

Explanatory Memorandum on the action taken on the recommendations of the Eighth Finance Commission in its Interim Report dated the 14th November, 1983

"The Interim Report of the Eighth Finance Commission covering the financial year 1984-85 is being laid on the Table of the House. A summary of the main recommendations in the report is appended.

The recommendations contained in the Interim Report have been accepted."

Sd/-
Pranab Mukherjee
Finance Minister

New Delhi
9th December, 1983.

Summary of the main recommendations in the Interim Report of the Eighth Finance Commission (November, 1983)

1. The Commission has recommended that in respect of the distribution between the Union and States of the net proceeds of Income-tax, Union Excise Duties, Additional Duties of Excise in lieu of sales tax, and Estate Duty the existing arrangements may continue provisionally during the financial year commencing on 1st April, 1984. The Commission has recommended that the State of Sikkim may also receive a share of Union Excise Duties including excise duty on electricity and Additional Excise Duties in lieu of sales tax.
2. The Commission has also recommended that the existing arrangements with regard to grants made available to States in lieu of tax on Railway Passenger fares and wealth tax on agricultural property may continue provisionally during the year 1984-85.
3. The existing arrangements in regard to financing of relief expenditure by the States affected by natural calamities may also be continued during 1984-85.
4. The Commission has recommended that Grant-in-aid under Article 275(1) of the Constitution to cover residuary deficits on revenue account may be paid to the following States for the year 1984-85.

Sl.No.	State	Sums to be paid as grant-in-aid (Rs. in crores)
1	Assam	38.17
2	Himachal Pradesh	91.15
3	Jammu & Kashmir	114.85
4	Manipur	56.08
5	Meghalaya	40.27
6	Nagaland	81.12
7	Sikkim	11.96
8	Tripura	53.34
9	West Bengal	7.89
Total		494.83

5. The recovery of small savings loans given to State Governments which was held in abeyance during the period 1979-80 to 1983-84 may be deferred during the financial year 1984-85 also.
6. In its present assessment the Commission has not made provision for expenditure on fresh proposals for upgradation of standards of administration and improvements, if any, needed for the maintenance and up-keep of capital assets and these will be made in the final report.
7. The recommendations contained in the Interim Report are provisional and of interim nature and would be subject to such re-adjustments as may be necessary on the basis of the final report.

Explanatory Memorandum as to the action taken on the recommendations made by the Eighth Finance Commission in its Report submitted to the President on 30th April, 1984

1. The Report of the Eighth Finance Commission covering a period of five years commencing from 1st day of April, 1984 together with the explanatory memorandum as to the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of Article 281 of the Constitution. A summary of the Commission's main recommendations relating to devolution of taxes and duties to the States, grants-in-aid under Article 275 of the Constitution, financing of relief expenditure and debt relief to the States and other matters, is summarised in Chapter XVII of its Report.
2. As required by its terms of reference, the Commission's recommendations cover the five year period commencing from 1st day of April, 1984. The Commission was requested to submit its report to the President by 31st October, 1983 so that sufficient time would be available to consider its recommendations before framing the Budgets and Annual Plans of the Central and State Governments for 1984-85. However, at the request of the Commission, its term was extended upto 29th February, 1984 (by notification

dated 29th October, 1983) and further to 30th April, 1984 (by notification dated 29th February, 1984). The Report of the Commission was submitted to the President on 30th April, 1984 by which time the Budgets and Annual Plans for 1984-85 of the Central and most State Governments had already been finalised.

3. In view of the delay in the submission of the Report, the Commission submitted on 14th November, 1983 an Interim Report covering the year 1984-85, so that the recommendations contained in this Interim Report could be considered prior to the presentation of the budgets for 1984-85. The recommendations made by the Commission were accepted by the government and a memorandum on the action taken was laid on the Table of the House on 9th December, 1983. The budget of the Central Government for the current year, as approved by Parliament, reflects the impact of these decisions.
4. As almost four months of the current year are over and the budgets and Annual Plans for this year are already in operation, it will cause undue disruption in the economy, if the budgets and plans for the remaining part of the current year were to be changed now. In particular, any change in the formula for devolution of Central taxes and duties in mid year is not considered feasible as it would involve reduction or increase in shares of different States. Taking these considerations into account, the Government have decided to continue with the recommendations of the Finance Commission contained in the Interim Report for the current financial year. The following decisions taken on the Final Report of the Commission and their implementation, therefore, relate to the period 1985-86 to 1988-89.

A SHARES OF CENTRAL TAXES AND DUTIES

5. For the period of four years commencing from the 1st day of April, 1985, recommendations contained in the final report of the Finance Commission relating to sharing of Income tax, Union duties of excise, additional excise in lieu of State sales tax, estate duty on property other than agricultural land and grant on account of wealth tax on agricultural property have been accepted. In regard to the recommendation of the Commission for enhancing the grant in lieu of repealed tax on railway passenger fares, the recommendation is acceptable to Government but will need to be referred to the Railway Convention Committee. The Government have also accepted the recommendations of the Finance Commission in regard to inter-se distribution of the grant among the States.
6. It may be noted that the Commission has recommended that 5 per cent of the net proceeds of Union duties of excise (excluding that on electricity) should be set aside and distributed to those States which have deficit after taking into account their shares from the devolution of taxes and duties as proposed by it. This introduces a new principle of directly linking devolution to deficit rather than dealing with them only through grants-in-aid under Article 275. While recognising that there could be different views on the merits of this principle, Government have decided to accept this

recommendation of the Commission in the Report but without creating a precedent.

B GRANTS-IN-AID OF THE REVENUES OF STATES UNDER THE SUBSTANTIVE PROVISION OF ARTICLE 275 OF THE CONSTITUTION

7. (i) Grants-in-aid to cover non-plan gap on revenue account:- For the four years commencing from 1st day of April, 1985, the Government have accepted the recommendations contained in the Final Report of the Commission for payment of grants-in-aid of the revenues of certain States under the substantive provision of Article 275(1) of the Constitution towards meeting their non-plan revenue gap as assessed by the Commission.

(ii) The Commission has not computed the net interest liabilities of the States arising out of the fresh borrowings during the period 1984-89. The Commission has recommended that the Central Government from year to year should compute in relation to each of the four years (1985-89), the net interest liability of the States arising out of the fresh borrowings and that, thereupon, the President should be moved to increase, to the extent required, the amounts of the grants-in-aid recommended by the Commission for the deficit States and in the case of other States, the net interest liability so computed should be set off against the surplus as assessed by the Commission. The Government have accepted this recommendation.

iii) The Commission has not computed the additional burden from 1985-86 arising out of the committed expenditure in respect of plan schemes completed in 1984-85. The Commission has recommended that the Government may compute the requirements of the deficit States on this account taking into consideration the yield from additional resource mobilisation measures of 1984-85, and move the President to increase, to the extent required, the amounts of the grants-in-aid. The Government have accepted this recommendation also.

(iv) Grants-in-aid for upgradation of standards of administration, special problems and for financing of relief expenditure:- The Government have accepted the recommendations of the Commission for making grants-in-aid to certain States for upgradation of standards of administration and special problems for the four years commencing from 1st day of April, 1985, subject to the implementation and monitoring of the schemes in the manner indicated by the Commission in Chapter XII of its Report. The Government have also accepted the recommendations of the Commission that the Centre should contribute annually as grants-in-aid equal to half of the margin money computed by the Commission for financing of relief expenditure.

C RECOMMENDATIONS ON OTHER TERMS OF REFERENCE

8. (i) Financing of Relief Expenditure:- In addition to the grants-in-aid to the margin money of States for financing of relief expenditure, the Government

have accepted the modifications recommended by the Commission to the existing arrangements for financing of relief expenditure.

(ii) Debt Relief:- The Government have accepted the recommendations of the Commission in regard to debt relief for the four years commencing from 1st day of April, 1985.

D NOTES OF DISSENT

9. The Report of the Commission has appended to it three Notes of Dissent on certain recommendations. The Government have carefully considered these notes and decided to accept generally the recommendations of the majority.

E IMPLEMENTATION

10. The Commission's recommendations fall in three categories:

- (i) Those to be implemented by the Order of the President;
- (ii) Those to be implemented by law of Parliament;
- (iii) Those to be implemented by executive order.

The recommendations under Article 270 and 275(1) of the Constitution relating to income tax and grants-in-aid respectively fall in the first category and the necessary order will be submitted to the President for approval. Recommendations relating to distribution of Union excise duties and estate duty on property other than agricultural land fall in the second category. Necessary legislation will be promoted for implementing them. The recommendations relating to distribution of grant to States in lieu of tax on railway passenger fares and grant on account of wealth tax on agricultural property and also changes in terms of repayment of the Central loans will be implemented by executive orders.

11. The recommendations relating to the enhancement in the grant given in lieu of repealed tax on railway passenger fares will be referred to the Railway Convention Committee and implemented if accepted by them.
12. The Commission has made certain other recommendations in the Report. These do not require any immediate action and will be considered in due course.

Sd/-
(Pranab Mukherjee)
Finance Minister
New Delhi.
July 24, 1984.