

SUMMARY OF RECOMMENDATIONS

16.1 Our important recommendations to the President are set out below.

Income Tax

16.2 We recommend that for each financial year in the period 1995-96 to 1999-2000 :

(a) Out of the net distributable proceeds of income tax, a sum equal to **0.927 per cent** shall be deemed to represent the proceeds attributable to Union Territories.

(b) The share of the net proceeds of income tax assigned to the States shall be **77.5 per cent**.

(c) The distribution among States of the share assigned to them in each financial year should be on the basis of the percentages shown in the **Table** below :

Income Tax : Shares of States 1995 - 2000

State	Per cent
Andhra Pradesh	8.465
Arunachal Pradesh	0.170
Assam	2.784
Bihar	12.861
Goa	0.180
Gujarat	4.046
Haryana	1.238
Himachal Pradesh	0.704
Jammu & Kashmir	1.097
Karnataka	5.339
Kerala	3.875
Madhya Pradesh	8.290
Maharashtra	6.126
Manipur	0.282
Meghalaya	0.283
Mizoram	0.149
Nagaland	0.181
Orissa	4.495
Punjab	1.461
Rajasthan	5.551
Sikkim	0.126
Tamil Nadu	6.637
Tripura	0.378
Uttar Pradesh	17.811
West Bengal	7.471
TOTAL	100.000

(Para 5.47)

Union Excise Duties :

16.3 We recommend that **40 per cent** of the net proceeds of Union excise duties during each financial year in the period 1995-96 to 1999-2000 should be distributed as per the shares in the **Table** below :

40 per cent of the net proceeds of Union Excise Duties :

Shares of States 1995 - 2000

State	Per cent
Andhra Pradesh	8.465
Arunachal Pradesh	0.170
Assam	2.784

Bihar	12.861
Goa	0.180
Gujarat	4.046
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Rajasthan	5.551
Sikkim	0.126
Tamil Nadu	6.637
Tripura	0.378
Uttar Pradesh	17.811
West Bengal	7.471
TOTAL	100.000

(Para 5.48)

16.4 We also recommend that the remaining **7.5 per cent** of the net proceeds of Union excise duties be distributed among the States in accordance with the shares specified by us for each financial year in the period 1995-96 to 1999-2000 as given in the **Table** below.

Shares of States in 7.5 per cent of the net proceeds of Union Excise Duties

State	(per cent)				
	1995-96	1996-97	1997-98	1998-99	1999-2000
(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	12.069	7.988	0.000	0.000	0.000
Arunachal Pradesh	3.410	4.300	5.871	6.224	6.667
Assam	8.543	9.836	11.849	10.748	9.290
Bihar	6.434	2.965	0.000	0.000	0.000
Goa	0.973	1.058	1.161	0.917	0.604
Himachal Pradesh	8.816	10.744	14.057	14.230	14.338
Jammu & Kashmir	13.366	16.491	21.985	22.741	23.700
Manipur	3.930	4.891	6.602	6.917	7.348
Meghalaya	3.590	4.403	5.815	5.994	6.130
Mizoram	3.676	4.628	6.278	6.784	7.074
Nagaland	5.818	7.417	10.247	11.072	12.025
Orissa	4.815	5.248	4.934	2.773	0.680
Rajasthan	0.835	0.000	0.000	0.000	0.000
Sikkim	1.199	1.473	1.938	1.982	2.055
Tripura	5.465	6.807	9.263	9.618	10.089
Uttar Pradesh	17.061	11.751	0.000	0.000	0.000
TOTAL	100.000	100.000	100.000	100.000	100.000

(Para 5.49)

Devolution : An Alternative Scheme

16.5 Having regard to the share of States in income tax, Union excise duties, and grant-in-lieu of tax on railway passenger fare in total central tax revenues (including additional excise duties), and the fact that we are recommending inclusion of some taxes under article 269 in the central pool, we recommend that the share of States in the gross receipts of central taxes shall be **26 per cent**. We further recommend that the tax rental arrangement should be terminated, and additional excise duties merged with basic excise duties. These three commodities should not be subject to States sales tax. Having done so we recommend a further share of **three per cent** in the gross tax receipts of the Centre for the States in lieu of additional excise duties. These shares of twenty six and three per cent respectively should be suitably provided for in the Constitution and reviewed once in 15 years.

(Para 13.14)

16.6 We believe there is some advantage in retaining a system such as in article 268, where a tax is levied by the Union Government but collected and retained by the States, in the interest of uniformity of rates. Because Central sales tax, already being levied, and consignment tax, if and when levied, are similar to the taxes under article 268, we have decided to keep them out of the pool of central taxes. All other taxes in article 269 shall form part of the central pool.

(Para 13.17)

16.7 The Centre should continue to have the power to levy surcharges for the purposes of the Union and these should be excluded from the sharing arrangements with the States.

(Para 13.19)

16.8 We would recommend that the alternative scheme of resource sharing suggested by us may be brought into force with effect from 1st April, 1996 after necessary amendments to the Constitution. This should not affect the inter-se shares and grants recommended by us.

(Para 13.20)

Additional Duties of Excise

16.9 The share of Union territories amounting to **2.203 per cent** should be retained by the Central Government. We recommend that the balance should be distributed among the States as shown in the Table below.

State	Percentage share
Andhra Pradesh	7.820
Arunachal Pradesh	0.104
Assam	2.483
Bihar	7.944
Goa	0.232
Gujarat	5.995
Haryana	2.366
Himachal Pradesh	0.595
Jammu & Kashmir	0.856
Karnataka	5.744
Kerala	3.740
Madhya Pradesh	7.236
Maharashtra	12.027
Manipur	0.197
Meghalaya	0.188
Mizoram	0.079
Nagaland	0.137
Orissa	3.345

Punjab	3.422
Rajasthan	4.873
Sikkim	0.053
Tamilnadu	7.669
Tripura	0.286
Uttar Pradesh	14.573
West Bengal	8.036
TOTAL	100.000

(Para 6.19)

Grants-in-lieu of tax on Railway Passenger Fares

16.10 We recommend that :

- The quantum of the grant in lieu of the Railway Passenger Fares Tax for 1995-2000 should be Rs.380 crores annually.
- The shares of States in the grant would be as in the Table below :

State	Percentage share
Andhra Pradesh	8.345
Arunachal Pradesh	0.005
Assam	1.368
Bihar	9.326
Goa	0.194
Gujarat	6.901
Haryana	1.917
Himachal Pradesh	0.108
Jammu & Kashmir	0.728
Karnataka	3.388
Kerala	3.495
Madhya Pradesh	6.882
Maharashtra	17.548
Manipur	0.018
Meghalaya	0.034
Mizoram	0.001
Nagaland	0.145
Orissa	1.715
Punjab	3.280
Rajasthan	4.445
Sikkim	0.010
Tamil Nadu	6.458
Tripura	0.039
Uttar Pradesh	15.568
West Bengal	8.082
Total	100.000

(Para 7.12)

Upgradation Grants

16.11 We recommend a total sum of **Rs 2,608.50** crores as grants for upgradation and special problems for the period 1995-2000.

(Para 8.15)

Financing of Relief Expenditure

16.12 The amount worked out for all the States for the period of our Report is **Rs.6304.27** crores. Out of this, the Centre will be required to contribute **Rs.4728.19** crores (**75 per cent**) and the States **Rs.1576.08** crores (**25 per cent**). We recommend the continuation of the current scheme of the Calamity Relief Fund with modifications suggested by us.

(Para 9.15)

16.13 We propose that in addition to the Calamity Relief Funds for States, a National Fund for Calamity Relief should be

created to which the Centre and the States will contribute and which will be managed by a National Calamity Relief Committee on which both the Centre and the States would be represented.

(Para 9.18)

16.14 The size of the National Fund for Calamity Relief would be **Rs.700 crores**, to be built up over the period 1995-2000, with an initial corpus of **Rs.200 crores** to which the Centre would contribute **Rs.150 crores** and the States **Rs.50 crores** in the proportion of 75:25. In addition, for each of the five years from 1995-96 to 1999-2000 the contributions of the Centre and the States would be **Rs.75 crores** and **Rs.25 crores** respectively. The contribution by both the Centre and the States would be made annually in the beginning of the financial year. Contribution of States *inter-se* would be in the same proportion as their estimated total tax receipts after devolution.

(Para 9.20)

Grants for Local Bodies:

16.15 A total grant of **Rs 5,380.93** crores should be made available to the States in four equal instalments commencing from 1996-97.

(Para 10.20)

Grants-in-Aid

16.16 We recommend grants-in-aid, to be given to the States under the substantive portion of Article 275(1), equal to the amount of the deficits as estimated for each of the years during 1995-96 to 1999-2000. These amounts have been specified in the **Table** below:

	1995-96	1996-97	1997-98	1998-99	1999-00	1995-2000
Andhra Pradesh	483.47	202.98	0.00	0.00	0.00	686.45
Arunachal Pradesh	136.60	109.26	45.63	16.11	0.00	307.60
Assam	342.20	249.94	92.08	27.81	0.00	712.03
Bihar	257.72	75.34	0.00	0.00	0.00	333.06
Goa	38.98	26.88	9.03	2.37	0.00	77.26
Himachal Pradesh	353.11	273.00	109.25	36.82	0.00	772.18
Jammu and Kashmir	535.39	419.05	170.85	58.84	0.00	1184.13
Manipur	157.43	124.28	51.31	17.90	0.00	350.92
Meghalaya	143.83	111.89	45.19	15.51	0.00	316.42
Mizoram	147.25	117.60	48.79	17.55	0.00	331.19
Nagaland	233.04	188.46	79.63	28.65	0.00	529.78
Orissa	192.87	133.35	38.34	7.18	0.00	371.74
Rajasthan	33.45	0.00	0.00	0.00	0.00	33.45
Sikkim	48.05	37.45	15.06	5.13	0.00	105.69
Tripura	218.92	172.98	71.99	24.89	0.00	488.78
Uttar Pradesh	683.40	298.60	0.00	0.00	0.00	982.00
Total	4005.71	2541.06	777.15	258.76	0.00	7582.68

16.17 We recommend that in case the actual realisation of the concerned States from royalty is higher than that assumed in our estimates, it would be open to the Central Government to make suitable adjustments in the grants-in-aid under **Article 275** recommended by us for meeting their non-plan revenue deficits.

(Para 3.22)

Debt Relief

16.18 We have recommend a scheme for debt relief in two parts :

- a scheme for general debt relief for all States linked to fiscal performance; and
- specific relief for States with high fiscal stress, special category States and States with debt problems warranting special attention.

(Para 12.36)

16.19 In addition we recommend a scheme for encouraging retirement of debt from the proceeds of disinvestment of equity holdings of State Governments.

(Para 3.20)

16.20 We recommend specific relief for all special category States, and three other States, viz. Orissa, Bihar and Uttar Pradesh, which are characterised by high fiscal stress. For these States we recommend writing-off of 5 per cent of repayment due with respect to fresh central loans given during 1989-95 and outstanding on 31st March, 1995.

(Para 12.39)

16.21 We recommend the waiver of one third of the repayment of principal falling due during 1995-2000 on special term loans to Punjab in view of the special circumstances when these term loans were advanced and the need for the State to re-invigorate its development efforts.

(Para 12.40)

Monitoring of Maintenance Expenditure

16.22 We recommend that the presentation of accounts should be redesigned in such a way that the expenditure on the works component and the establishment expenses get reflected separately and are easily accessible. We recommend that the Ministry of Finance, in consultation with the State Governments and with the concurrence of the Comptroller and Auditor General of India, should introduce appropriate changes in the accounting and reporting system in accordance with the scheme outlined by us.

Para 3.62)

16.23 We also recommend that the State Governments should ensure that the provisions for maintenance are made in accordance with our recommendations. We further recommend that a high powered committee chaired by the Chief Secretary and with secretaries of the State Governments concerned in the departments of Finance, Planning, Irrigation and Public Works and the concerned chief engineers of the works departments should review every quarter the allocation and utilisation of funds provided for maintenance.

(Para 3.63)

Finance Commission Division

16.24 We recommend that a full-fledged Division, appropriately staffed, and with adequate technical expertise, be created at the earliest under a senior officer and made to function within the Ministry of Finance so that it can discharge the functions assigned to it. State Governments may also be asked to designate officers whose duty it would be to liaise with the Division to ensure continuity of contact and updating of information.

(Para 15.15)

(Krishna Chandra Pant)
Chairman

(Debi Prosad Pal)
Member

(B.P.R. Vithal)
Member

(Manu R. Shroff)
Member

(Arun Sinha)
Member Secretary

New Delhi
25th November, 1994

We wish to place on record our appreciation of the help we have received from our two Member Secretaries, Shri M.C. Gupta and Shri Arun Sinha. Shri Gupta was with us till January 1994 by which time the painstaking work of organising the office, collecting the requisite material and arranging discussions with several groups as well as State Governments was completed. His initiative and drive during this phase greatly facilitated our work.

Shri Sinha's patience, perseverance, tact, and leadership helped him get the best out of the team working with him. He coordinated their efforts effectively in the final stages of our work and during the preparation of our report. We were fortunate in having an officer of his calibre and experience at this juncture. We wish to record our gratitude to him.

(Krishna Chandra Pant)
Chairman

(Debi Prosad Pal)
Member

(B.P.R.Vithal)
Member

(Manu R. Shroff)
Member

New Delhi
25th November, 1994