CHAPTER XVII

SUMMARY OF RECOMMENDATIONS

Our recommendations to the President are set out below. Unless otherwise stated, all these recommendations are in respect of each of the financial years from 1984-85 to 1988-89.

I. Income Tax

(1) Out of the net proceeds, a sum equal to 1.792 per cent thereof shall be deemed to represent the proceeds attributable to Union territories;

(2) 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

(3) 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 blow:

(Para 5.32)

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

II. Union Duties of Excise

(1) States should be paid a share out of the net proceeds of all excise duties, except the duties collected under the provisions of Additional Excise Duties (Textiles and Textile Articles) Act, 1978, and cesses earmarked by law for special purposes.

(Para 6.6)

(2) The net proceeds of the entire excise duty on generation of electricity should be distributed among the States in an amount equal to the collections in or attributable to that State.

(Para 6.12)

(3) The States' share in the net proceeds of shareable excise duties, excluding that on electricity, should be 45 per cent.

(Para 6.16)

(4) 40 per cent of the net proceeds of shareable excise duties, excluding that on electricity, should be distributed among all the States on the basis of the percentages shown in the table below against their names.

(Para 6.46)

Name of State	Percentage	Name of State	Percentage
1. Andhra Pradesh	8.587	12. Manipur	0.233
2. Assam	2.977	13. Meghalaya	0.194
3. Bihar	13.202	14. Nagaland	0.096
4. Gujarat	3.506	15. Orissa	4.592
5. Haryana	1.017	16. Punjab	1.317
6. Himachal Pradesh	0.589	17. Rajasthan	4.695
7. Jammu & Kashmir	0.856	18. Sikkim	0.039
8. Karnataka	5.077	19. Tamil Nadu	7.317
9. Kerala	3.800	20. Tripura	0.292
10. Madhya Pradesh	8.852	21. Uttar Pradesh	19.097
11. Maharashtra	6.216	22. West Bengal	7.449
		Total :	100.000

(5) The balance of 5 per cent of the net proceeds of shareable excise duties excluding that on electricity should be distributed among the deficit States in each of the five years commencing from 1.4.1984 on the basis of the percentages shown respectively in columns 2, 3, 4, 5 and 6 of the table below.

(Para 6.46)

Name of the State	Share in 5 per cent to Deficit States (Percentage)				
	1984-85	1985-86	1986-87	1987-88	1988-89
1.	2.	3.	4.	5.	6.
1. Assam	12.728	12.578	12.713	13.418	12.023
2. Himachal Pradesh	10.340	11.528	12.914	14.098	16.475
3. Jammu & Kashmir	15.457	16.661	17.818	18.560	20.254
4. Manipur	6.969	7.742	8.722	9.545	11.217
5. Meghalaya	5.575	6.180	6.944	7.570	8.863
6. Nagaland	8.837	9.944	11.240	12.371	14.482
7. Orissa	9.214	8.154	5.457	3.109	0.598
8. Rajasthan	1.940	-	-	-	-
9. Sikkim	1.659	1.836	2.051	2.232	2.593
10. Tripura	8.200	9.104	10.207	11.162	12.956
11. West Bengal	19.081	16.273	11.934	7.935	0.539
Total:—	100.000	100.000	100.000	100.000	100.000

III Grants-in-Aid

(1) To cover the deficits on revenue account, 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.

(Paras 13.11 and 13.19)

(Rs. in crores)

State	Total 1984-89	1984-85	1985-86	1986-87	1987-88	1988-89
1.	2.	3.	4.	5.	6.	7.
1. Assam	274.33	78.58	66.92	55.08	47.37	26.38
2. Himachal Pradesh	223.04	57.65	53.91	47.35	40.76	23.37
3. Jammu & Kashmir	329.18	89.22	81.14	68.79	57.34	32.69
4. Manipur	146.95	38.14	35.51	31.25	26.87	15.18
5. Meghalaya	119.15	30.92	28.76	25.30	21.75	12.42
6. Nagaland	190.52	48.76	45.96	40.65	35.19	19.96
7. Orissa	207.60	67.55	54.94	37.78	27.42	19.91
8. Rajasthan	42.63	34.25	8.38	-	-	-
9. Sikkim	36.16	9.38	8.71	7.66	6.59	3.82
10. Tripura	187.05	47.83	44.71	39.57	34.41	20.53
11. West Bengal	443.61	142.11	113.31	82.59	63.00	42.60
Total :	2200.22	644.39	542.25	436.02	360.70	216.86

(2) To cover the requirements of upgradation and special problems, during the five years commencing from 1st April 1984, the following States be paid the amount specified against each of them as grants-in-aid of their revenues under the substantive part of Clause (1) of Article 275 of the Constitution. The annual payments be regulated as indicated in para 12. 74 of Chapter XII.

(Para 13. 13 and Para 13. 14).

Grants for upgradation and special problems
1984-89

(Rs. crores)

State	For Upgradation	For Special Problems	Total
1. Andhra Pradesh	80. 49	-	80. 49
2. Assam	58. 35	5. 00	63. 35
3. Bihar	130. 27	-	130. 27
4. Himachal Pradesh	15. 76	0. 50	16. 26
5. Jammu & Kashmir	46. 07	2. 48	48. 55
6. Kerala	16. 81	-	16. 81
7. Madhya Pradesh	1 47. 69	10. 00	157. 69
8. Manipur	20. 30	2. 00	22. 30
9. Meghalaya	18. 20	1. 00	19. 20
10. Nagaland	10. 81	-	10. 81
11. Orissa	74. 84	-	74. 84
12. Punjab	-	20. 00	20. 00
13. Rajasthan	43. 48	10. 00	53. 48
14. Sikkim	3. 14	1. 00	4. 14
15. Tripura	13. 79	0. 80	14. 59
16. Uttar Pradesh	108. 18	-	108. 18
17. West Bengal	126. 37	-	126. 37
Total :	914. 55	52. 78	967. 33

(3) To meet the margin money requirements of States they shall be entitled to the sums specified against each of them as grants-in-aid of their revenues in each of the five years commencing from 1st April, 1984, under the substantive portion of clause (1) of Article 275 of the Constitution, provided that these amounts shall be released as indicated in para 1(c) of item VIII below.

(Para 13. 15)

State	Annual Grant (Rs. crores)	State	Annual Grant (Rs. crores)
1. Andhra Pradesh	12. 250	12. Manipur	0. 125
2. Assam	3. 625	13. Meghalaya	0. 125
3. Bihar	16. 875	14. Nagaland	0. 125
4. Gujarat	14. 375	15. Orissa	13. 125
5. Haryana	2. 250	16. Punjab	3. 000
6. Himachal Pradesh	0. 875	17. Rajasthan	8. 375
7. Jammu & Kashmir	0. 750	18. Sikkim	0. 125
8. Karnataka	3. 000	19. Tamil Nadu	4. 375
9. Kerala	2. 500	20. Tripura	0. 375
10. Madhya Pradesh	2. 375	21. Uttar Pradesh	16. 250
11. Maharashtra	3. 625	22. West Bengal	11. 875
		Total :	120. 375

(4) Grants-in aid under Article 275 of the Constitution to cover net additional interest liability on account of fresh borrowings and lendings in the period 1984-89 may be paid to the deficit States in each of the four years commencing from 1st April, 1985, as indicated in paragraph 13. 16 of the Report. Grants-in-aid, if any, may also be paid to the deficit States during the years 1985-86 to 1988-89 to cover the additional burden on account of committed expenditure in respect of Plan schemes completed in 1984-85 as mentioned in paragraph 13. 18 of the Report.

IV. Additional Duties of Excise in replacement of sales tax.

The net proceeds of the additional excise duties on textiles, sugar and tobacco should be distributed on the following basis:—

(a) A sum equal to 2.391 per cent of such net proceeds be retained by the Central Government as attributable to the Union territories; (Para 7.17)

(b) The balance should be distributed amongst the States in accordance with the percentage mentioned below:

	State	Percentage
1.	Andhra Pradesh	7.504
2.	Assam	2.566
3.	Bihar	8.627
4.	Gujarat	5.941
5.	Haryana	2.488
6.	Himachal Pradesh	0.663
7.	Jammu & Kashmir	0.853
8.	Karnataka	5.561
9.	Karala	3.963
10.	Madhya Pradesh	6.942
11.	Maharashtra	11.461
12.	Manipur	0.178
13.	Meghalaya	0.183
14.	Nagaland	0.098
15.	Orissa	3.653
16.	Punjab	3.675
17.	Rajasthan	4.827
18.	Sikkim	0.039
19.	Tamil Nadu	7.549
20.	Tripura	0.287
21.	Uttar Pradesh	14.318
22.	West Bengal	8.624
	Total:	100.000

(Para 7.17)

V. Estate Duty

(1) The net proceeds of Estate Duty in respect of property other than agricultural land attributable to Union territories 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.

(Para 8.9)

(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. The location of property other than immovable property should be determined in accordance with the rules framed under the Estate Duty Act, 1953. As for property located abroad, it should be deemed to be located in the State where it is brought to assessment. (Para 8.9)

(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. (Para 8.9)

VI. Grant-in-lieu of Tax on Railway Passenger Fares

(1) The annual quantum of the grant in lieu of a tax on railway passenger fares be raised to Rs.95 crores in each of the years 1984-85 to 1988-89. (Para 9.16)

(2) The grant to be made available be distributed among the States as under:

	States	Percentage Shares
1.	Andhra Pradesh	7.68
2.	Assam	2.03
3.	Bihar	9.51
4.	Gujarat	6.67
5.	Haryana	1.84
6.	Himachal Pradesh	0.14
7.	Jammu & Kashmir	0.95
8.	Karnataka	3.43
9.	Kerala	3.18
10.	Madhya Pradesh	5.85
11.	Maharashtra	15.70
12.	Manipur	0.02
13.	Meghalaya	0.05
14.	Nagaland	0.16
15.	Orissa	1.58
16.	Punjab	3.88
17.	Rajasthan	4.87
18.	Sikkim	0.01
19.	Tamil Nadu	6.61
20.	Tripura	0.04
21.	Uttar Pradesh	17.85
22.	West Bengal	7.95
	Total:	100.00

(Para 9.16)

VII. Grant on Account of Wealth Tax on Agricultural Property

The share of each State in the grant on account of wealth tax on agricultural property should be an amount equivalent to the net collection in that State in that year. (Para 10.9).

VIII. Financing of Relief Expenditure

(1) The existing arrangements are basically sound and should continue subject to the following modifications: (Para 11.32)

(a) The following amounts of margin moneys per year be fixed for each State:

Name of State	Amount of Margin Money (Rs. in crores)	Name of State	Amount of Margin Money (Rs. in crores)
1. Andhra Pradesh	24.50	12. Manipur	0.25
2. Assam	7.25	13. Meghalaya	0.25
3. Bihar	33.75	14. Nagaland	0.25
4. Gujarat	28.75	15. Orissa	26.25
5. Haryana	4.50	16. Punjab	6.00
6. Himachal Pradesh	1.75	17. Rajasthan	16.75
7. Jammu & Kashmir	1.50	18. Sikkim	0.25
8. Karnataka	6.00	19. Tamil Nadu	8.75
9. Kerala	5.00	20. Tripura	0.75
10. Madhya Pradesh	4.75	21. Uttar Pradesh	32.50
11. Maharashtra	7.25	22. West Bengal	23.75
		Total:	240.75

(Para 11.33)

(b) The State Governments should provide 50 per cent of the margin money mentioned above under the Head of Account '289 - Relief on Account of Natural Calamities'. (Para 11.33)

(c) The Centre should contribute the balance of 50 per cent of the margin money in every year as a grant-in-aid as indicated in para (3) of item III supra. On the occurrence of a natural calamity, a State will be entitled to draw on the Centre's contribution after it has exhausted its own share of the margin money. Provisions not released to the States will be carried forward to the next year. (Paras 11.22 and 11.33)

(d) Expenditure on relief of distress caused by fire should also be treated on the same footing as a natural calamity of the category of floods. (Para 11.24)

(e) The cost norms adopted for items such as repairs/reconstruction of damaged houses etc. for which assistance is provided may be reviewed by the Centre. (Para 11.27)

(f) In respect of damages caused to public works by cyclones, floods, etc., if the Centre is satisfied about the extent of expenditure required to be met, the Central assistance should extend, subject to the contributions of the State Government as indicated in para (2) below, to the whole of the expenditure on repairs and restoration of public works regardless of whether such expenditure can be incurred in the financial year in which the calamity occurs or it will have to be spread over the next and subsequent financial years. (Para 11.28)

(2) Subject to the above modifications, 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 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. The adjustment of the advance Plan assistance against the 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 Team 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 schemes we have suggested. (Para 11.23 read with paras 11.4, 11.5 and 11.6).

IX. Measures to deal with non-Plan Capital Gap.

(1) For purposes of debt relief, non-Plan capital gap has been computed after excluding repayments of overdraft loans and small savings loans. (Para 14.35)

(2) No relief is recommended in respect of overdraft loans given to States in 1982-83 and 1983-84. (Para 14.22)

(3) No relief is recommended in respect of repayment of small savings loans, except that in 1984-85, no repayment shall be made. (Para 14.34)

(4) Loans for relief and rehabilitation of displaced persons etc. should be written off. (Para14.41(a)

(5) The estimated relief to States in the 5 year period 1984-89, including write off of repayments of Rs.405.20 crores, is as follows:— (Annexure XIV-6 read with para 14.41(e), (g) and (h)).

Name of State	Rs. in crores	Name of State	Rs. in crores
1. Andhra Pradesh	204.64	12. Manipur	11.18
2. Assam	205.50	13. Meghalaya	6.39
3. Bihar	330.98	14. Nagaland	7.81
4. Gujarat	17.80	15. Orissa	195.62
5. Haryana	31.79	16. Punjab	38.71
6. Himachal Pradesh	16.52	17. Rajasthan	239.41
7. Jammu & Kashmir	212.72	18. Sikkim	3.07
8. Karnataka	48.45	19. Tamil Nadu	28.19
9. Kerala	53.80	20. Tripura	2.57
10. Madhya Pradesh	143.65	21. Uttar Pradesh	337.92
11. Maharashtra	27.83	22. West Bengal	120.84
		Total	2285.39

(6) Pre-1979 loans recommended for consolidation by us should carry an interest of 4.75 per cent. The loans sanctioned after 1st April, 1979 and outstanding on 31.3.84 which have been recommended for consolidation by us should carry the following rates of interest depending on the period of repayment as rescheduled.

Rescheduled for 15 years	6 per cent
Rescheduled for 20 years	6.25 per cent
Rescheduled for 25 years	6.50 per cent
Rescheduled for 30 years	6.75 per cent

(Para 14.43)

X. Scope for Raising revenues from taxes and duties mentioned in Articles 268 and 269 of the Constitution.

(1) Duties under Article 268

(a) Some scope for raising the rates of stamp duties exists only in respect of bills of lading excluding those in respect of inland navigation, letters of credit and policies of general insurance including marine insurance. (Para 15.13, 15.14 and 15.19)

(b) There is no scope for enhancing revenues from excise duties on medicinal and toilet preparations. (Para 15.27)

(2) Taxes and duties mentioned in Article 269 but not levied at present.

There is scope for levying tax on railway passenger fares but no such tax should be levied so long as the present arrangement by which the Centre gives grants to the States in lieu of such a tax, continues to exist. There is scope for raising revenues by levying a tax on advertisements published in newspapers and journals. (Para 15.61 and 15.87)

XI. General Observations.

(1) The period covered by the recommendations of the Finance Commission should be synchronised with that of the Five Year Plan. (Para 16.9)

(2) There should be a permanent Division in the Ministry of Finance during the interregnum between one Commission and the next with the functions indicated in para 16.12 (Para 16.11)

(3) The staff strength of the proposed Division may be suitably augmented. (Para 16.14)

(4) The State Governments should also have similar permanent Divisions in their Finance Departments. (Para 16.15)

(5) Future Commissions should be vested with the financial and administrative powers of a Ministry of Government of India (Para 16.16)

Sd/-
(Y.B. Chavan)
Chairman
Sd/-
(T.P.S.Chawla)
Member
Sd/-
(C.H.Hanumantha Rao)
Member
Sd/-
(G.C.Baveja)
Member
Sd/-
(A.R.Shirali)
Member

Sd/-
(N.V. Krishnan)
Secretary

New Delhi
April 30, 1984.

MINUTE OF DISSENT BY SHRI JUSTICE T.P.S. CHAWLA AND SHRI G.C. BAVEJA ON TREATMENT TO BE ACCORDED TO ADDITIONAL RESOURCE MOBILISATION AND COMMITTED EXPENDITURE

While reassessing the State forecasts of revenue and expenditure for 1984-89, the majority has adopted the following procedure:

(a) Provisions for maintenance of Plan schemes completed by the end of 1983-84 have been included in the non-Plan expenditure estimates for 1984-85.

(b) Receipts on account of additional resource mobilisation by the States during the first four years of the Sixth Plan have been included in the revenue estimates for 1984-85.

(c) The reassessment of the States'' forecasts for the period 1985-86 to 1988-89 excludes projections of revenue receipts and revenue expenditure on account of fresh resource mobilisation in 1984-85 and additional committed liability that would result consequent upon the implementation of the annual Plan for that year.

(d) For the deficit States, however, the excess of additional committed expenditure on account of Plan schemes completed in 1984-85 over the yield estimated from additional tax and non-tax measures adopted in 1984-85 has been left to be computed by the Ministry of Finance and the Planning Commission and such excess to be covered by additional grants-in-aid during each of the years 1985-86 to 1988-89.

2. We consider that the procedure adopted by the majority is not in accordance with the existing practices followed by the Planning Commission and the State Governments. It is a well established practice that expenditure on schemes completed during the course of a five year Plan period becomes committed only in the next five year Plan. In other words, whatever expenditure is incurred on the schemes started during the course of a five year Plan is treated as Plan expenditure and not non-Plan expenditure in that Plan period. Similarly, the additional resources mobilised during the course of a five year Plan period are treated as resources available for the implementation of State Plans, and not as a part of the resources available for non-Plan expenditure during that Plan period.

3. The five year period for which we are required to make recommendations covers the years from 1984-85 to 1988-89. At present, the Sixth five year Plan is in operation. It started in 1980-81 and will come to an end in 1984-85. The Seventh five year Plan commencing from 1985-86 is under preparation. In accordance with the practice which we have described above, the provision for maintenance of Plan projects completed during the Sixth Plan period, namely, upto the end of 1984-85, should be made only in the year 1985-86 onwards. Likewise, the additional resources mobilised during the Sixth Plan period should be treated as a part of the resources available for non-Plan expenditure only from 1985-86 onwards.

4. Our view is simple. We think, that the existing practices must be followed, and the forecasts prepared accordingly.

5. But, the majority have taken the view that the provision for maintenance of Plan projects completed upto 1983-84 should be made even in 1984-85, which is the last year of the Sixth Plan. Also, they think, the additional resources mobilised upto 1983-84 should be treated as a part of the normal revenues of the States, available for meeting non-Plan expenditure from 1984-85. In short, the majority want to do from 1984-85, what, according to existing practices, should be done from 1985-86.

6. The majority do not dispute the existance of the practices we have mentioned. They concede in paragraph 16.5 of Chapter XVI entitled 'General Observations' that these practices are 'well-established'. The reasoning of the majority is based entirely on the interpretation they place on para 5(iii) and (v) of the terms of reference. According to them, we are required by clause (iii) to estimate the revenue resources of State 'on the basis of levels of taxation likely to be reached at the end of the financial year 1983-84', and, by clause (v), to make provision for 'maintenance of Plan schemes completed by the end of 1983-84'. Therefore, they argue, the additional resources mobilised upto 1983-84 during the period of the Sixth Plan must be included in the revenue forecast for 1984-85. And, on the other side, provision for expenditure on Plan projects completed by the end of 1983-84 should be made in the expenditure forecast for 1984-85.