the Presidential Order dated the 22nd June, 1977 containing the terms of reference of the Seventh Finance Commission are reproduced below:-

"4. The Commission shall make recommendations as to the 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 the 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 the Constitution for purposes other than those specified in the provisos to clause (1) of that Article.

5. In making its recommendations, the Commission shall have regard, among other considerations, to:-

- (i) 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;
- (ii) the existing practice in regard to determination and distribution of Central assistance for financing State Plans;
- (iii) the revenue resources of those States for the five years ending with the financial year 1983-84 on the basis of the levels of taxation likely to be reached at the end of the financial year 1978-79 and the targets set for additional resource mobilisation for the Plan;
- (iv) the requirements on revenues account of those States to meet the expenditure on administration and other non-plan commitments or liabilities, keeping however in view national policies and priorities. In assessing such requirements, the Commission shall take into account:-
 - (a) such provision for emoluments of Government employees, teachers and local body employees as obtaining on a specified date as the Commission deem it proper and with reference to appropriate objective criteria rather than in terms of actual increases that may have been given effect to; and
 - (b) commitments in regard to interest charges on their debt, transfer of funds to local bodies and aided institutions;
- (v) adequate maintenance and upkeep of capital assets and maintenance of plan schemes completed by the end of 1978-79, the norms, if any, on the basis of which specified amounts are allowed for the maintenance of different categories of capital assets and the manner in which such maintenance expenditure could be monitored being indicated by the Commission;

- (vi) the requirements of States which are backward in general administration for upgradation of standards in non-developmental sectors and services with a view to bringing them to the levels obtaining in the more advanced States over the period covered by the Report of the Commission; the manner in which such expenditure could be monitored, being also indicated by the Commission;
 - (vii) the scope for better fiscal management and economy in expenditure consistent with efficiency; and
 - (viii) the need for ensuring reasonable returns on investments in irrigation and power projects, transport undertakings, industrial and commercial enterprises and the like.
6. The Commission may suggest changes, if any, to be made in the principles governing the distribution among the States of:-
- (a) the net proceeds in any financial year of estate duty in respect of property other than agricultural land;
 - (b) 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, in replacement of the sales tax levied formerly by the State Governments 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.
 - (c) the grant to be made available to the States in lieu of the tax under the repealed Railway Passenger Fares Tax Act, 1957; and
 - (d) the grant to be made available to the States on account of Wealth Tax on agricultural property
7. In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 1971 in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.
8. 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 1983-84. 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 1978-79 and suggest appropriate measures to deal with the non-Plan capital gap, 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.

9. The Commission may review the policy and arrangements in regard to the financing of relief expenditure by the States affected by natural calamities and suggest such modifications as it considers appropriate, in the existing arrangements, having regard, among other considerations, to the need for avoidance of wasteful expenditure.