

Explanatory Memorandum as to the action taken on the recommendations made by the Tenth Finance Commission in its Report submitted to the President on November 26, 1994.

The Report of the Tenth Finance Commission covering the five years period commencing from April 1, 1995 together with the Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of article 281 of the Constitution. A summary of the Commission's main recommendations relating to devolution of taxes and duties to the States, grants-in-aid under Article 275 of the Constitution, financing of relief expenditure and debt relief to the States and other matters is contained in Chapter XVI of the Report of the Commission.

2. SHARES OF CENTRAL TAXES AND DUTIES

For the period of five years commencing from April 1, 1995, recommendations contained in the Report of the Finance Commission relating to sharing of Income tax, Union Duties of Excise, Additional Excise Duties in lieu of States' sales tax, have been accepted by Government. The recommendations of the Commission relating to grants in lieu of the repealed tax on railway passenger fares have also been accepted by Government. The recommendation of the Commission that the receipts on account of `interest recoveries' and `penalties' under the Income tax Act should be shared with the States with effect from April 1, 1995, has been accepted by the Government.

3. GRANTS-IN-AID OF THE REVENUES OF STATES UNDER THE SUBSTANTIVE PROVISIONS OF ARTICLE 275 OF THE CONSTITUTION

- (i) Grants-in-aid to cover non-Plan gap on Revenue Account

The Government has accepted the recommendations contained in the Report of the Commission for payment of grants-in-aid of the revenues of certain States under the substantive provisions of Article 275(1) of the Constitution towards meeting their non-Plan revenue gap as assessed by the Commission for the five years 1995-2000.

- (ii) Grants-in-aid for upgradation of standards of administration and specific grants to certain States for special problems

The Government has accepted the recommendations of the Commission for making grants-in-aid to States for upgradation of standards of administration and specific grants to certain States for special problems for the four years commencing from April 1, 1996 as recommended by the Commission.

(iii) Grants to States for financing local bodies

The Government has accepted the recommendations of the Commission for making grants to the States for Panchayati Raj Institutions as well as for the Urban Municipal Bodies during the four years period commencing from April 1, 1996. These grants will be treated as part of the Plan of the State Governments, earmarked to be transferred to local bodies.

(iv) Financing of Relief Expenditure

The Government has accepted the recommendations of the Commission relating to the continuation of the existing scheme of Calamity relief fund with an enhancement in the corpus of the Calamity Relief Fund. As recommended by the Commission, the existing scheme will be modified in consultation with the States so as to provide flexibility in the choice of avenues for investment. The Government has also accepted the recommendations of the Finance Commission in regard to setting of a Rs. 700 crore National Fund for Calamity Relief (NFCR). The arrangements for the custody and operation of the fund will be separately worked out in consultation with the Comptroller and Auditor General of India and the Reserve Bank of India.

(v) Debt Relief: The Government has accepted the recommendations of the Commission in regard to debt relief including two new schemes of general debt relief for all States, one linked to the fiscal performance of the States and the other linked to the utilisation of proceeds of disinvestment in State Public Enterprises for retiring Central loans.

4. IMPLEMENTATION

The Commission's recommendations fall in four categories:

- (i) Those to be implemented by an Order of the President.
- (ii) Those to be implemented by Law of Parliament.
- (iii) Those to be implemented by executive orders.
- (iv) Those to be examined further.

The recommendations under articles 270 and 275(1) of the Constitution relating to income tax and grants-in-aid, respectively, fall in the first category and the necessary order will be submitted to the President for approval.

Recommendations relating to distribution of Union Excise Duties including Additional Duties of Excise in lieu of Sales Tax (under Article 272 of the Constitution) fall in the second category. Necessary legislation will be promoted for implementing these recommendations.

The recommendations relating to distribution of grants to States in lieu of tax on railway passenger fares and debt relief will be implemented by executive orders.

Other recommendations of the Commission will be considered in due course.

Sd/-

Manmohan Singh
Minister of Finance

New Delhi
March 14, 1995