

TERMS OF REFERENCE OF THE NINTH FINANCE COMMISSION

Paras 3-10 of the Presidential Order dated 17th June, 1987 containing the terms of reference of the Ninth Finance Commission are reproduced:-

3. The Commission shall make recommendations as to the following matters:-

- (a) 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 the respective shares of such proceeds;
- (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article.

4. In making its recommendations, the Commission shall:-

- (i) adopt a normative approach in assessing the receipts and expenditures on the revenue account of the States and the Centre and, in doing so, keep in view the special problems of each State, if any, and the special requirements of the Centre such as defence, security, debt servicing and other committed expenditure or liabilities;
- (ii) have due regard to the need for providing adequate incentives for better resource mobilisation and financial discipline as well as closer linking of expenditure and revenue raising decisions;
- (iii) take into account the need for speed, efficiency and effectiveness of Government functioning and of delivery systems for Government programme; and
- (iv) keep in view the objective of not only balancing the receipts and expenditure on revenue account of both the States and the Centre, but also generating surpluses for capital investment.

5. The Commission may suggest changes, if any, to be made in the principles governing the distribution among the States of:-

- (a) the net proceeds in any financial year of the additional duties of excise leviable under the Additional Duties of Excise (Goods of special Importance) Act, 1957 (58 of 1957); and
- (b) the grants to be made available to the States in lieu of the tax under the repealed Railway Passenger Fares Tax Act, 1957 (25 of 1957).

6. In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 1971 in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.

7. The Commission may examine the feasibility of the merger of additional duties of excise in lieu of sales tax with basic duties of excise and evolve a suitable formula for allocating a part of the duties of excise in respect of the goods described in column(3) of the First Schedule to the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957) for distribution among the States, in lieu of sales tax.
8. The Commission may make an assessment of the debt position of the States as on the 31st day of March, 1989 and suggest such corrective measures as deemed necessary keeping in view the financial requirements of the Centre. The corrective measures will be with particular reference to investments made in infrastructure projects and shall have linkage with improvements in financial and managerial efficiency.
9. The Commission may review the policy and arrangements in regard to the financing of relief expenditure by the States affected by natural calamities and suggest such modifications as it considers appropriate, in the existing arrangements, having regard, among other considerations, to the need for avoidance of wasteful expenditure. The Commission may examine, inter alia, the feasibility of establishing a national insurance fund to which the State Governments may contribute a percentage of their revenue receipts.
10. On the matters aforesaid, the Commission shall make two reports, the first report covering a period of one year commencing on the 1st day of April, 1989, by the 30th June, 1988, and the second report covering a period of five years commencing on the 1st day of April, 1990, by the 30th June, 1989. (By subsequent notifications dated the 30th June, 1988, and 13th June 1989 respectively the Commission was to make their first Report by 31st July, 1988 and second Report by 31st December, 1989.)