CHAPTER XI

SUMMARY OF IMPORTANT RECOMMENDATIONS AND OBSERVATIONS

11.1 Our important recommendations and observations are set out below:

I. INCOME TAX

11.2 (1) Out of net distributable proceeds, a sum equal to 1.437 per cent shall be deemed to represent the proceeds attributable to the Union Territories (para. 5.5);

(2) Eighty-five per cent of the divisible pool of Income Tax should be assigned to the States (para. 5.6); and

(3) The distribution amongst the States inter se of the share assigned to the States in each financial year during 1990-95 should be on the basis of the percentages shown in table below:

	States	Percentage Share
1.	Andhra Pradesh	8.208
2.	Arunachal Pradesh	0.073
3.	Assam	2.631
4.	Bihar	12.418
5.	Goa	0.110
6.	Gujarat	4.550
7.	Haryana	1.244
8.	Himachal Pradesh	0.595
9.	Jammu and Kashmir	0.695
10.	Karnataka	4.928
11.	Kerala	3.729
12.	Madhya Pradesh	8.185
13.	Maharashtra	8.191
14.	Manipur	0.171
15.	Meghalaya	0.208
16.	Mizoram	0.073
17.	Nagaland	0.096
18.	Orissa	4.326
19.	Punjab	1.706
20.	Rajasthan	4.836
21.	Sikkim	0.030
22.	Tamil Nadu	7.931
23.	Tripura	0.303
24.	Uttar Pradesh	16.787
25.	West Bengal	7.976
	Total	100.000 (para. 5.13)

II. ADDITIONAL DUTIES OF EXCISE IN LIEU OF SALES TAX

11.3 The net proceeds of Additional Excise Duties on Textiles, sugar and tobacco should be distributed on the following basis:

(a) A sum equal to 1.903 per cent of such net proceeds be retained by the Central Government as attributable to the Union Territories (para. 5.20).

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

	States	Percentage Share
1.	Andhra Pradesh	7.680
2.	Arunachal Pradesh	0.107
3.	Assam	2.743
4.	Bihar	8.317
5.	Goa	0.228
6.	Gujarat	5.906
7.	Haryana	2.317
8.	Himachal Pradesh	0.621
9.	Jammu and Kashmir	0.929
10.	Karnataka	5.865
11.	Kerala	3.723
12.	Madhya Pradesh	7.164
13.	Maharashtra	11.886
14.	Manipur	0.213
15.	Meghalaya	0.190
16.	Mizoram	0.068
17.	Nagaland	0.120
18.	Orissa	3.486
19.	Punjab	3.533
20.	Rajasthan	4.689
21.	Sikkim	0.052
22.	Tamil Nadu	7.064
23.	Tripura	0.278
24.	Uttar Pradesh	14.657
25.	West Bengal	8.165
	Total	100.000 (para. 5.20)

III. GRANTS IN LIEU OF TAX ON RAILWAY PASSENGER FARES

11.4 (1) The annual quantum of the grant in lieu of the repealed Tax on Railway Passenger Fares should be fixed at Rs. 150 crore in each of the years 1990-91 to 1994-95 (para. 5.26).

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

	States	Percentage Share
1.	Andhra Pradesh	7.484
2.	Arunachal Pradesh	0.006
3.	Assam	1.509
4.	Bihar	8.266
5.	Goa	0.133
6.	Gujarat	5.717
7.	Haryana	1.637
8.	Himachal Pradesh	0.096
9.	Jammu and Kashmir	0.520
10.	Karnataka	3.271
11.	Kerala	3.562
12.	Madhya Pradesh	6.061
13.	Maharashtra	22.634
14.	Manipur	0.013
15.	Meghalaya	0.040
16.	Mizoram	-
17.	Nagaland	0.165
18.	Orissa	1.614
19.	Punjab	3.110
20.	Rajasthan	4.579
21.	Sikkim	0.004
22.	Tamil Nadu	6.893
23.	Tripura	0.042
24.	Uttar Pradesh	15.437
25.	West Bengal	7.203
	Total	100.000 (para. 5.30)

IV UNION DUTIES OF EXCISE

11.5 (1) The divisible pool of Union Duties of Excise should include the net proceeds of all Excise Duties including Special Excise Duties but excluding duties collected under the Additional Duties of Excise (Textiles and Textile Articles) Act, 1978, and the earmarked cesses (para. 5.33).

(2) The States' share in the net proceeds of shareable Union Excise Duties shall be 45 per cent (para. 5.34).

(3) The percentage share of each State in the shareable Excise Duties in each of the years 1990-91 to 1994-95 should be as given below:

	States	Percentage Share
1.	Andhra Pradesh	7.170
2.	Arunachal Pradesh	0.897
3.	Assam	3.810
4.	Bihar	11.028
5.	Goa	0.523
6.	Gujarat	3.183
7.	Haryana	1.099
8.	Himachal Pradesh	1.943
9.	Jammu and Kashmir	3.548
10.	Karnataka	4.104
11.	Kerala	3.087
12.	Madhya Pradesh	7.224
13.	Maharashtra	5.185
14.	Manipur	1.174
15.	Meghalaya	0.891
16.	Mizoram	1.109
17.	Nagaland	1.348
18.	Orissa	5.358
19.	Punjab	1.362
20.	Rajasthan	5.524
21.	Sikkim	0.260
22.	Tamil Nadu	6.379
23.	Tripura	1.556
24.	Uttar Pradesh	15.638
25.	West Bengal	6.600
	Total	100.000 (para 5.37)

V. FINANCING OF RELIEF EXPENDITURE

11.6 (1) The existing arrangements for financing relief expenditure should be replaced by a new one under which the States will have much greater autonomy and accountability (para. 6.16).

(2) A Calamity Relief Fund should be constituted for each State with the following amount in each year.

(Rs. Crore)

	States	Amount
1.	Andhra Pradesh	86
2.	Arunachal Pradesh	2
3.	Assam	30
4.	Bihar	35
5.	Goa	1
6.	Gujarat	85
7.	Haryana	17
8.	Himachal Pradesh	18
9.	Jammu and Kashmir	12
10.	Karnataka	27
11.	Kerala	31
12.	Madhya Pradesh	37
13.	Maharashtra	44
14.	Manipur	1
15.	Meghalaya	2
16.	Mizoram	1
17.	Nagaland	1
18.	Orissa	47
19.	Punjab	28
20.	Rajasthan	124
21.	Sikkim	3
22.	Tamil Nadu	39
23.	Tripura	3
24.	Uttar Pradesh	90
25.	West Bengal	40
	Total	804

(para. 6.17 and Annexure VI.1)

(3) Government of India shall contribute to the Calamity Relief Fund of each State to the extent of 75 per cent in the form of non-Plan grant. The balance 25 per cent shall be contributed by each State out of its own resources. The contribution to the Fund will be made by Governments in quarterly instalments (para 6.17).

(4) The Relief Fund would have existence outside the general revenues of the State and will be deposited in a nationalised bank (para. 6.17).

(5) A State-level Committee headed by the Chief Secretary of the State and consisting of officials connected with the relief work and other experts shall be constituted by the State Government to administer the Calamity Relief Fund. The Committee will decide all matters connected with the financing of the relief expenditure, including variations in the norms of assistance (para. 6.17).

(6) The yearly accretion to the Fund together with the interest accruing thereon would be used to meet all expenditure on calamities. No further Central assistance would be made available for the purpose. However, if in a particular year the money required is more than the balance available in the Fund, the State may draw 25 per cent of the Centre's contribution due to it in the following year in advance. (The Central Government may, at its discretion, allow higher percentage of advance also) (para. 6.17).

(7) The balance left in the Fund unspent at the end of fifth year (i.e. 1994-95) will be available for being used as a Plan resource (para. 6.17).

(8) All calamities such as drought, flood, cyclone and fire which qualified for relief assistance in the past will continue to be covered in the present scheme. The distinction between drought and other calamities like flood, cyclone etc. will be dispensed with (para. 6.17).

(9) The Centre should constitute an Expert Group to monitor relief work done in States utilising the Calamity Relief Fund and also to give such advice as it deems appropriate to the State agencies involved in relief work (para. 6.17).

(10) The Centre should contribute 75 per cent of the relief expenditure (over and above its contribution to the Calamity Relief Fund) of Rs. 163 crore on relief and rehabilitation of gas victims in Bhopal, during 1990-95 by way of non-Plan grant. The balance 25 per cent will be borne by the Government of Madhya Pradesh (para. 6.21).

VI. GRANTS-IN-AID

11.7 (1) To cover the net five-year (1990-95) deficits on non-Plan revenue account and part of the deficits on plan 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:

(Rs. Crore)

States	Total					
	1990-95	1990-91	1991-92	1992-93	1993-94	1994-95
	(1)	(2)	(3)	(4)	(5)	(6)
1. Andhra Pradesh	341.25	46.07	54.60	66.54	78.49	95.55
2. Arunachal Pradesh	302.79	57.65	59.45	60.76	61.48	63.45
3. Assam	874.23	205.61	179.68	172.87	161.42	154.65
4. Bihar	1374.27	185.53	219.88	267.98	316.08	384.80
5. Goa	166.58	33.66	33.31	33.06	32.88	33.67
6. Himachal Pradesh	523.09	113.75	109.67	104.50	98.32	96.85
7. Jammu & Kashmir	1096.42	210.99	213.60	224.35	220.87	226.61
8. Kerala	412.54	55.69	66.01	80.45	94.88	115.51
9. Madhya Pradesh	1047.81	141.45	167.65	204.32	241.00	293.39
10. Manipur	371.65	74.92	74.90	74.40	73.32	74.11
11. Meghalaya	256.18	58.88	50.32	51.27	48.54	47.17
12. Mizoram	379.79	74.75	76.22	76.16	76.43	76.23
13. Nagaland	458.67	92.26	92.48	93.88	90.54	89.51
14. Orissa	1082.98	146.20	173.28	211.18	249.09	303.23
15. Punjab	53.91	7.28	8.63	10.51	12.40	15.09
16. Rajasthan	1446.79	195.32	231.49	282.12	332.76	405.10
17. Sikkim	84.68	17.59	17.37	17.03	16.50	16.19
18. Tamil Nadu	43.79	5.91	7.01	8.54	10.07	12.26
19. Tripura	466.01	101.19	101.27	96.52	87.25	79.78
20. Uttar Pradesh	3235.10	436.74	517.62	630.84	744.07	905.83
21. West Bengal	998.65	134.82	159.78	194.74	229.69	279.62
Total	**15017.18**	**2396.26**	**2614.22**	**2962.02**	**3276.08**	**3768.60**

(para.7.14)

(2) The following grants-in-aid may be paid to States in each of the five years commencing from Ist April, 1990, under the substantive portion of Clause (1) of Article 275 of the Constitution, towards the Centre's contribution to the Calamity Relief Fund.

(Rs. Crore)

	States	Amount of Grant
1.	Andhra Pradesh	64.50
2.	Arunachal Pradesh	1.50
3.	Assam	22.50
4.	Bihar	26.25
5.	Goa	0.75
6.	Gujarat	63.75
7.	Haryana	12.75
8.	Himachal Pradesh	13.50
9.	Jammu and Kashmir	9.00
10.	Karnataka	20.25
11.	Kerala	23.25
12.	Madhya Pradesh	27.75
13.	Maharashtra	33.00
14.	Manipur	0.75
15.	Meghalaya	1.50
16.	Mizoram	0.75
17.	Nagaland	0.75
18.	Orissa	35.25
19.	Punjab	21.00
20.	Rajasthan	93.00
21.	Sikkim	2.25
22.	Tamil Nadu	29.25
23.	Tripura	2.25
24.	Uttar Pradesh	67.50
25.	West Bengal	30.00
	Total	**603.00**

(para. 7.15 and Annexure VI.1)

(3) An amount of Rs. 122.25 crore be paid to Madhya Pradesh by way of grants-in-aid of revenue in five equal instalments commencing from Ist April, 1990, under the substantive portion of Clause (1) of Article 275 of the Constitution, towards the expenditure on rehabilitation and relief of victims of Bhopal Gas Leak Tragedy. (para. 7.15)

(4) The present level of provision for Centrally Sponsored schemes is too high and efforts should be made to reduce gradually the proportion of this type of expenditure and add the savings to the amount of Central assistance for State and Union Territory Plans. (para. 7.17).

VII. MERGER OF ADDITIONAL DUTIES OF EXCISE WITH BASIC DUTIES OF EXCISE

11.8 (1) The merger of Additional Duties of Excise with Basic Duties of Excise is not recommended, having regard to serious objections raised by almost all the major States to this proposal. As the tax rental arrangement was brought into being with the consent of the States, any major modification in the arrangements should also be brought about only with the consent of all the parties (para. 8.7).

(2) During the report period, if in any year the ad valorem incidence of Additional Excise Duties falls short of the level of 10.8 per cent of the value of clearances, the short-fall should be made good by Government of India by providing equivalent amount by way of grant-in-aid to be distributed in the same manner as worked out for sharing the proceeds of Additional Duties of Excise in paragraph 5.20 (para. 8.8).

VIII. DEBT RELIEF

11.9 (1) The formula of 70:30 for the apportionment of the Plan assistance in the case of non-Special Category States may be continued. But the loan component so worked out may be contributed from two sources - an amount equal to the grant portion may come in the form of Central loan and the balance may be made available by way of additional market borrowings (para. 9.20).

(2) The Reserve Bank of India may work out a formula for amortisation of States' market borrowings (para. 9.20).

(3) From 1990-91, the direct Central loans for State Plans should have a maturity period of 20 years with 50 per cent of the loans enjoying grace period of 5 years (para. 9.20).

(4) There should be no change in the terms and conditions relating to the Central loans against the small savings collections (para. 9.20).

(5) The entire external assistance received for externally-aided projects should, in all cases, be passed on to the States implementing those projects. No part of funds received exclusively for such projects should be withheld by the Centre (para. 9.20).

(6) The loan and grant portion of the World Bank assistance to be passed on to States should also be in the ratio of 70:30 as in the case of general Plan assistance. However, while the loan portion should carry the same rate of interest as applicable to other Plan loans, the repayment period should be the same as applicable to the assistance received from the Bank (para. 9.20).

(7) The entire amount of IDA assistance shall be passed on to States as loans carrying a rate of interest of 6 per cent per annum and repayment period of 30 years including a grace period of 5 years (para. 9.21).

(8) The States with unduly low share in assistance for externally aided projects should be allocated a larger share of the 10 per cent of the Plan assistance reserved for 'Special problems' under the modified Gadgil formula (para. 9.20).

(9) The Central loans obtained on Plan account by each of the three newly constituted States of Arunachal Pradesh, Goa and Mizoram, upto 1986-87 as Union Territories (as outstanding on 31st March 1990), in excess of what it would have received during that period by way of loan on the basis of the 90:10 or 30:70 formula applicable to States, should be written off (para. 9.21).

(10) The loans of given to States on account of drought during 1986-89 as outstanding on 31st March, 1989 shall be written off (para. 9.22).

(11) The loans of Rs. 91.62 crore given to Madhya Pradesh during 1984-89 in connection with the Bhopal Gas Leak Tragedy shall be written off and repayment or payment on account thereof made already by the State Government by way of principal and interest shall be adjusted against other payments due from the State Government (para. 9.23).

(12) A moratorium of 2 years (1990-92) on repayment of principal and payment of interest should be granted in respect of the special loans given to Punjab during 1984-89. Meanwhile, the Central Government should work out a suitable package of relief measures for the State (para. 9.24).

(13) The State Plan loans advanced to States during the 5 years 1984-89 and outstanding as on 31st March, 1990 should be consolidated and rescheduled to 15 years in the case of all the States. During the first 5 years 1990-95, repayments should be less than due on existing basis to the extent of 10 per cent in the case of Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu, Goa and Special Category States, 7.5 per cent in the case of Gujarat, Rajasthan and Uttar Pradesh and 5 per cent in the case of Bihar, Haryana, Kerala, Punjab and West Bengal (para. 9.25 and 9.26).

IX CONCLUDING OBSERVARTIONS

11.10 (1) In the interregnum between two Finance Commissions, the present Finance Commission Division should be entrusted with studies and projects on different topics relevant to the work of the Finance Commission. For this purpose, the Division should be substantially strengthened (para. 10.7).

(2) An advisory Committee should be constituted to guide the Finance Commission Division in its work and functions (para. 10.7).

(3) With a view to treat Central and State Governments in a similar manner with regard to fiscal discipline, a convention should be developed limiting the extent of deficit financing by the Central Government, in any given year, to an amount determined in advance in consultation with the Reserve Bank of India. If under certain extraordinary circumstances the agreed upon limits are to be exceeded, the matter should be discussed in Parliament and its approval obtained (para. 10.8).

(4) Specific steps should be taken to bring down the rate of growth of revenue expenditure in the immediate future. The policy regarding major subsidies should be reviewed (para. 10.12 and 10.13).

(5) Measures should be taken to slow down the growth of public debt. Funds for investment in public enterprises other than those in the key infrastructure sectors like the Railways, should, to the extent possible, be obtained from outside the budget (para. 10.12).

(6) A way may be found to cut out loans, grants and subsidies to the public enterprises which are continually making losses and which, according to reasonable expectations, cannot be revived and turned around (para. 10.13).

(N. K. P. Salve)
Chairman

(Raja J. Chelliah)
Member

(Abdus Sattar Qureshi)
Member

(R. Keishing)
Member

(K. V. R. Nair)
Member Secretary

New Delhi
December , 1989.