

DEVOLUTION OF TAXES, DISTRIBUTION OF ADDITIONAL EXCISE DUTIES AND GRANT IN LIEU OF TAX ON RAILWAY PASSENGER FARES

5.1 In this Chapter we make our recommendations regarding 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 their respective shares of such proceeds. This Chapter also includes our recommendations on two additional issues, namely,

- (i) the principles on which the shares of the net proceeds of Additional Duties of Excise in lieu of Sales Tax should be distributed among the States and their *inter se* shares therefrom; and
- (ii) the principles which should govern the distribution among the States of grants to be made available to them in lieu of the repealed Railway Passenger Fares Tax Act, 1957, and a few related issues.

Income Tax

5.2 Under paragraph 3(a) of our terms of reference we are required to make recommendation as to the distribution of the net proceeds of Income Tax between the Union and the States, the allocation of shares among the States *inter se* and the determination of the net proceeds attributable to the Union Territories.

5.3 Since the submission of our first report, we have had further discussions with the States and have also taken into consideration the additional submissions which some of the States had made to us. Consequently the recommendations we are making now are somewhat different from those we had made in our first report.

5.4 With the enactment of the Finance Act, 1989, the extension of the Income Tax Act, 1961, to Sikkim from the assessment year 1990-91 onwards has been formalised. Therefore, the State-wise shares of Income Tax that we prescribe include the share of Sikkim also.

5.5 We have to prescribe the shares of the Union Territories in the divisible pool of Income Tax under Article 270(3) of the Constitution. As regards the allocation of shares to Union Territories, we propose to follow the same procedure as we did in the first report. All the Union Territories would be treated notionally together as one unit for the purpose of our scheme of devolution and we prescribe the share of Union Territories at 1.437 per cent.

5.6 In our first report we had retained the States' share at 85 per cent of the divisible pool. We had pointed out therein that almost all State Governments had asked for the enlargement of the States' share beyond the present level of 85 per cent. We have duly considered the suggestions made by the State Governments but we do not consider it necessary to increase the States' share beyond 85 per cent.

5.7 Among the criteria to be adopted for the distribution of Income Tax among the States, we had assigned a weight of 10 per cent to 'contribution' in our first report. While the opinion on giving weight to 'contribution', was divided among the States, we cannot ignore the fact that the State Governments do play a role in providing infrastructural wherewithal and facilities and services. It is also to be borne in mind that States which move forward economically tend to gain on the basis of this criterion, while

"deficit" States do not lose, given the basic logic underlying our scheme of transfers. On a balance of considerations we, therefore, propose to retain the weight of 10 per cent to 'contribution'. The relevant data relating to Income Tax assessments for the latest three years 1985-86 to 1987-88 have been obtained by us from the Union Finance Ministry (Annexure V.1).

5.8 We had given pronounced weight to the "distance" of the per capita income of the State from that of the State with the highest per capita income multiplied by the population of the concerned State in 1971. There was no controversy attached to this factor which was considered quite progressive and was welcomed widely by the States and the general body of professional experts. We propose to retain "distance" as a factor and assign to it a weight of 45 per cent. The per capita SDP data which we are using relate to 1982-85 as in the first report but are based on the new revised SDP series which we have obtained from the Central Statistical Organisation. The per capita SDP data are given in Annexure V.2. The methodology adopted for arriving at the "distance" of various States is the same as that prescribed in our first report. Goa has the highest per capita income according to the data available with us. We, however, find it difficult to consider Goa as a representative State for measuring the "distance" of per capita income among the States because it is too small in area and in population. Also the data for the State of Goa are available only for a few years. We have, therefore, chosen Punjab which has the next highest per capita income for purposes of measuring the "distance" factor. In order, however, to protect the interests of Goa and Punjab and to give these States too this benefit, we have adopted the "distance" of the next highest income State which is Maharashtra for measuring the notional "distance" of three states, namely, Goa, Punjab and Maharashtra and also the share of the Union Territories. The "distance" so derived for each State is multiplied by the population of 1971, and the products give the relative shares of the States in the devolution portion (45%) assigned to the factor of "distance".

5.9 Population as a factor for the distribution of taxes has been given different weights by successive Finance Commissions. The previous Finance Commission assigned 22.5 per cent weight to this factor in the distribution of the share. Population is considered to be a significant determinant of the needs of the people. However, since population is used as a scale factor in applying the "distance" and the "inverse of per capita income" criteria, even with a separate weight of only 22.5 per cent to population, it gets a much higher weight in the overall scheme. Therefore, the weight currently being assigned to population, namely, 22.5 per cent (25 per cent of the 90 per cent) in the devolution of Income Tax would remain unchanged.

5.10 In our first report we had assigned a weight of 11.25 per cent to the inverse of per capita income of the State multiplied by 1971 population and an identical weight to the proportion of poor people in the State to the total number of poor people in the country. In our first report, we had said that the consensus in the Commission was "that the exclusive use of per capita income in addition to population would also not be appropriate because this measure does not adequately capture or reflect the state of well-being or otherwise among the majority of population of the States". We had also taken note of the argument adduced by some that if a criterion in addition to per capita income and population should be used, it should be some other appropriate

indicator of backwardness and not the relative number of poor people in a State. As indicated in the first report, we had a dialogue with the State Governments on this matter and also consulted leading economists and other experts. Several States did not approve of the introduction of the index of population below the poverty line in the devolution formula. They felt that State-wise data on the number of poor people below the poverty line were not statistically reliable. The argument was also advanced that the methodology of measurement was not conceptually sound because it had assumed the same amount of calorie requirement in all places regardless of terrain and climate and had also ignored price differentials. Some of the economists also felt that the degree of poverty as such was not a relevant criterion in deciding upon budgetary allocations. Since, even the backward States such as Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh did not favour the use of the criterion of people below the poverty line in the devolution formula, we have decided to drop it. However, in order to supplement the use of per capita SDP, we have evolved a composite index of backwardness based on more sturdy data. The composite index of backwardness evolved by us comprises a combination of two indices, namely, population of Scheduled Castes and Scheduled Tribes and the number of agricultural labourers in different States, as revealed in the census for 1981. We feel that these two indicators would serve to reflect poverty and backwardness in large measure. An additional reason for adopting this criterion in the formula of devolution is to reduce the very high weight given to the factor of population, directly and indirectly. We have assigned equal weight in our computation to the two factors. The States having larger share of these two components are required to bear substantial expenditure responsibilities. The census data for Assam for 1981 are not available and, therefore, the figures have been derived by taking the 1971 data and by applying thereto the past growth rates of population. To this new criterion the data relating to which are shown in Annexures V.3A and V.3B we assign a weight of 11.25 per cent.

5.11 We propose to retain the weight of 11.25 per cent to the factor of inverse of per capita income multiplied by the population of the State for 1971.

5.12 To sum up, we recommend that the shareable proceeds of Income Tax be distributed among the States in the following manner :-

- (i) 10 per cent on the basis of "contribution" as measured by the assessment of Income Tax for the years 1985-86 to 1987-88.
- (ii) 45 per cent on the basis of "distance" of the per capita income of a State from that of the State with the highest per capita income multiplied by the 1971 population of the State concerned as indicated in paragraph 5.8.
- (iii) 22.5 per cent on the basis of the population of the State in 1971.
- (iv) 11.25 per cent on the basis of a composite index of backwardness compiled by us.
- (v) 11.25 per cent on the basis of the inverse of per capita income multiplied by the population of the State in 1971.

5.13 To conclude, we recommend that for the period 1990-91 to 1994-95 :-

- (a) Out of the net distributable proceeds of Income Tax, a sum equal to 1.437 per cent shall be deemed to represent the proceeds attributable to Union Territories;
- (b) the share of net Income Tax proceeds assigned to the States should be 85 per cent; and
- (c) the distribution among the States of the share assigned to each of them in each financial year should be on the basis of the percentages shown in the table below :-

Share of States from Income Tax:1990-91 To 1994-95

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

5.14 Shri Justice A.S. Qureshi, Member, does not agree with the sharing of the proceeds of Income Tax as outlined above. He is of the view that the receipts from Corporation Tax should also be made part of the divisible pool and shared with the States. His views in the matter have been given separately in his note of dissent.

Distribution of Additional Excise Duties in lieu of Sales Tax

5.15 We now examine the principles governing the distribution of the net proceeds of Additional Duties of Excise among the States as required under paragraph 5(a) of our terms of reference. We had discussed at length in our first report the recommendations of the previous Finance Commissions and the points made to us by the different States regarding the principles of distribution. We maintain the view expressed in our first report that since the Additional Duties of Excise are levied in lieu of sales tax which itself is a tax on consumption, the shares of various States should correspond to their shares in the consumption of these commodities. Direct and reliable data of State-wise consumption of these commodities, however, could not be obtained, all our efforts since the submission of our first report to secure the same notwithstanding. The most comprehensive source of data we could have used is the National Sample Survey (NSS) data. We found that the NSS 38th round survey data, for which computer sheets were ready, suffered from the same infirmities as we had mentioned in detail in our first report. We were in no position to use these data as there were discrepancies between the description of the articles on which Additional Excise Duties were leviable and those included in the 38th round. Also, it was felt that the NSS data did not capture fully the expenditure made by the higher income groups on the specified items. The data from the 43rd round were not available in time for our use. The search for the figures of consumption led us to other sources as well. We enquired from the Textile Committee under the Ministry of Textiles whether they could supply us the required data relating to textiles. We found that the publications which the Textiles Committee brought out did not have the State-wise consumption data which we could make use of. We also checked and found that the various Textile Research associations like the South India Textile Research Association, the Bombay Textile Research Association and the Ahmedabad Textile Industries Research Association also did not maintain the type of data that we required. Likewise, no State-wise consumption figures in

respect of tobacco could be obtained by us. This is not surprising in view of the nature of the product.

5.16 The Government of India does not compile State-wise consumption data in respect of sugar. Only the despatch figures of sugar to individual States (both levy and free sale) are available. We did not feel inclined to use them as proxies for the figures of State-wise consumption of sugar for the obvious reason that while inter-State movement of levy sugar is banned, there is no such restriction in respect of sugar meant for free sale. Moreover, we cannot ignore the fact that the markets of one State often serve the requirements of people in other States. The figures of despatch to a State do not necessarily represent the levels of consumption in that State. We also considered whether our purpose could be served by the data of production of these three commodity groups in the respective States. We concluded that since we were looking for consumption data (as Sales Tax is mainly a tax on consumption) and production figures in a State cannot be taken to indicate consumption therein, it would be unfair to the consuming States with little or no production if we use production data.

5.17 This leaves us in no better position than we were before submission of our first report. Hence, for this report also we have relied on proxies, namely, SDP and population of the respective States. We have assigned equal weights to SDP and population in determining the shares of the individual States in the net proceeds of Additional Duties of Excise. We have used the New Series of comparable estimates of SDP averaged for three years 1982-83 to 1984-85 (Annexure V.4).

5.18 As far as population is concerned, we are making a departure from our first report. Earlier we had adopted the 1971 population for calculating the shares of the States. We have re-considered at length whether for calculating the shares of the States in the net proceeds of Additional Duties of Excise, the 1971 or the 1981 census figures of population should be used. Paragraph 6 of the terms of reference, no doubt, lays down that this Commission should adopt the population of 1971 in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid. But the question is whether distribution of Additional Duties of Excise is really devolution or grant.

5.19 The fact that the proceeds of Additional Excise Duties are distributed only in pursuance of a tax rental arrangement between the Centre and the States (which has its origin in the National Development Council meeting of 1956) would clearly imply that this distribution cannot be treated as devolution or grant-in-aid in the sense that these terms are normally understood. The terms of reference would, therefore, not bind us to use the 1971 population for computing the States' share of Additional Excise Duties. But for the tax rental arrangement, the States would have been collecting Sales Tax on the current consumption of the relevant commodities. Since population is being used only as a proxy for consumption alongwith SDP, we consider it as only logical that any criterion which links the shares of the States nearest to the consumption of the relevant items in the individual States should be preferred. Viewed from this angle, one would be justified in calculating the shares even on the basis of the projected population of each year of the period of our report. However, we felt that it might not be safe to use projections which could go wrong. It was preferable to use the 1981 census figures of population (the latest available) for computing the States' shares of Additional Duties of Excise. We have, therefore, used the New Series of comparable estimates of SDP averaged for three years 1982-83 to 1984-85, alongwith the 1981 census figures of population in determining the shares of the States *inter se* in the net proceeds of Additional Duties of Excise (Annexure V.5).

5.20 For working out their share, the Union Territories should be treated notionally as one unit and the share determined on the same basis as applicable to the States. The share of the Union Territories which amounts to 1.903 per cent should be retained by the Central Government. The balance would be distributed

among the States in each year in accordance with the percentage shares given in the table below:

Share of States from Additional Excise Duties in lieu of Sales Tax, 1990-91 to 1994-95

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	5.905
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

Grant in lieu of Tax on Railway Passenger Fares

5.21 Tax on Railway Passenger Fares is one of the items mentioned in Article 269 of the Constitution. In terms of paragraph 5(b) of our terms of reference we are required to suggest changes, if any, in the principles governing the distribution of the grant in lieu of the tax under the repealed Railway Passenger Fares Tax Act, 1957.

5.22 The historical background leading to the practice of giving grants to the States in place of the repealed tax on Railway Passenger Fares has been given in our first report. Briefly, the tax which was first imposed in 1957 was repealed in 1961. In fact, the tax was merged with the basic fare and the grant was introduced only to compensate the States for the consequential loss of revenue. The tax was revived in 1971 and again repealed in 1973.

5.23 The principles on the basis of which the earlier Finance Commissions distributed the grants have been summarised and examined in our first report. The Seventh Commission adopted the formula of distribution of the grant in proportion to the non-suburban passenger earnings from traffic originating in each State. The Eighth Commission endorsed this practice. That Commission found it only logical that the taxable event being the payment of fare, the States should get the grant on the basis of the fare, paid within their boundaries. The route or the length of the journey was not material. In our first report, we found the logic adopted by the Seventh and the Eighth Commissions to be sound. We see no reason to change our view.

5.24 Our terms of reference do not directly enjoin upon us to make any recommendation about the quantum of the grant. We are of the view that it would not be particularly meaningful to consider the principles of distribution of the grant without going into its size - that would be an exercise in vacuum. On this; some States have demanded that the grant should be 10.7 per cent of the non-suburban railway passenger earnings (because this was the incidence when the tax was in force) and that this proportion should be maintained in each of the years 1990-95. In other words, the grant should be 10.7 per cent of railway passenger earnings in each of the future years.

5.25 The Railways have again strongly pleaded that increasing the amount of the grant beyond its current size of Rs. 95 crore annually would put their developmental efforts in jeopardy. They have again drawn our attention to the fact that they are subsidising not only passenger traffic but also freight traffic. In a communication sent to us for our second report, they have stated that the impact of social obligations borne by them in 1987-88 (estimated) was close to Rs. 1,760 crore by way of subsidisation of passenger fares and tariff on low-rated commodities. Their case is that Railway receipts should not be treated on par with Central Government's general tax revenues, part of which devolves on the States. The Railways have to find adequate resources to provide a modern and efficient transport infrastructure to meet the demands of a growing economy which is acquiring further complexity and sophistication.

5.26 In paragraph 8.22 of our first report, we had stated that we would, for the purpose of our second report, revert to the question of the size of the grant. Having said this, we have examined it on the basis of Railways' accounts, balance-sheet and budget documents. We have come to the conclusion that the Railways cannot bear the burden of 10.7 per cent incidence of the grant on non-suburban passenger fares without their finances and performance being seriously affected. The alternative of raising the railway fares in order to pay more to the States does not appeal to us. At the same time, we are of the opinion that the quantum cannot remain pegged at Rs. 95 crore. Considering all aspects of the matter and the interest of the States as well as of the Railways, we feel that it would be reasonable and fair to fix the grant at a lumpsum amount of Rs. 150 crore per annum for each year of the period of the report, 1990-95. On the subject of quantum, Shri Justice A.S. Qureshi, Member, feels that the fair and equitable approach to the matter was to fully compensate the States for the loss as though there was no repeal of the Act. The Railway Passenger Fares Tax when in force amounted to 10.7 per cent of Railways' non-suburban passenger fare earning and grant equivalent to this be paid to the States in each of the years 1990-95. Since the incidence of this amount would be around 3 per cent of Railways' total revenues from goods and passenger earnings, he feels that it could be borne by the Railways instead of any part of it being made up from the General Revenues of the Union Government as in the past. He also feels that the abolition of the tax without the consent of the States was not a correct step. Dr. Raja J. Chelliah, Member, is of the view that the case for increasing the grant in lieu of the repealed Railway Passenger Fares Tax is implicitly based on the earlier approach to the devolution of taxes whereby the principles of distribution were determined on the basis of criteria, all of which were independent of the assessments of the State Governments' revenues and expenditures. Under the new approach that this Commission has initiated, devolution and grants-in-aid have to be linked to the normatively assessed budgetary positions of the different States. This has required some reduction in the relative weight of devolution based on independent criteria. This being so, if more is given by way of grant in lieu of Railway Passenger Fares Tax, correspondingly less might have to be given by way of other shareable taxes. The States as a whole would not gain while the Railways might be put to difficulty. Furthermore, if the amount of the above grant is to be increased substantially, one would have to put the principles of its distribution on par with those of other shareable taxes; in fact, it is not clear why a proxy for passenger earnings in each State is being used now, when there is no tax rental arrangement involved. However, Dr. Chelliah does not wish to press this issue because the total amount involved is relatively small.

5.27 We are aware that in recent years the Railways have shown good performance in the field of freight traffic, wagon utilization, traffic density, track renewals, railway electrification, etc. Their inventory turn-over ratio and energy consumption have also shown favourable trends. Even then, we cannot ignore the fact that there is great scope to improve Railways' efficiency parameters, such as control of staff, better utilisation of rolling stock, checking of ticketless travel, prevention of wasteful

expenditure and greater productivity of investments by not taking up too many schemes and programmes whose inadequate funding leads to time and cost over-runs. The scope for curtailing staff and effecting savings would be much greater following the large scale computerisation undertaken by the Railways in recent years. All these should improve the developmental and modernisation work besides meeting the obligation of the grant to the States.

5.28 In our first report, we had also considered the suggestions of the States regarding the principles of distribution of the grant. In that report, following the recommendations of the Seventh and the Eighth Finance Commissions, we had recommended that the grant should be distributed among the States in proportion to the non-suburban passenger earnings from traffic originating in each State. We consider that the logic of our recommendation in the first report was sound and hence we do not find any reason to deviate from it in our second report.

5.29 We have obtained from the Ministry of Railways the latest actuals of non-suburban passenger earnings in respect of each State for the period 1984-85 to 1987-88, except for Mizoram which does not have a railway line or an out agency (Annexure V.6).

5.30 Summing up, we recommend as below :-

- (i) The quantum of the grant in lieu of Railway Passenger Fares Tax for 1990-95 should be Rs. 150 crore annually.
- (ii) The shares of the States in the grant in lieu of the repealed Tax on Railway Passenger Fares be allocated in the same proportion as the average of the non-suburban passenger earnings in each State in the years 1984-85 to 1987-88 bears to the average of the aggregate non-suburban earnings of all the States in those years. On this basis, the shares of the States in each year during 1990-95 would be as follows:-

Share of States from the Grant in lieu of Tax on Railway Passenger Fares: 1990-91 to 1994-95

States	Percentage Share
1. Andhra Pradesh	7.484
2. Arunachal Pradesh	0.008
3. Assam	1.509
4. Bihar	8.266
5. Goa	0.133
6. Gujarat	5.717
7. Haryana	1.637
8. Himachal Pradesh	0.098
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

Union Excise Duties

5.31 Now we take up the issue relating to the distribution, between the Union and the States, of the net proceeds of Union Excise Duties and the allocation among the States of such

proceeds, as required under paragraph 3(a) of our terms of reference.

5.32 Over the years, Finance Commissions have increasingly depended on Union Excise Duties in meeting the revenue needs of the States. This is in spite of the fact that Excise Duties are not compulsorily shareable under the Constitution. The modalities of sharing Union Excise Duties have, however, varied. The details were given in our first report. It also contained the views of the State Governments on different aspects of sharing the Union Excise Duties as also our observations on certain important issues having a bearing on the scheme of devolution. Since the submission of the first report we received further suggestions from some State Governments and we have considered them also.

5.33 Coming to the actual scheme of devolution we do not make any deviation from our earlier recommendation that the divisible pool of Excise Duties should include the net proceeds of all Excise Duties including Special Excise Duties but exclude duties collected under the Additional Duties of Excise (Textiles and Textile Articles) Act, 1978, and the earmarked cesses.

5.34 In our first report, we had recommended that 40 per cent of the net proceeds of Excise Duties should be distributed among all the States to take care of the revenue needs of the States in general. Another 5 per cent was earmarked to help the deficit States so that their non-Plan revenue deficits could be reduced. We are making a departure from this in that we propose to distribute the entire amount of 45 per cent as a consolidated amount without dividing it into two components of 40 per cent and 5 per cent.

5.35 We are also revising the formula of devolution adopted in our first report. While we are retaining the weights of population and IATP at the levels of 25 per cent and 12.5 per cent, respectively, we are reducing the weight for "distance" from 50 per cent to 33.5 per cent. In view of the poor quality of available data and for the reasons stated in paragraph 5.10, we are doing away with the poverty ratio. As in the case of the formula for devolution of Income Tax, 12.5 per cent weight is being given to backwardness in place of poverty ratio. On these criteria 83.5 per cent of the State's share of Union Excise Duties is allocated among all the States. In our first report, we had adopted the approach of the Eighth Finance Commission that the scheme of devolution should, inter alia, take account of the revenue deficits of the States. On this basis 5 per cent of the net proceeds of Union Excise Duties was set aside for the deficit States. The normative approach adopted by us in this report in reassessing the revenue receipts and expenditure has much wider coverage than what was adopted by the earlier Commissions. As pointed out in Chapter II, under a scheme of normative assessment it is only equitable that the resultant deficits are also considered in the broad scheme of devolution itself. This can be ensured, more appropriately, while formulating the scheme of sharing of Union Excise Duties, which is discretionary unlike Income Tax, under the Constitution. On this basis the remaining net proceeds of 16.5 per cent will be distributed among the States which will have a non-Plan revenue deficit after taking into account their shares from the devolution of all taxes and duties, including the shares of Excise Duties, as indicated above, and also the grants in lieu of the repealed Tax on Railway Passenger Fares. Distribution should be done on the basis of the proportion of deficit of each State to the total of all States' deficits worked out by us.

5.36 Accordingly, we recommend that the distribution among the States in 1990-95 of 45 per cent of the net proceeds of Union Excise Duties should be done in the following manner:-

- (i) 25 per cent should be distributed among the States on the basis of 1971 population.
- (ii) 12.5 per cent should be distributed among the States on the basis of Income Adjusted Total Population (IATP). For calculating IATP, the 1971 population of the States should be weighted with the inverse of the average per capita income as per the New Series for the triennium 1982-83 to 1984-85. The share of a State is to be determined by the percentage of the Income Adjusted Total Population of that State to the aggregate of the income adjusted total population of all States.
- (iii) 12.5 per cent should be distributed on the basis of the index of backwardness.
- (iv) 33.5 per cent should be distributed on the basis of "distance" of per capita income (New Series) of a State during the triennium 1982-83 to 1984-85 from that of the State having the highest per capita income, i.e., Punjab, as indicated in paragraph 5.8, multiplied by its 1971 population.
- (v) The remaining 16.5 per cent should be distributed among the States with deficits, after taking into account their shares from the Income Tax, Excise Duties under clauses (i) to (iv) above, Additional Excise Duties in lieu of Sales Tax and the grant in lieu of the repealed Tax on Railway Passenger Fares. Distribution should take place on the basis of the proportion of deficit of each State to the total of all States' deficits worked out by us.

5.37 The percentage share of each State as worked out by us for the Union Excise Duties during each year of 1990-95 is given in the table below:-

**Share of States from Union Excise Duties:
1990-91 to 1994-95**

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