CHAPTER V

INCOME TAX

5.1 Under Article 280(3) of the Constitution, it is the duty of the Finance Commission to make recommendations to the President, inter alia, as to the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them and the allocation between the States of the respective shares of such proceeds. Article 270(2) of the Constitution specifically provides that such percentage, as may be prescribed, of the net proceeds in any financial year of taxes on income, other than agricultural income, except in so far as these proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which the tax is leviable in that year. Sub-clause 4(a) of Article 270 specifically excludes corporation tax from the definition of 'taxes on income'. Article 271, permits levy of a surcharge on taxes and duties for the purposes of the Union and the whole proceeds of such surcharge form part of the Consolidated Fund of India.

5.2 The share out of the net proceeds of income tax assigned by the First Finance Commission to the States was fixed at 55 per cent. This was raised to 60 per cent, 66 2/3 per cent and 75 per cent by the Second, Third and Fourth Finance Commissions respectively. The Fifth Finance Commission did not increase the States' share further and retained it at 75 per cent, inter alia, on the ground that the proceeds of the income tax distributable among the States during the period covered by the Commission's recommendations would also be inclusive of advance tax collections which, till then, were not shared with the States.

5.3 The Sixth Finance Commission increased the States' share in income tax to 80 per cent having regard to various considerations. Their approach was conditioned by the desire to ensure that there was no decrease in the distributable income tax pool on account of the disappearance of the arrear element of the advance tax collections which existed in the previous period. The Seventh Finance Commission was impressed by the grievance of the States that the Centre was using the power to levy surcharge as a normal revenue measure, instead of restricting its use to meet extraordinary or emergent needs and, hence, increased the States' share to 85 per cent of the net proceeds.

5.4 In their Memoranda submitted to us, eight States viz. Assam, Bihar, Gujarat, Jammu & Kashmir, Karnataka, Nagaland, Orissa and Tamil Nadu have pleaded for an increase in the States' share in income tax from 85 per cent to 90 per cent. Punjab has proposed enhancement of the States' share to 90 per cent of the net proceeds of income tax, inclusive of surcharge. Four States, viz. Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh have proposed that it should be 95 per cent. Another four States viz. Andhra Pradesh, Haryana, Tripura and West Bengal have proposed that it be hundred per cent.

But Andhra Pradesh has, alternatively, said that if surcharge on income tax is merged in the divisible pool, such percentage share may be kept at 90 per cent of the enlarged divisible pool. Further, both Andhra Pradesh and Haryana have suggested that if surcharge and corporation tax are both included in the divisible pool, the share of the States in the combined receipts may be reduced to 50 per cent. Four States viz. Himachal Pradesh, Kerala, Manipur and Sikkim have not proposed any change in the existing share of 85 per cent.

Meghalaya is the only State which has suggested a reduction in the share of the States to 80 per cent, or even 75 per cent, for the reason that surcharge on income tax has been brought down from 15 per cent as at the time of the last Commission's report to 12½ per cent as at present.

5.5 The States, by and large, have advanced two main arguments for increasing their share in the divisible pool of income tax. Firstly, they say that surcharge and corporation tax should be made a part of the divisible pool or, alternatively, whilst determining the share of the States, regard be had to the fact that they are not part of the pool. Secondly, they say that the share of the divisible pool should be enhanced because their needs have increased over the years.

COMMITTED LIABILITY

4.28 The forecast of the Central Government did not include provisions for maintenance of the Plan schemes completed by the end of 1983-84. We have, however, made provisions for this in the year 1984-85 as well in subsequent years after obtaining relevant information from the Ministry of Finance. So far as Sixth Plan schemes completed during 1984-85 are concerned, we have not made provision for their committed liability in the first four years of the Seventh Plan, namely, 1985-86 to 1988-89. This procedure has been adopted in accordance with the recommendation of the majority of the Commission for reasons similar to those stated in paragraph 3.127 of Chapter III.

4.29 Shri Justice T.P.S Chawla and Shri G.C. Baveja are of the view that this Commission should follow the practice adopted by the Planning Commission for making provision for maintenance of Plan schemes. They are, therefore, in favour of making provision for maintenance of all the Sixth Plan schemes, including those likely to be completed in the year 1984-85, in the forecast period commencing from first year of the Seventh Plan, i.e. 1985-86. For the same reason, they are against making provision in the year 1984-85 for maintenance of Sixth Plan schemes completed by 1983-84, since this would appropriately form part of the Plan expenditure and not non-Plan expenditure.

CAPITAL ACCOUNT

4.30 As indicated earlier, we have modified the Centre's estimates in respect of market loans and net small savings collections as a result of which additional receipts of about Rs.11,000 crores would accrue in the forecast period. These changes are based on the trends of the major determinants of market loans and small savaings collections in the recent past. The Centre's forecast did not provide for repayment of small savings loans by the State Governments. We have revised the forecast in this respect by including, according to the normal terms and conditions of these loans, such repayments amounting to Rs.960 crores during the period 1984-85 to 1988-89. On the expenditure side, we have made additional provision for loans to the States against their share in small savings collections.

4.31 Annexure IV-I presents a summary of the results of our reassessment of the Centre's forecast. As a result of our reassessment, the surplus on Revenue Account of the Central Government will increase by Rs.18,671 crores and that on Capital Account by Rs.11,736 crores, resulting in an overall surplus of Rs.96,319 crores during the forecast period as against Rs.65,912 crores assessed by the Ministry of Finance.

4.32 Shri A.R. Shirali has some reservations on the above reassessment. These are reflected in his Note of Dissent which is appended.

5.6 As regards the surcharge and corporation tax, we would like to mention that similar arguments by the States were put forward before the Third Finance Commission and have been repeated before all succeeding Commissions. All of them were agreed that, under the Constitution as it stands, it is not permissible to merge the surgharge and corporation tax with income tax, and bring them into the divisible pool. We agree with this view. The position is too obvious to need any further elaboration. As regards the argument that the surcharge and corporation tax not being shareable would form a part of the Centre's resources, and that this fact should be taken into account in deciding what the share of the States in the divisible pool should be, we need only say that this is exactly what we have done.

5.7 With regard to the second argument, we notice that there is an evident inconsistency in the views expressed by the States. Whilst on the one hand they demand a larger share in the divisible pool of income tax on the ground that their needs have risen, yet, on the other, they seem to apprehend that the Centre is losing interest in this tax because of its declining share. Although we do not share this apprehension, yet, having weighed all the relevant considerations, we think that it would not be prudent to increase the share of the States in the divisible pool of income tax beyond the present 85 per cent.

5.8 We accordingly, recommend, that the States' share in the net proceeds of income tax may be kept at 85 per cent of the divisible pool during each of the years covered by our recommendations i.e. 1984-89.

5.9 Notwithstanding the present position as regards surcharge under the Constitution, we feel bound to express our concurrence with the view of the Seventh Finance Commission that "a surcharge continued indefinitely could well be called an additional income tax, shareable with the rest of the proceeds of income tax". It appears, that it is because of this view taken by them, that the Seventh Finance Commission raised the share of the States to 85 per cent in the divisible pool of income tax.

5.10 For reasons which we have already stated, we are not in favour of increasing the share further. However, we would strongly suggest to the Union Government that for the sake of amicable Centre-State relations it should reconsider the indefinite continuance of the surcharge. We realise that an immediate withdrawal of the surcharge would cause difficulties to the Centre. Therefore, we would suggest that with the commencement of the financial year 1985-86 the surcharge be withdrawn, and the basic rates of income tax be suitably adjusted. We appreciate that probably this process will reduce the Centre's resources by a small extent, but, we think, that in the larger national interest it is a desirable step. To avoid any doubt, we make it clear that if this suggestion is accepted and implemented, the share of the States in the divisible pool should nonetheless remain at 85 per cent and the additional resources accruing to the States should be available to them for their Plans.

5.11 As regards corporation tax, the grievance of the States is even stronger. The Sixth Finance Commission had suggested a review of the question by the National Development Council, and the Seventh Commission had also suggested that the Centre may consider holding consultations with the States in order to settle the point finally. Several States are not satisfied with the outcome of the meeting of Chief Ministers held on 19th and 20th May, 1979. An extract from the summary record of the meeting is given at Annexure V-I. Some States, therefore, have gone to the extent of suggesting to us that, until the Constitution is amended to provide for the sharing of corporation tax, we may recommend grants-in-aid under Article 275 of the Constitution in lieu of the share which we think they ought to have in corporation tax. We are unable to accede to this suggestion made by the States, as it would amount to circumventing the Constitution. We do, however, think that a further review of this matter is overdue, as it is important to remove this major irritant in Centre-State relations. Corporation tax has shown a high elasticity and it would seem only fair that the States also should have access to such a source of revenue.

5.12 We had the benefit of discussions with the Central Board of Direct Taxes relating to collection of income tax and its distribution amongst the States. We were informed that while working out the portion assignable to the States, deductions are made from the gross receipts of the following five items:-

(1) Union surcharge;
(2) Share attributable to Union territories;
(3) Tax on Union emoluments;
(4) Cost of collection; and
(5) Miscellaneous receipts.

In regard to item (4) - 'Cost of Collection', we were informed that the cost of collection is apportioned between income tax and corporation tax, as the collecting agency for both the taxes, is the same.

We were informed that under the present system which was introduced from 1970-71, the cost of collection is allocated in the ratio of 7:1 between income tax and corporation tax. This is said to be on account of the fact that the number of income tax assessees is much larger than those who pay corporation tax. Even then the ratio seems somewhat imbalanced. We, therefore, suggest that the existing method of allocating the cost of collection between income tax and corporation tax be reviewed by an Expert Committee consisting of senior officials representing the Comptroller and Auditor General of India, the Ministry of Finance and some State Governments.

5.13 With regard to item (5) 'Miscellaneous Receipts', we learn that this head comprises:

(i) Penalties under the Income Tax Act 1961;
(ii) Interest recoveries;
(iii) Leave salary contributions;
(iv) Sale proceeds of dead stocks, waste paper and other articles (the cost of which was met from office expenses); and
(v) Other items.

Out of these, we are concerned only with 'penalties' and 'interest recoveries'. It has been brought to our notice that these two classes of receipts are not included in the divisible pool of income tax. We are further told that the reason is that the Law Ministry had given the opinion that they do not form a part of 'income tax'. We have given the matter our careful consideration and it seems to us that since the power to levy penalties and recover interest under the Income Tax Act emanates from the power to levy income tax itself, these two classes of receipts must fall within the concept of 'income tax' as that term is used in Article 270 of the Constitution. Accordingly, we recommend that 'penalties' and 'interest recoveries' should form part of the divisible pool of income tax. If there be any difficulty in segregating the figures for 'penalties' and 'interest recoveries' out of miscellaneous receipts in 1984-85, this may be done on an estimated basis for that year.

5.14 Two other matters, to which the States have particularly drawn our attention, are receipts under the Compulsory Deposit Scheme and the floatation of Bearer Bonds to draw out black money. The States have argued that a share in the net proceeds of both these receipts should be given to them. Some of them have maintained that since the receipts under these schemes are in the nature of borrowed funds to be eventually given back to the income tax assessees or the Bond holders, they should be apportioned between the Union and the States on the same basis as small savings.

5.15 While we appreciate the desire of the State Governments to obtain as large a share as possible in the national resources, it has to be borne in mind that these schemes are not normal revenue measures; they are special devices employed to meet the needs of the Central Government. We do not, therefore, think it reasonable to recommend the sharing of these abnormal receipts

5.16 The Seventh Finance Commission had determined the proceeds attributable to Union territories, by notionally treating all Union territories taken together, as one State and assigning to it a share on the basis recommended for the States. Excepting for Nagaland, no State has criticised the method adopted by the Seventh Finance Commission. Nagaland has suggested that the share attributable to Union territories may be either discontinued or reduced, as the Union territories get grants from the Consolidated Fund of India. We cannot subscribe to this view. The share of Union territories cannot be discontinued in view of the clear provisions of Article 270(3) of the Constitution. The principle adopted by the Seventh Finance Commission for determining the share of Union territories viz. treating all of them taken together as one unit, is equitable, and we recommend its continuance during the period covered by our recommendations.

5.17. Coming now to the inter se allocations of income tax among the various States, we observe that all the previous seven Commissions have given weight to only two factors, namely, 'population' and 'contribution'. While the First, Third and Fourth Finance Commissions gave 80 per cent weightage to population, the Second, Fifth, Sixth and Seventh Finance Commissions gave it a weightage of 90 per cent. 'Collection' as a measure of contribution was given a weightage of 10 per cent by the Second and the Fifth Finance Commissions and 20 per cent by the First, Third and the Fourth Finance Commissions. The Sixth and the Seventh Finance Commissions gave 10 per cent weightage to 'assessment', in preference to 'collection' as a measure of the States' contribution.

5.18 Twelve States are against attaching any weightage to the factor of contribution, whether computed by collection or assessment. Five States have proposed that the 10 per cent weightage to contribution,

as at present, may continue. Only three States have proposed a higher weightage to contribution, namely, Punjab 20 per cent, Gujarat 30 per cent and Maharashtra 45 per cent. All these States have argued that a significant portion of tax collected, particularly from State emoluments, small business, retail trade, house property etc. is of local origin, and should be given back to the States where such income tax is collected. They have also argued that they have to incur additional costs to promote industrialisation which has produced the additional income and tax thereon. They say that investments had to be made on infrastructure facilities like roads, power, water supply, housing etc., which imposed on them some amount of sacrifice as they had to forgo correspondingly, investments in other sectors. Therefore, they argued that they should not be deprived of their legitimate shares based on contribution in tax which has been derived from income made possible by their efforts.

5.19 We have carefully considered the matter in the light of the recommendations of the previous Commissions and, also, the views expressed before us by the State Governments. While on the one hand, it has been argued that the factor of contribution has become irrelevant on economic considerations, there is also the point, forcefully argued before us, that a part of the incomes liable to tax is of local origin. On a balance of various considerations, we recommend that 10 per cent of the States' share of income tax may continue to be allocated on the basis of 'contribution' as measured by assessment. For the purpose of determining the proportions of the contribution of the States to the income tax revenues, we have adopted the ratio of State-wise assessments to the total income tax assessed on the basis of the average for the years 1977-78 to 1981-82. We have obtained information from the Central Board of Direct Taxes for this purpose which is shown in Annexure V-2.

5.20 Dr. C.H. Hanumantha Rao feels that there is no case for distributing part of the States' share of income tax among the States on the basis of 'contribution'. However, in view of the decision of the Commission to give a significant weightage to factors favourable to the less developed States in the distribution of the States' share of income tax as well as basic excise duties, he concurs with the overall recommendations in this Chapter.

5.21 The factor of population simpliciter has been given a predominant weightage in the distribution of income tax shares in the past. As mentioned earlier, three Commissions had assigned 80 per cent weightage and four Commissions 90 per cent weightage to population. In the Memoranda submitted to us, Haryana and Kerala have suggested 100 per cent weightage for population. (This is Kerala's second best alternative, the first being a common formula for allocating both excise and income tax in which the weightage to population is 25 per cent.) Andhra Pradesh, Assam and Sikkim have proposed 90 per cent weightage for population. Punjab, Bihar, Gujarat, Himachal Pradesh, Manipur, Meghalaya, Maharashtra, Nagaland, Orissa, Rajasthan and Uttar Pradesh have proposed a weightage ranging from 50 per cent to 80 per cent for population. While Jammu & Kashmir has proposed 20 per cent and Tamil Nadu 25 per cent weightage for population in the determination of the inter se shares of the States in income tax, Karnataka is the only State to suggest that no weightage may be given to population.

5.22 A study of the States' Memoranda shows that sixteen States would like a change from the present 90 per cent weightage for population. They have urged that weightage for population per se should be reduced. We note that population as a factor for the distribution of income tax has continued for well over 30 years. The First Finance Commission had mentioned that population is a broad determinant of needs. While we agree with this view, we think that population as such is merely a scale factor. For example, two States with equal population may not require an equal level of assistance if one State is more advanced than the other. We are of the view that, at the present stage, relative economic backwardness must receive due consideration in the scheme of allocation of tax resources amongst the States.

5.23 Assam, Bihar and Jammu & Kashmir have suggested a weightage of 10 per cent to 30 per cent to backwardness in the distribution of the State-wise shares in income tax. Himachal Pradesh, Manipur and Nagaland would like a certain percentage of the distributable pool to be set aside for exclusive distribution amongst the hill States. Karnataka would like 60 per cent weightage to be given to a composite index of development and 40 per cent to an index of resource mobilisation effort. On the other hand Rajasthan would prefer equal weightage to be given to an index of infrastructure and population weighted by area. Meghalaya would like 25 per cent share of income tax to be set apart for ensuring a predetermined level of surplus for all States. Orissa has proposed 50 per cent weightage for Scheduled Castes and Scheduled Tribes population while Uttar Pradesh has proposed that 25 per cent may be distributed on the basis of the inverse ratio of per capita income multiplied by population and another 25 per cent amongst only those States whose per capita income is below the all States'

average. Jammu & Kashmir has proposed distribution on the principle of revenue equalisation and giving weightage for area besides population and backwardness.

5.24 Bihar, Haryana, Kerala, Madhya Pradesh and Tamil Nadu have suggested a common formula for the distribution of both income tax as well as basic duties of excise. A similar suggestion was made to the previous Commission but it was not accepted by the majority of that Commission.

5.25 On analysing the diverse views expressed by the States, it appears to us that we have to resolve two questions. One is whether the criteria for allocating income tax can be the same as those for allocating excise duty or must be different; and, the other, what those criteria should be.

5.26 As regards the first question, it is worth observing that it was also canvassed before the Seventh Finance Commission. The majority of that Commission seem to have taken the view that 'since the Constitution distinguishes between the two taxes"they had 'to determine separately the shares of the States in income tax and in excise duties and the principles of distribution thereof among the States." Dr. Raj Krishna, a Member of that Commission wrote a very forceful dissent and Dr. C.H. Hanumantha Rao, who was a Member of that Commission and is also a Member of the present one, agreed with Dr. Raj Krishna on this issue, but he concurred with the overall recommendations in view of the decision of that Commission to give a significant weightage to factors in favour of the less developed States in the distribution of the much enlarged divisible pool of excise duties.

5.27 It is, of course, true that income tax and excise duties are dealt with by different Articles in the Constitution, and that whereas income tax is compulsorily shareable, with regard to excise duties there is a discretion. But the Constitution itself seems to attach no importance to the separation, because in Article 280(3)(a), they are dealt with together. It refers conjointly to 'the allocation between the States of the respective shares' in regard both to 'taxes which are to be, or may be, divided between them.'

5.28 We agree with Dr. Raj Krishna that "there is no legal or economic basis for allocating shareable income tax revenue and excise revenue according to different criteria*". There is great force in his dissent where he says: "It cannot be argued that progressivity should be a feature of the inter-State distribution of excise revenue but not of the inter-State distribution of income tax revenues". We further agree with him that no distinction can be drawn because of the use of the word 'manner' in Article 270, and 'principles' in Article 272. Nor does anything turn on the word 'assigned' in Article 270 and its absence in Article 272. In any case, this word is used in Article 270 in respect of the transfer of the net proceeds of income tax from the Centre to the States, and not in connection with the allocation amongst the States, and, therefore, can have no significance in respect of the latter. These verbal differences between the two Articles do not imply more than they actually convey. In our opinion, it would be an error to found any substantial argument relevant to the present question merely on these differences in phraseology.

Further, general considerations lead us to the same conclusion. We can conceive of no reason why the Constitution makers should have wanted that only excise duties should be used for the benefit of the backward States. After all, in both cases what is transferred to the States is money. The debates in the Constituent Assembly, and the reports of its Committees, show that no such distinction was intended to be made. Having given the matter our very careful consideration, we are of the opinion that there is nothing in the Constitution which bars the allocation of income tax on the same criteria as excise duties.

5.29 As to the criteria which we should adopt for making the allocation, we think, that the criteria for allocating income tax should be more progressive than they have been hitherto. In order to achieve this result, we think, that the 90 per cent of the States' share of income tax remaining after distributing 10 per cent on the basis of contribution, should be allocated amongst them on the very same principles as those we are applying for allocating the predominant part of their share of excise duties.

5.30 Accordingly, we think, that the balance of 90 per cent of the States' share of income tax, which remains after distributing 10 per cent on the basis of contribution, should be allocated between the States by giving a weightage of 25 per cent to population, 25 per cent to the inverse of per capita income multiplied by population, and 50 per cent to the distance of per capita income as explained in the next chapter.

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* Page 115 - Report of the Finance Commission (1978).

5.31 On the basis of the recommendations in para 5.19 and 5.30, the composite percentage shares of each State have been determined and shown in the table below para 5.32. Income tax has not yet been extended to Sikkim. We have worked out the State-wise composite shares in income tax amongst the States including Sikkim as well as without Sikkim on the consideration that in case income tax is extended to that State, the basis of its distribution amongst the States may pose no problem.

5.32 To sum up, we recommend that in the distribution of the net proceeds of income tax in each of the years 1984-85 to 1988-89 :-

(a) Out of the net proceeds in each financial year, a sum equal to 1.792 per cent thereof shall be deemed to represent the proceeds attributable to Union territories,

(b) The share of net income tax proceeds, except the portion representing the proceeds attributable to Union territories and Union emoluments, to be assigned to the States should be 85 per cent; and

(c) The distribution amongst the States inter se of the share assigned to the States in respect of each financial year should be on the basis of the percentages shown in the Table below:

State	Percentage with Sikkim	Percentage without Sikkim	State	Percentage with Sikkim	Percentage without Sikkim
1. Andhra Pradesh	8.187	8.190	12. Manipur	0.220	0.220
2. Assam	2.789	2.789	13. Meghalaya	0.184	0.184
3. Bihar	12.080	12.085	14. Nagaland	0.088	0.088
4. Gujarat	4.409	4.410	15. Orissa	4.202	4.203
5. Haryana	1.074	1.074	16. Punjab	1.744	1.744
6. Himachal Pradesh	0.555	0.555	17. Rajasthan	4.545	4.547
7. Jammu & Kashmir	0.838	0.838	18. Sikkim	0.035	-
8. Karnataka	4.979	4.981	19. Tamil Nadu	7.565	7.567
9. Kerala	3.760	3.761	20. Tripura	0.269	0.269
10. Madhya Pradesh	8.378	8.382	21. Uttar Pradesh	17.907	17.914
11. Maharashtra	8.392	8.396	22. West Bengal	7.800	7.803
			Total:	100.000	100.000

5.33 Shri A.R. Shirali feels that in order to give the Centre a little more incentive in the collection of income tax and in view of the constraint of revenue resources at the Centre, the States' share would need to be brought down from the present level of 85 per cent. Considering, however, the progressive formula recommended for distribution of the States' share among the States, he suggests that for the present the share be brought down from 85 per cent to 80 per cent only. This he considers can be given effect to from 1985-86.

As for 1984-85, in view of the fact that the Plan size of most States has already been finalised and in order not to disturb the resource calculations already made, he is of the view that the States' share in 1984-85 be retained at 85 per cent and continue to be distributed according to the existing formula as recommended in the Commission's Interim Report submitted in November, 1983 i.e. according to the percentages recommended by the Seventh Finance Commission. His Note of Dissent is appended.

CHAPTER VI

UNION DUTIES OF EXCISE

6.1 The distribution between the Union and the States of Union excise duties is governed by Article 272 of the Constitution. That Article vests power in the Government of India to levy and collect duties of excise, other than those on medicinal and toilet preparations as are mentioned in the Union List. But, if Parliament by law so provides, there shall be paid out of the Consolidated Fund of India to the States to which the law imposing the duty extends, sums equivalent to the whole or any part of the net proceeds of that duty, and those sums shall be distributed among those States in accordance with such principles of distribution as may be formulated by such law. By para 4(a) of the President's order, we are required to make recommendations on this matter.

6.2 The First Finance Commission recommended that Union excise duties on three commodities, namely, tobacco (including cigarettes, cigars, etc.), matches and vegetable products, should, be shared between the Centre and the States. These commodities were selected on the consideration that they were articles of common consumption, and the excise duties levied thereon would yield a sizeable and reasonably stable source of revenue for distribution. The share of the States was fixed at 40 per cent.

The Second Finance Commission enlarged the list to include duties on sugar, tea, coffee, paper and vegetable non-essential oils. With this increased coverage, it felt that the States' share could be reduced to 25 per cent.

The amendments in the Income Tax Act in 1959 made a large portion of the tax on companies non-shareable by treating it as corporation tax. This resulted in a shrinkage of the divisible pool of income tax. The Third Finance Commission, therefore, thought that a further addition to the list of excisable goods, the duties on which should be shared with the States, was necessary. It also felt that the States needed greater assistance to fill up their larger revenue gaps caused by the impact of expenditure on two successive plans. The Commission, therefore, included in the divisible pool excise duties from all commodities, excluding those on which the yield was less than Rs.50 lakhs a year. The States' share was fixed at 20 per cent. However, the Commission excluded from its computation the duty on motor spirit as they separately proposed that a sum of Rs. 36 crores, being about 20 per cent of its yield, should be utilised for the maintenance and improvement of communications, and distributed as a special purpose grant.

The Fourth Finance Commission considered the demand of the States for the sharing of the excise duties realisable on all commodities as perfectly reasonable. That Commission fixed the States' share at 20 per cent of this enlarged divisible pool.

The Fifth Finance Commission went a step further and recommended that States should also receive a share from the proceeds of special excise duties from 1972-73. Firstly, it felt that the resort by Union Government to special duties of excise should not be the rule but an exception. It further said that if these duties were continued on a long-term basis, it would be desirable to include them, alongwith other duties, in the divisible pool. And, secondly, that in the last two years of its award period, namely 1972-73 and 1973-74, the divisible pool of income tax would shrink, as it would no longer include any arrears of advance tax collections pertaining to the previous years. It thought that the sharing of special excise duties from 1972-73 would provide some stability to the States' revenues by securing to the States some increases in the last two years. The States' share was fixed by them at 20 per cent.

Like its predecessor, the Sixth Finance Commission also felt that the levy of excise duties which are, under the law, not shareable with the States, should be confined to short periods of two or three years at the most, to meet the unexpected demands on the national exchequer. It, therefore, recommended that the revenue from auxiliary duties on excisable goods levied in replacement of regulatory duties under the Finance Act of 1973, should be brought within the divisible pool from 1976-77 onwards.