

## STATEMENT OF OBJECTS AND REASONS

The Tenth Finance Commission had submitted its report on the 26th November, 1994 for the period of five years, *i.e.*, from 1995-96 to 1999-2000. The said report was laid on the table of both the Houses of Parliament on the 14th March, 1995. One of the recommendations of the Commission that has been under consideration of the Government is an alternative scheme of sharing of the proceeds of certain Union taxes and duties between the Union and the States.

2. The alternative scheme envisages that twenty-six per cent. out of the gross proceeds of Union taxes and duties (excluding stamp duty, excise duty on medicinal toilet preparations, Central Sales Tax, Consignment tax, cesses levied for specific purposes under any law made by Parliament and Surcharge) is to be assigned to the States in lieu of their existing share in income-tax, basic excise duties, special excise duties and grants in lieu of tax on railway passenger fares.

3. In addition, three per cent. share in the gross proceeds of all Central taxes and duties (excluding stamp duty, excise duty on medicinal /toilet preparations, Central Sales Tax, Consignment tax, cesses levied for specific purposes under any law made by Parliament and Surcharge) is to be assigned to the States in lieu of their existing share in Additional Excise Duties in lieu of Sales Tax on tobacco, cotton and sugar. The Commission had proposed that tobacco, cotton and sugar may continue to be exempt from Sales Tax and the Additional Excise Duties in lieu of Sales Tax on these items may be merged with the Basic Excise Duties.

4. Whether the alternative scheme would be more gainful to the Centre or to the States *vis-a-vis* existing arrangements would entirely depend on the relative growth in the Collection of various Central taxes and duties to be pooled.

5. The benefits of the scheme have been listed by the Commission in para 13.2 and 13.3 and 13.18 of their reports. These are as follows :—

(i) with a given share being allotted to the States in the aggregate revenues from Central taxes, the States will be able to share the aggregate buoyancy of Central taxes;

(ii) the Central Government can pursue tax reforms without the need to consider whether a tax is shareable with the States or not;

(iii) the impact of fluctuations in Central tax revenues would be felt alike by the Central and the State Governments;

(iv) should the taxes mentioned in articles 268 and/or 269 form part of this arrangement, there will be a greater likelihood of their being tapped; and

(v) the progress of reforms will be greatly facilitated if the ambit of tax sharing arrangement is enlarged so as to give greater certainty of resource flows to, and increased flexibility in tax reform.

6. The above scheme recommended by the Commission is in national interest as it helps to remove a perceived inter-tax bias in the tax mobilisation effort of the Government of India while leaving sufficient flexibility for meeting Centre's exclusive needs by keeping Cesses and Surcharges outside the pooling arrangement.

7. A Discussion Paper bringing out various aspects of the scheme was laid on the table of both the Houses of Parliament on the 20th December, 1996 with a view to generate an informed debate.

8. On the basis of a consensus reached in the Third Meeting of the inter-State Council held on the 17th July, 1997, the then Government had agreed in principle to accept the scheme recommended by the Tenth Finance Commission subject to certain modifications.

9. The Government has decided to ratify the decision taken by the previous Government according in principle approval for the scheme recommended by the Tenth Finance Commission with some modifications.

10. Firstly, the percentage share of States is to be reviewed by successive Finance Commissions instead of freezing it for fifteen years as suggested by the Tenth Finance Commission.

11. Secondly, Government has decided to change the sharing of "gross proceeds" as recommended by the Tenth Finance Commission to the sharing of "net proceeds" in order to maintain consistency between articles 270, 279 and 280 of the Constitution. However, this will not result in any consequent loss to the States because the Government has also simultaneously decided to compensate the States by suitably enhancing the percentage share beyond 29%.

12. Thirdly, as intended by the Commission, no amendment is sought to be done in article 271 which authorizes the Central Government to levy surcharge on Central taxes and duties for the purpose of the Union.

13. The scheme will be effective from 1st April, 1996. The percentage share of net proceeds during 1996-97 to 1999-2000 will be such that the States' share is 29% of the gross proceeds. The recommendations of the 11th Finance Commission, which has been mandated to give its final report by 30th June, 2000, will cover the 5 year period w.e.f. 1st April, 2000.

14. In order to implement this decision, this Bill seeks to amend articles 269, 270 and 272 of the Constitution so as to bring several Central taxes and duties like Corporation tax and Customs duties at par with personal income-tax as far as their constitutionally mandated sharing with the States is concerned.

NEW DELHI;  
*The 25th February, 2000.*

YASHWANT SINHA.

[Copy of letter No. F. 10 (21)-B(S)/99, dated the 23rd February, 2000 from Shri Yashwant Sinha, Minister of Finance to the Secretary-General, Lok Sabha.]

The President, having been informed of the subject matter of the Constitution (Eighty-ninth Amendment) Bill, 2000 for giving effect to, with some modifications, the recommendations of the Tenth Finance Commission regarding an Alternative Scheme of Devolution of Central Taxes, recommends under article 274(1) and article 117(1) of the Constitution of India the introduction in and the consideration under article 117(3), of the Bill by Lok Sabha.

G. C. MALHOTRA,  
*Secretary-General.*

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