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APPENDIX I.

NOTES ON THE FEDERAL FORECAST.

(i) *Customs.*

General.—Each individual item of revenue under this major head has been scrutinised in the light of all relevant statistics and of the probable developments in the near future.

The maintenance of the existing tariff, omitting the emergency surcharges, has been assumed. The rates upon which our estimate is based are accordingly those laid down by the First Finance Act of 1931, except in regard to machinery, coal-tar dyes, raw cotton, and certain minor items, for all of which we have taken the rates of the Supplementary Finance Act of the same year. It has also been assumed, purely for the purpose of these calculations, that trade with Burma will be free, and that kerosene from Burma will pay the present rate of excise duty ($2\frac{1}{4}$ as. per gallon) and not the present rate of customs duty (3 as. per gallon).

We recognise the possibility of reduction in, or the removal of, the duties on machinery, coal-tar dyes and raw cotton; and against this possibility we set off the possibility of customs duties being levied, either in full or at reduced rates, on trade with Burma.

We also understand that the Government of India are considering the possibility of establishing land customs stations on the Afghan and certain other external frontiers where customs duties are not now levied, and if this be done the additional yield would amount to a substantial sum. We have not, however, taken this into account, but have preferred to treat it as a margin of safety against over-estimating.

Sugar, Cotton Piece-goods and Iron and Steel.—The revenue under these three principal protected items is bound to fall substantially if the protective policy is successful, and we have made the necessary allowance for this after studying the facts relating to consumption and local production.

Motor and Allied Trades.—We have assumed that the same share of the revenue from petrol duty will be allocated to the Road Fund as at present.

It is unlikely that there will be the rapid expansion of revenue under this head which was forecasted in the Note of the Central Board of Revenue attached to the Government of India's Despatch on Reforms, and we have allowed only for a moderate increase. It is not improbable that the diversion of a larger proportion of the proceeds of these duties than at present to a programme of road development might, in the long run,—though not immediately—result in a substantial increase in revenue.

We should, perhaps, add that we have received some evidence suggesting that the present burden of taxation, especially taxation by local authorities in certain Provinces, is unduly severe, and that some co-ordination of policy is desirable if the growth of motor traffic is not to be impeded.

Silver.—There is some reason to believe that, with the changing habits of the people, the money spent on silver may be diverted to the purchase of other luxuries. We have, therefore, made a conservative estimate of revenue from this head.

Jute.—Under this head also we have made a conservative estimate and have adopted a figure well below what has been reached in the past.

(ii) *Salt.*

No account has been taken of the special protective duty on imported salt, which is distributed to the Provinces.

(iii) *Opium.*

The figure under this head assumes that, when exports cease, opium will be sold to Provincial Governments by the Ghazipur Factory at cost price. (The Centrally Administered Areas have been treated as "provincial" for the purpose of the statement.) The only net revenue, therefore, will be that from Burma, if, as has been assumed, supplies are sold to that country at the same price as to colonial and foreign Governments. There are other possible sources of revenue, such as medical opium, but these seem too small and speculative to be taken into account.

(iv) *Railways.*

In assuming a sum of five crores as a contribution from the Railways to general revenues, we have regarded it as axiomatic that the Federal Government cannot acquiesce in the Railways being less than self-supporting. Indeed, this principle has been recognised in certain suggestions which have been made to us. It has, for example, been suggested, on the one hand, that the Railways, instead of paying a contribution to general revenues, should themselves assume direct responsibility for the amortisation of that part of the public debt which represents capital at charge in the Railways. The sum of five crores which we have assumed as the Railway Contribution is rather less than the amount set aside each year in the central budget for this purpose. Alternatively, it has been suggested that, if the capital in the Railways is regarded as an investment, the Central Government is entitled to expect to receive, in the form of interest at a higher rate than the rate at which it borrows, a sum sufficient to provide not only for the interest which it has itself to pay, but also for the writing down of the capital invested as a reserve against obsolescence. If interest were charged at 5 per cent., the difference would materially exceed five crores. We do not wish to associate ourselves definitely with either of these suggestions, but, having regard to all the relevant factors, it seems clear that, unless the Railways contribute a sum of the order of five crores to federal revenues, they would be receiving what would in effect be a subsidy from those revenues, and from our examination of the material submitted to us, we believe that the Railways should be able, in fact, to provide a contribution of this magnitude.

(v) *Currency and Mint.*

The normal revenue under this head, whether derived directly from the profits of currency management or indirectly from a share in the profits of a Reserve Bank constituted in accordance with the scheme embodied in the Reserve Bank Bill of 1928, may be expected to be about 3·80 crores, and we have adopted this figure. In the three years immediately following the establishment of a Reserve Bank, however, there will be a temporary reduction in the Government's receipts, amounting in the aggregate to about four crores. In a forecast such as we are attempting it seems justifiable to ignore this temporary fluctuation and to regard the loss of four crores, spread over the three years, as part of the cost of establishing the Reserve Bank. A possible way of providing for this temporary loss of revenue would be to establish a reserve fund in the years preceding the establishment of the Bank.

(vi) *Miscellaneous Revenue.*

We have retained an entry for Reparations and on the other hand have made provision for expenditure on account of War Contribution.

(vii) *Taxes on Income.*

The estimate under this head is based on the revenue which might have been realised in an average pre-slump year if the rates imposed in March, 1931, had been in operation, an appropriate deduction being made on account of the separation of Burma. If full allowance were made for all the following factors, the net result would be an increase in the estimate :—

- (a) The retention of the Rs. 1,000—2,000 zone of taxable income.
- (b) Amendments of the law which have been under consideration, such as the taxation of foreign investments and the removal of the exemption from company super-tax now enjoyed by companies in respect of the first Rs. 50,000 of their income.
- (c) Increased efficiency of collection.
- (d) The decrease in revenue which would result if Government were to allow the carry-forward of business losses, relieve companies from super-tax on their income from investments in other companies, and allow the deduction of company super-tax in assessing the profits of companies to income-tax.

(viii) *Debt Services.*

(a) *Net Interest.*—This entry represents the total interest paid by Government on its borrowings less interest receipts from the various departments, Provinces, States and individuals to whom Government has lent money. It is assumed that no change will be

made in the arrangements governing the rate of interest charged to commercial departments; that, on balance, net receipts from Provinces, States and individuals will also remain unchanged; and, although this must necessarily be pure conjecture, that future long-term borrowing will be on a 6 per cent. basis.

(b) *Reduction and Avoidance of Debt.*—The calculation has been made on the assumption that no change is made in the scheme now in operation.

(ix) *Posts and Telegraphs.*

We have assumed that the Government of India will be successful in their declared policy of making this Department self-supporting.

(x) *Military Budget.*

Our estimate under this head is based on the 1932-33 budget figure, allowance being made for restoration of pay-cuts, resumption of normal building and stores programmes, and the separation of Burma. No provision has been made for non-recurrent expenditure on the completion of the special re-equipment programme, the cost of which would be about 3 crores.

(xi) *North-West Frontier Province Subvention.*

We have adopted unchanged the figure included in the 1932-33 Budget.

(xii) *Civil Works.*

This figure includes expenditure on the Road Fund, which is fed from the duty on motor spirit, and allows for the restoration of the normal level of maintenance expenditure.

APPENDIX II.

ALLOCATION OF PENSION CHARGES.

(i) *Introductory.*

1. Among our terms of reference, we have been charged with the duty of investigating the allocation of civil pension charges between "Federal" and "Central". The relevant passages in paragraph 5 of the Report of Lord Peel's Committee are as follows:—

..... "Central" expenditure, broadly speaking, will consist of three categories:—

(1)

(2) A share in pre-Federation obligations in respect of civil pensions.

(3)

As regards (2), the allocation of "Central" civil pension charges (not debited to the Provinces) between Federal and "Central" is a point which should be investigated by the Expert Committee. *There seems no reason why the Federation should not be charged in respect of the pensions of officers who were previously employed on duties which, in future, will fall within the scope of Federal activities, but there may be a case for making the balance a "Central," charge.*

2. It will be apparent from this extract that we are not concerned with military pensions (*i.e.*, the pensions included in the Army Budget), which the Peel Committee contemplated would in any case be a federal liability; nor need we have regard to the accrued pension liability in respect of serving officers, as the pensions of such officers can be suitably allocated when the officer retires.

3. The civil non-effective charges in the budget of the Central Government fall under two major heads, namely "Superannuation allowances and Pensions", and "Territorial and Political Pensions". The charges and receipts under each of these two heads during the year 1930-31 are tabulated and classified in the following statements.

TABLE A.

Account of Charges and Receipts in respect of Superannuation, Retired and Compassionate Allowances and Pensions during the year 1930-31—Central.

No.	Items.	Charges in		Receipts in		Net (charges— receipts).	Remarks.
		India.	England.	India.	England.		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Rs.	£	Rs.	£	Rs.	
			I.—ORDINARY PENSIONS.				
1	*Superannuation and Retired allowances.	86,69,636	10,75,261	5,91,884	..	..	*Includes equated payments of commutations, gratuities and concessions to Indian Civil Service officers for past annuity contributions, and pensions, etc., on retirement of officers of the following classes:— India office and other Home Service. Superannuation. Compensation (on reduction of staff). Compassionate and Injury. Gratuities under the Superannuation Act, 1909. Judges of the High Courts in India. Bishops of Madras and Bombay. Indian Civil Service. Other Civil Services in India. Military and Marine officers in respect of civil employment. Bengal Pilot Service.
2	Compassionate allowances ..	1,66,276	9,430	..	..	..
3	Pensions for distinguished and meritorious services.	16,898	1,839	..	..	..
4	Donations to Provident Funds of non-pensionable officers.	1,29,024	..	..	..	..
5	Covenanted Civil Service Pensions.	2,222	..	..	..	..
	Total ordinary pensions ..	89,84,056	10,86,530	5,91,884	..	..
		=Rs. 1,44,87,067					
	{ Less recovery from Commercial Departments.	Rs. 2,34,71,123		Rs. 5,91,884		2,28,79,239	
		..	..	..	..	—66,36,613	
					Net Rs.	1,62,42,626	

TABLE A—contd.

Account of Charges and Receipts in respect of Superannuation, Retired and Compassionate Allowances and Pensions during the year 1930-31—Central—contd.

No.	Items.	Charges in		Receipts in		Net (charges—receipts).	Remarks.
		India.	England.	India.	England.		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Rs.	£	Rs.	£	Rs.	
		II.—FAMILY PENSIONS.					
		1. Closed Funds—Military.					
6	Military Fund	6,598	..	..	..
7	Bengal Military Fund ..	..	73,462	..	353		
8	Madras Military Fund ..	..	96,002	..	225		
9	Bombay Military Fund ..	..	57,374	..	209		
10	Military Orphan Fund ..	24,723	..	1,36,997	..		
11	Bengal Military Orphan Society.	..	43,877	..	303		
12	Medical Retiring Fund ..	1,587	..	..	..
13	Madras Medical Fund ..	361	17,540	..	..
14	Marine Pension Fund ..	..	..	12,618	..		
15	Indian Navy Fund ..	..	6,399	..	1		
	Total Closed Funds—Military	33,269	294,654	1,49,615	1,091		
		=Rs. 39,28,720		=Rs. 14,547			
		Rs. 39,61,989		Rs. 1,64,162		37,97,827	

		<i>2. Closed Funds—Civil.</i>			
16	India Office Provident Fund ..	..	8,608	..	520
17	Home Service .. ..	..	3,189	..	3,522
18	Bengal, Madras and Bombay Civil Funds	20,208	209,499	..	175
	Total Closed Funds—Civil ..	20,208	221,296 =Rs. 29,50,613	..	4,217 =Rs. 56,227
			Rs. 29,70,821		Rs. 56,227
	Total Closed Funds— Military and Civil ..		Rs. 69,32,810		Rs. 2,20,389
					29,14,594
					67,12,421
		<i>3. Open Funds.</i>			
19	Indian Civil Service Family Pensions.	60,984	106,087	5,98,257	9,449
20	Bengal Pilot Service Family Pensions.	..	3,652	..	..
	Total Open Funds ..	60,984	109,739 =Rs. 14,63,186	5,98,257	9,449 =Rs. 1,25,987
			Rs. 15,24,170		Rs. 7,24,244
	Total Family Pensions ..		Rs. 84,56,980		Rs. 9,44,633
					75,12,347

TABLE A—concl'd.

Account of Charges and Receipts in respect of Superannuation, Retired and Compassionate Allowances and Pensions during the year 1930-31—
Central—concl'd.

No.	Items.	Charges in		Receipts in		Net (charges— receipts).	Remarks.
		India.	England.	India.	England.		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Rs.	£	Rs.	£	Rs.	
21	Total Family and Ordinary Pensions.	Rs. 3,19,28,103		Rs. 15,36,517		2,37,54,973	
	<i>Add—Miscellaneous items which include inter alia adjustments on account of Exchange and Refunds ..</i>	Rs. 4,85,091		Rs. 69,189		4,15,902	
	GRAND TOTAL					2,41,70,875	

TABLE B.

Account of Territorial and Political Pensions for the year 1930-31.

		Amount paid	
		in India.	in England
		Rs.	£
1. Pensions to members of former Ruling Families	..	10,49,044	8,456
2. Miscellaneous Pensions	.. .. .	19,24,031	..
3. Charitable Allowances	.. .. .	67,746	..
Total		..	30,40,821
			8,456
			= Rs. 1,12,745
Exchange	.. .. .	..	1,433
Grand Total Rs.		..	31,54,999
Receipts	.. .. .	..	Nil.

4. The items in Table A have been divided into three groups, viz., Ordinary Pensions, Closed Funds and Open Funds, and we now proceed to deal with each group in turn.

(ii) *Ordinary Pensions.*

5. Item 4 in Table A represents the amount adjusted annually to the credit of the provident funds of non-pensionable serving officers. It is, therefore, in a different category from non-effective payments in respect of past service and does not require to be analysed for the purpose of allocation between federal and central. On the other hand, items 1, 2, 3 and 5 in the same Table, which constitute what may be called the regular civil pension list of the Central Government, include pensions granted both in respect of service under the Central Government, and in respect of service under the Provincial Governments. The history of the matter is as follows:—

6. Prior to 1st April, 1921, the division of civil pension charges between the Government of India and the Provincial Governments was arbitrary, being based upon administrative convenience. All pensions drawn outside India, irrespective of whether the pensioner had served in a Province or directly under the Government of India, were finally debited to the Central Government. Pensions paid in India, irrespective of the Government under which the pensioner had served, were (subject to certain exceptions in the case of payments made in Calcutta City) borne by the Province in which the pensioner resided and drew the pension. The Meston Committee considered whether the incidence of these pension charges should not be readjusted so as to make each Government bear the pensions of its own servants, but recommended that, while in regard to future pensions (i.e., pensions sanctioned on or after 1st April, 1921), each Government should bear the pensions of its servants, the apportionment of past pensions should not be disturbed, this fact being taken into account in the new financial settlement between the Provinces and the Central Government. The recommendation of the Meston Committee was accepted.

7. The Civil pensions now paid by the Government of India (Central Government) accordingly fall broadly speaking, into two separate categories:—

A.—*Pensions sanctioned on or after 1st April, 1921.*—These consist of the pensions of officers who had served wholly under the Central Government and the appropriate share (on the basis of length of service) of pensions of officers who had served for part of their service only under the Central Government; and

B.—*Pensions sanctioned before 1st April 1921.*—These consist of (a) pensions in course of payment outside India on 31st March 1921; (b) pensions in course of payment in Centrally Administered Areas on that date; and (c) pensions in course of payment in Calcutta City on that date in respect of service in certain Central Departments.

8. The above description of the two categories is not strictly accurate because the original allocation has been complicated by the adjustments which are made from time to time between Provincial Governments *inter se*, and with the Central Government, by the payment of commuted lump sums when a pensioner changes his residence (and consequently the place of payment of his pension) from the jurisdiction of one Government to that of another, or when a Government desires to pay off, once for all, its liability for a share in a joint pension. As a result of such adjustments, the present pension charges of the Central Government include certain provincial pensions in respect of which the Central Government has previously received the commuted value. On the other hand, certain central pension charges have been finally extinguished by the payment, in the past, of commuted values to Provincial Governments. The effect of these modifications will be considered later.

9. As regards pensions sanctioned on or after 1st April, 1921, there is little doubt that, with few exceptions, they relate to service rendered in departments which will in future be federal. The only important exception is the Income-tax Department which, from the point of view of pensions, is a very young department. It was formed gradually between the years 1921 and 1926, mostly with directly-recruited young men, although there was a small nucleus staff from the Land Revenue Departments of the Provinces. The pension charges already in existence on account of service in this Department must be quite small and they will presumably be so when the Federation is started. We are advised that the ascertainment of the exact share of existing pensions attributable to service in the Income-tax Department would involve the examination of a very large number of pension records throughout all the Provinces, and that it is more than probable that some of the necessary records may not be available. In the circumstances, and especially in view of the probable smallness of the figure, we have not thought it necessary to ask that this work should be undertaken at the present stage. We assume that, after the Federal Government is established, new pensions in respect of service rendered in this Department, whether before or after federation, will be a charge on income-tax collections. The other two exceptions relate to the Archaeological and Zoological Survey Departments. As regards these, we assume that the pension liability will follow the liability for the effective cost of the Departments, which the Peel Committee contemplated would in fact be a federal charge even if no agreement were reached to federalise them, and that in these circumstances it is not necessary to attempt to estimate the pension charge, which must in any case be insignificant.

10. We are left with pensions sanctioned before 1st April 1921. These constitute the most important item, and it will be convenient to consider separately —

(1) pensions paid in India, and

(2) pensions paid outside India.

(1) *Pensions sanctioned before 1st April, 1921, and paid outside India.*

11. The expenditure in 1920-21 on the four most important items in this class (which accounted for 95 per cent. of the total) was £1,218,922 (Rs. 1,81 lakhs). We are informed by the High Commissioner that the corresponding charge in February, 1932, was £626,980 (Rs. 84 lakhs) per annum.

12. A large part of these pensions undoubtedly relates to service rendered under Provincial Governments; and in view of the magnitude of the sum involved, it is necessary to attempt to ascertain how much. The only accurate method of ascertaining the exact share debitable to Provincial Governments would be to examine the "history of services" of each of the pensioners, but even if the necessary records were forthcoming, this would be an inordinately heavy task. The next best criterion (for which there is

ample precedent) would probably be to apportion the pension charge in the ratio of the relative pay-bills for the Superior Civil Services of the Central and Provincial Governments in 1920-21 or, failing the above, the relative pay-bills for all establishments during 1920-21. Since, under the system of accounting adopted, the necessary information could only be obtained by a special analysis of the detailed accounts of the Government of India and the Provincial Governments kept by various Accountants General, we have not been able to adopt either of these methods. A rough estimate can, however, be made by taking the total expenditure in and about 1920-21 of Provincial Governments and of the Government of India on Departments (*viz.*, collection of revenue, civil administration, currency and mint and posts and telegraphs), in which the bulk of the expenditure is on salaries. Figures on this basis, which have been supplied to us by the Finance Department, suggest that about one-sixth of the 84 lakhs referred to above relates to service under the Central Government and the balance to service under Provincial Governments. One-sixth of the charge should accordingly be borne by the Federal Government, since it relates to services which will be federal, while the balance would be "Central".

13. It should be added that the sterling pensions have already run for about eleven years, so that their present value is estimated not to exceed Rs. 6 crores. The value will be still smaller by the time the Federation comes into being.

(2) *Pensions sanctioned before 1st April, 1921, and paid in India.*

14. A special investigation made on our behalf by the Accountant General, Central Revenues, shows that the pensions paid by him under this class amount to about Rs. 4½ lakhs per annum at the present date. The corresponding expenditure on his books during the year 1920-21 was just under Rs. 18 lakhs. The central pensions paid by other Accountants General in 1920-21 cannot readily be ascertained; but it appears that about 3 to 3½ lakhs were paid on this account in 1930-31. Having regard to the expectation of life in India and to the fact that those pensions have already run for eleven years, during which time the pensions paid by the Accountant General, Central Revenues, have fallen from Rs. 18 lakhs to Rs. 4½ lakhs, it may be assumed that this charge will practically disappear in the course of the next few years. There is no material available to us from which it might be possible to allocate these pensions, aggregating 7½ to 8 lakhs, with reference to the service of the pensioners. In any case, if such an allocation were attempted, it would be necessary to make a similar allocation of pensions paid out of provincial funds by other Accountants-General. On the following assumptions, *viz.*, (a) that the Central Government took over in 1921 a little over two-fifths in all of the total pensions then in existence, (b) that the true share of the Central Government ought to have been between one-sixth and one-seventh of the whole, and (c) that pensions paid in India as a whole are dying out at the same rate as the pensions on the books of the Accountant General, Central Revenues, a rough calculation shows that the amount of the pensions now paid by the Central Government in India differs from the proper figure by a few lakhs. In the circumstances, a detailed investigation appears to be unnecessary.

15. There remain the pensions now paid by the Central Government which were originally paid by a Provincial Government. Detailed figures of inter-governmental adjustments of commuted values (which take place frequently) are not available; but the Central Government, having received the commuted value of the pension from the Provincial Government and *vice versa*, the residual pension liability is in reality a debt liability, and as such would naturally be federal. If this is not sufficient to settle the matter, it is almost certain that, as a result of commutation, more Central Government pensions have become a provincial liability than *vice versa*.

16. Taking all these facts into account, it does not seem unreasonable to assume a figure of the order of 70 lakhs as the approximate "central" liability at the present time in respect of ordinary pensions awarded before 1st April 1921.

(iii) Family Fund Pensions.

(a) Closed Funds.

17. A brief account of the funds falling under this class is given below :—

No.	Name of fund.	Started in	Net expenditure in 1930-31.	Remarks.
		<i>Military.</i>		
1	Military Fund ..	1770	Rs. 6,598	Designed for payment of pensions to officers and men in the military service of the East India Company and to their widows.
2	Bengal, Madras and Bombay Military funds.	Early in the 19th Century. Taken over by Government in 1866.	30,14,012	Family pension funds for military officers.
3	Military Orphan Fund	....	—1,12,274	..
4	Bengal Military Orphan Society.	1856. Taken over by Government, 1866.	5,80,987	..
5	Medical Retiring Fund.	....	1,587	..
6	Madras Medical Fund	Early in 19th Century. Taken over by Government, 1866.	2,34,228	..
7	Marine Pension Fund	....	—12,618	..
8	Indian Navy Fund	....	85,307	..
		<i>Civil.</i>		
1	India Office Provident Fund.	1877	1,07,840	To provide pensions to widows and orphans of persons on the home establishment of the Secretary of State and of the Auditor of Home Accounts.
2	Home Service ..	....	—4,440	Pensions of widows and families of officers of the Home Service, from funds (established by the East India Company) to which the officers subscribed.
3	Bengal, Madras and Bombay Civil Funds.	Early 19th Century	28,11,194	Initially purely charitable concerns, they developed into mutual insurance associations under the management of trustees. They received aid from the Company and later on from Government.

These funds, broadly speaking, were mutual insurance funds, the pensions being paid out of subscriptions by officers, supplemented, in some cases, by subventions from Government. Most of the funds were closed to new entrants many years ago, and have been merged in the Government revenue accounts, Government taking over both the assets and the liabilities. Of the total expenditure in 1930-31 of Rs. 67,12,421, considerably more than half, namely Rs. 37,97,827, related to officers in the Army and the Royal Indian Marine, both of which will, in future, be federal services. In so far, therefore, as the present payments are in part covered by the assets taken over, the liability might be regarded as a debt liability; and, in so far as they are not so covered, the liability is still federal, because the Army and the Royal Indian Marine are to be federal subjects.

18. As regards the balance, practically the whole of the expenditure relates to the Bengal, Madras and Bombay Civil Funds. The assets of these funds were merged in the resources of Government, and to the extent to which these assets covered the liabilities, the future payments, as in the case of the funds dealt with in the preceding paragraph, could be regarded as a debt liability. The balance, if any, of the liability is theoretically "central". The gross payments on account of the funds were, in round figures, £266,000 in 1910-11; £253,000 in 1920-21; and £209,000 in 1930-31. The funds were closed to new entrants in the eighties of the last century; and the payments may therefore be expected to continue so long as children of officers who entered the service at that time are living. There is little doubt, however, that the reduction in the expenditure in future will be more rapid than in the past, and, in any case, the present value of the liabilities is not likely to exceed a few crores.

(b) *Open Funds.*

19. There are only two funds in this class, *viz.*, the Bengal Pilot Service, and the Indian Civil Service Family Pension Funds. Since pilotage will presumably be a federal subject, at least so far as the Bengal Pilot Service is concerned, it is immaterial whether the receipts and expenditure on account of this fund continue to be included in the Government revenue accounts or whether a separate fund is formed for the purpose. In any case, a separate *pro forma* account is now maintained for the pilotage service and the fees are fixed so as to cover expenses. In that account, provision is made for these family pensions so that the cost of the pensions is recovered from the users of the service.

20. The Indian Civil Service Family Pension Fund, on the other hand, presents difficulties. The receipts and expenditure are incorporated as an integral part of the revenue accounts of Government, but there is a periodical actuarial investigation of the assets and liabilities on the hypothesis that all contributions had been paid to a fund, earning interest. A *pro forma* account exists, showing the amount of Government's liability to the hypothetical fund on this basis; and, in the light of the actuarial investigations, subscriptions and concessions are altered from time to time. In addition to the pensions earned by the members' contributions, Government pays additional benefits, limited in the aggregate to £35,000 a year. This limit has never been reached and Government's liability under this provision is now about £12,500 per annum. We are informed that it is already in the contemplation of the Government of India to distribute among Provincial Governments their share of this charge of £12,500. Any remaining liability will only relate to officers employed on duties which in future will be federal (with the exception of the income-tax and other minor services referred to in paragraph 9 above). In addition to the above concession, the Government of India makes good to the fund the loss due to the concessions given to officers who retire on proportionate pensions. The amount so met, up to 31st March 1928, was about £15,000, of which the greater share will presumably be debitable to the Provinces.

21. The Government's *pro forma* capital liability to the Indian Civil Service Family Pension Fund has been estimated at £3,750,000 on 31st March 1931. Under the present arrangement this liability does not appear anywhere in the Government accounts, and consequently the latter do not show any adjustments on account of interest on these balances. It would seem that, for the present purpose, the proper method of dealing with this class of pension is to assume that the receipts and payments are removed from the revenue accounts and that a true interest-bearing fund is constituted out of which all payments are made. The matter then passes from the realm of pensions to the realm of debt. A *pro forma* liability for the capital charge was, in fact, included in the statement of debt submitted to the

Committee by the Finance Department. If this suggestion is adopted, it is not essential to assume that in future the interest on the balance of the fund will, in fact, be debited in the revenue accounts of Government every year. So long as subscriptions and concessions are altered from time to time in the light of actuarial investigation, which assumes payment of interest by Government on the balance of the fund, it is immaterial to the Government revenue account, in the long run, whether the receipts and expenditure of the fund are passed through this account or whether these items are excluded and interest alone is paid on the balance of the fund. In the immediate future, however, in view of the fact that the "peak" figure of pensions has not yet been reached, the result of eliminating the transactions of the fund from the revenue account would be to add about Rs. 17 lakhs a year to the net expenditure of Government as shown below :—

	Rs.
	Lakhs.
Receipts in 1930-31	7.10
Expenditure (including additional pensions paid by Government) ..	14.72
	<hr/>
Net expenditure	7.62
	<hr/>

If a separate fund were formed and interest adjusted, the interest (at 5 per cent.—the present rate allowed to the contributors— on £3½ million) would be, say, 25 lakhs, so that the net effect of the change on the revenue budget would be a loss of about 17½ lakhs. This deterioration in the budget position is due to the fact that, at present, the net outgoings are less than the interest on the capital value of the fund. It will be off-set in later years, for if the present system continues the net expenditure of Government will ultimately exceed the interest payable on the balance of the fund. In either alternative, as already stated, the bulk of the additional pensions given by Government and of the loss made good to the fund on account of officers retiring on proportionate pensions would be debitable to Provincial Governments, relieving the central budget of about Rs. 1.5 lakhs (maximum about Rs. 4.25 lakhs) on account of the additional pensions, and of a varying figure on account of the loss due to officers retiring on proportionate pensions. The balance of these items would, of course, be a proper federal charge.

22. It only remains to deal with Territorial and Political Pensions (see Table B above). It is stated in the Finance and Revenue Accounts that the items recorded under this head are pensions and charitable allowances granted, for reasons of state, to members of former ruling families and to non-officials whose services, descent or connection are such that, on general grounds of policy, it is desirable for Government to extend to them some measure of assistance or recognition. These pensions, therefore, are essentially of the nature of political expenditure and would presumably be a federal charge.

23. All the above calculations are theoretically subject to adjustment if Burma is separated. According to Sir Henry Howard, 5.055 per cent. of the civil pension charges of the Government of India should be debited to Burma; while according to Mr. Nixon, 10.5 per cent. should be so debited. The difference in the amount of the ultimate "Central" charge is therefore immaterial.

APPENDIX III.

DISTRIBUTION OF INCOME-TAX.

1. We have taken "personal" income to include all income except the undistributed profits of companies and the income of persons residing outside British India. That is, it includes the "total income" (including income taxed at source like dividends of companies and profits of firms) of all individuals and Hindu undivided families, and such part of the incomes of firms and of associations, not being firms, companies or Hindu undivided families, as are not assessed in the hands of partners and members.

2. The published statistics of the Income-tax Department deal primarily with figures of assessed income without completely distinguishing between "personal" income and other income. The Central Board of Revenue has obtained, during the last few years, certain figures of "personal" income in each Province; but those, too, are not complete enough for our purpose, inasmuch as they refer only to *formally* assessed incomes of individuals and Hindu undivided families and exclude, not only incomes not formally assessed, but also the entire incomes of unregistered firms and certain associations, some of which should be included under "personal" income. Further, these statistics do not show the extent to which salaries of officers of departments which will be federal in future have been included in the provincial figures.

3. We have been advised that it was not possible for the Income-tax Department to furnish, within the short time available, accurate figures on the basis required by us. In the circumstances, the Table given below has been compiled according to the best estimate we can make on the basis of the existing statistics. The Table, therefore, must not be taken as exactly representing the percentages due to each Province; and it is necessary, as pointed out in the body of the Report, that the figures should be reviewed in the light of more complete and up-to-date statistics before any distribution of income-tax is actually made to the Provinces.

TABLE C.
Distribution of Income-tax.

Province.	Percentages.				Rupees (in lakhs).			Remarks.
	Popula- tion.	Total personal income.	Personal income- tax in- cluding tax on federal salaries.	Personal income- tax with- out tax on federal salaries.	Collec- tions, income- tax, in- cluding tax on federal salaries.	Collec- tions, personal super-tax.	Collec- tions, company super-tax.*	
1	2	3	4	5	6	7	8	9
Madras	18·32	15·00	14·54	14·81	126·0	7	7·4	* The double income-tax relief given to companies has been wholly shown under Column 8 in order to simplify calculations.
Bombay (including Sind) ..	8·70	27·25	27·84	28·30	271·0	50	39·25	
Bengal	19·64	24·25	26·18	26·68	352·0	110	93·7	
United Provinces	18·98	9·00	8·86	8·50	72·0	8	3·63	
Punjab	9·24	9·50	8·17	7·48	61·5	2	2·17	
Bihar and Orissa	14·73	5·75	6·37	6·60	41·5	18	·22	
Central Provinces	6·06	4·75	4·57	4·70	36·5	3	1·19	
Assam	3·38	2·50	2·22	2·20	34·0	1	·93	
North-West Frontier Province ..	·95	2·00	1·25	·73	9·0	1	..	

Column 2 based on 1931 census ; Columns 3, 4 and 5 on the average figures of the five years 1926-27 to 1930-31 ; and Columns 6, 7 and 8 on the figures of the six years 1925-26 to 1930-31 (adjusted in the case of Column 7 with reference to figures of earlier years).

APPENDIX IV.

SOURCES OF REVENUE RESERVED TO THE UNITS.*

1. Revenue from the public domain, including lands, buildings, mines, forests, fisheries and any other real property belonging to the Units.
2. Revenue from public enterprises such as irrigation, electric power and water supply, markets, slaughter houses, drainage, tolls and ferries, and other undertakings of the Units.
3. Profits from banking and investments, loans and advances and State lotteries.
4. Fines and penalties arising in respect of subjects administered by the Governments of the Units.
5. Fees levied in the course of discharging the functions exercised by the Governments of the Units and local authorities, such as court-fees, including all fees for judicial or quasi-judicial processes, local rates and dues, fees for the registration of vehicles, licences to possess fire-arms and to drive automobiles, licensing of common carriers, fees for the registration of births, deaths and marriages, and of documents.
6. Capitation taxes other than taxes on immigrants.
7. Taxes on land, including death or succession duties in respect of succession to land.
8. Taxes on personal property and circumstance, such as taxes on houses, animals, hearths, windows, vehicles, chaukidari taxes; sumptuary taxes; and taxes on trades, professions and callings.
9. Taxes on employment, such as taxes on menials and domestic servants.
10. Excises on alcoholic liquors, narcotics (other than tobacco) and drugs, and taxes on consumption not otherwise provided for, such as cesses on the entry of goods into a local area, taxes on the sale of commodities and on turnover, and taxes on advertisements.
11. Taxes on agricultural incomes.
12. Stamp duties other than those provided for in List III.
13. Taxes on entertainments and amusements, betting, gambling and private lotteries.
14. Any other receipts accruing in respect of subjects administered by the Units.
15. Also, in the case of the States, any sources of revenue not specified above but referred to in paragraph 103 of Section VI of the Report.

* This list of revenues includes those both of the Governments of the Units and of all local authorities subordinate to them.

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