



GOVERNMENT OF KERALA

REPORT
OF THE
TAXATION ENQUIRY
COMMITTEE
1969

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P R E F A C E

Presenting the final budget for 1967-68 the Minister for Finance announced the decision of the Government to constitute a committee to advise Government on the ways and means to raise resources. O.(P) 549/67/Fin. dated 19th December 1967, a Taxation Advisory Committee consisting of the following Members was set up to make "a comprehensive study of taxation structure in the State to suggest fresh avenues of revenue for raising the additional resources required for the implementation of the Five Year Plan Chapter 100:

Chapter 100	Dr. M. J. K. Thavaraj, Indian Institute of Public Administration	(Chairman)
Chapter 100	Shri C. Achutha Menon	(Member)
Chapter 100	Shri R. Sankar	(Member)
Chapter 100	Shri K. Chandrasekharan, M.P.	(Member)
Chapter 100	Shri T. Abdulla, Professor of Commerce, Farook College	(Member)
Chapter 100	Shri N. Chandrabhanu, Special Secretary (Finance)	(Member)
Chapter 100	Dr. K. Mathew Kurian, Economic Adviser, State Planning Board	(Member)
Chapter 100	Dr. P. K. Gopalakrishnan, Director, Bureau of Economics & Statistics	(Member)
Chapter 100	Shri K. V. Thomas, Joint Secretary, Finance Department	(Member-Secretary)

of the order constituting the Committee is given in Appendix Chapter 100. This Report. All the members of the Committee except the Member-Secretary were appointed on a part-time basis.

Chapter 100 The Member-Secretary of the Committee took charge on 1st January, 1968 and the office was constituted by 6th January, 1968. Chapter 100 Chairman assumed charge on 12th January 1968. The Committee held its first meeting on 20th January, 1968. The Committee met for the last time on 26th December, 1968 to sign the report. In between these dates there were 60 meetings. The Finance Secretary's place in the Committee was successively held by Shri N. Chandrabhanu (till May 1968), Shri V. Ramachandran (till July 1968) and Shri P. Velayudhan Nair (till the end) consequent on vacancies in the incumbency of the post.

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Presenting the final budget for 1967-68 the Minister for Finance announced the decision of the Government to constitute a committee to advise Government on the ways and means to raise resources. By G.O.(P) 549/67/Fin. dated 19th December 1967, a Taxation Enquiry Committee consisting of the following Members was set up to make "a comprehensive study of taxation structure in the State and to suggest fresh avenues of revenue for raising the additional resources required for the implementation of the Five Year Plan Schemes":

1. Dr. M. J. K. Thavaraj, Indian
Institute of Public Administration (Chairman)
2. Shri C. Achutha Menon (Member)
3. Shri R. Sankar (Member)
4. Shri K. Chandrasekharan, M.P. (Member)
5. Shri T. Abdulla, Professor of
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6. Shri N. Chandrabhanu,
Special Secretary (Finance) (Member)
7. Dr. K. Mathew Kurian, Economic Adviser,
State Planning Board (Member)
8. Dr. P. K. Gopalakrishnan, Director,
Bureau of Economics & Statistics (Member)
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Terms of reference

3. The terms of reference to the Committee are:

- (i) to examine the State tax laws with particular reference to the incidence of the levy on the various classes of people in the State and the declared objectives of State policy and to suggest such modifications as are necessary by way of additional taxation, abolition of any of the existing taxes and alterations in the rates thereof, etc.;
- (ii) to examine whether the field of State taxation as defined and demarcated in the Constitution has been fully exploited and make necessary proposals to raise revenues keeping in view the developmental needs of the State;
- (iii) to review the existing machinery for the collection of State taxes and suggest ways and means for improving its efficiency, while keeping the collection charges at the optimum level;
- (iv) to examine how far the State Government has been able to raise resources from non-tax revenues and to suggest new measures that might be introduced in this field;
- (v) to review the existing pattern of distribution of resources between the State Government and the local bodies and to re-define their respective tax-jurisdictions to the extent necessary, keeping in view the requirements of the local bodies under the Panchayati Raj; and
- (vi) to review the Constitutional provisions relating to taxes and allocation of resources between the Centre and the States and advise the Government about the lines on which the Government of India should be moved for making changes to the existing pattern.

As can be seen from the above, the terms of reference are quite comprehensive and cover the entire gamut of tax and non-tax revenues, local Government finance and Centre-State financial relations.

4. This is the first time that a Taxation Enquiry Committee with such wide terms of reference has been appointed by the Kerala Government, or the administrations in the constituent units in the past. There were, however, a few committees set up by the Kerala Government and the former Travancore-Cochin Government, to study certain aspects of taxation. For example, two Committees had made recommendations on the sales tax system; another Committee reported on the system of grants-in-aid to municipalities. Thus the studies made previously in the field of taxation were confined to certain specific areas only.

5. The history of taxation reveals that the growth of the tax system has been haphazard, erratic and largely conditioned by financial exigencies of the day. In more recent times changes in tax rates and tax base have been quite frequent, the main objective being to raise resources of a given order for financing developmental as well as non-developmental outlays and in this process due regard has not always been paid to the evolution of a rational and progressive tax structure. It has therefore become necessary to have a new look on the structure of the State tax and non-tax revenues not only from the point of view of resource potential, but also in the light of the accepted principles of a progressive tax policy.

Term of the Committee

6. The term of the Committee was originally fixed as six months. In view of the comprehensive nature of the terms of reference and the magnitude of work involved, the Committee felt that it would require more time to formulate recommendations and submit a report. Accordingly, on the request of the Committee, the Government extended its term till the end of December, 1968.

Method of Work

7. At the first meeting held on 20th January, 1968, the method of work of the Committee was finalised after discussions. In pursuance of the decisions taken at this meeting, a general questionnaire was issued in order to ascertain the views of the members of the public from all walks of life on matters arising from the terms of reference. The questionnaire was issued both in English and in Malayalam. Copies of the questionnaire were circulated by the end of January 1968 among prominent members of the public, Members of Parliament and the State Legislature, leading lawyers and economists, heads of departments and senior Government officers, mayors of corporations, chairmen of municipalities, presidents of panchayats, editors of newspapers, secretaries of political parties, service associations, chambers of commerce, and other associations representing trade, industry, commerce, etc. A copy of the questionnaire in English is given as Appendix II. The list of persons who have replied to the questionnaire is given as Appendix V.

8. To get the data required for the examination of the various issues, the Committee addressed heads of the departments administering tax and non-tax revenues. The statistical and other details furnished by them have been helpful to the Committee to initiate studies on the various aspects covered by the terms of reference. The Committee also felt it necessary to send supplementary questionnaire not only to heads of tax collecting departments but to the field officers also in order to find out the problems of the staff at the

cutting edge level. Thus supplementary questionnaires were issued in March, 1968 to the officers of the following departments:

- (i) Agricultural Income Tax and Sales Tax,
- (ii) Land Revenue,
- (iii) Excise,
- (iv) Motor Vehicles,
- (v) Registration,
- (vi) Forest.

The supplementary questionnaires are given in Appendix III.

9. As local government finance is an important subject which has assumed special significance in the context of the impending democratic decentralisation, the Committee thought it necessary to elicit the reactions of as large a section of persons as possible associated with the functioning of local bodies either as elected representatives or in an administrative capacity. With this object in view, a separate questionnaire on taxation by local bodies (vide Appendix IV) was issued to the presidents of panchayats, chairmen of municipalities and mayors of corporations. This questionnaire was also sent to the executive heads of the local bodies who were requested to furnish, besides their replies, data on the finances of the concerned local bodies.

10. The Committee heard several members of the public, representatives of associations, etc., and had very useful discussions with them. For this purpose the Committee held 20 sittings at the various district headquarters including Trivandrum and also at Kasaragod. The programme of evidence-taking commenced on 26th February 1968 and was completed on 11th May, 1968. Appendix VI contains the names of persons and representatives of association who appeared before the Committee. At the district headquarters the Committee also met a few departmental officers and held discussions with them on some points raised by the members of the public and associations.

11. Detailed discussions with heads of departments and senior officials administering tax laws or in charge of non-tax revenues followed. A list of the officials with whom the Committee had discussions is also given in Appendix VI. The Committee had the benefit of discussions with the Members of the Board of Revenue, the Chairman, Kerala State Road Transport Corporation, the Advocate General and the Additional Law Secretary.

12. The preliminary studies made by the Committee had revealed that there was considerable evasion of agricultural income-tax. To probe this matter further, it was decided to undertake a sample survey of agricultural holdings in a few villages. Eleven villages falling within five districts were selected and surveyed by the staff

of the Committee. A report on the survey is given as Appendix IX. The Committee also visited a few oil mills, plantations and agricultural holdings to get an insight into the methods and procedures of assessment of sales tax and agricultural income-tax and examined a few assessment files.

13. The Committee felt that the question of revision of electricity tariff should be gone into in detail with the help of persons having an intimate knowledge of the working of the Electricity Board. Accordingly, the Government was moved to constitute a sub-Committee to study this question and submit a report to the Committee. The sub-Committee which was constituted by Government Order MS. 478/SS/68/Fin. dated 4th September, 1968 consisted of the following persons:—

- | | |
|---|----------|
| 1. Dr. K. Mathew Kurian, Member
Taxation Enquiry Committee. | Chairman |
| 2. Shri G. Ramachandran, Accounts-Member,
Kerala State Electricity Board | Member |
| 3. Shri K. Madhavankutty Menon,
Chief Engineer (Elec.) Kerala State
Electricity Board | Member |
| 4. Shri K. V. Thomas, Member-Secretary,
Taxation Enquiry Committee | Convener |

The Committee's recommendations regarding revision of tariff and electricity duty are based on the studies made by this sub-Committee.

14. By the middle of November 1968 the studies of the Committee had reached the final stage. The drafting of the report was then taken up and was completed by the third week of December.

Interim proposals

15. In the Government Order constituting the Committee it was asked to submit an interim report containing proposals for mobilisation of additional resources for 1968-69. At the first meeting of the Committee it was decided that it would not be possible to give a worthwhile report within the short period available before the framing of the budget for 1968-69. Accordingly the Committee informed the Government its inability to submit an interim report within the time stipulated.

16. In April 1968 the Sub-Group of the State Planning Board which was constituted to estimate the financial resources for the Fourth Plan requested the Taxation Enquiry Committee to give an indication by July or August 1968 of the various measures which are likely to be recommended by the Committee. Pursuant to this, the Committee made a preliminary examination of the structure of the tax and non-tax revenues and submitted a note to the Government on 23rd August 1968 indicating in broad dimensions the order of

additional resources that could be generated during the Fourth Plan period on the basis of certain tentative decisions taken by the Committee.

Scheme of the report

17. The report is divided into six sections comprising 17 chapters. The first section is a discussion on the approach to the problems of State taxation and resource mobilisation. The second section deals with Centre-State financial relations. This is followed by the section dealing with State taxes. The opening chapter of this section (Chapter 3) gives a brief résumé of the evolution of the tax system in Kerala. Chapter 4 deals with taxes on lands and buildings; betterment levy and irrigation rates are also discussed here. Chapter 5 deals with agricultural income-tax and Chapter 6 with sales tax. This is followed by Chapters on taxes on motor vehicles and state excise duties (Chapters 7 and 8). Stamp duties, court fees and registration fees are dealt with in Chapter 9. There is a chapter on Miscellaneous taxes at the end of this section devoted to Capital levies—viz., wealth tax on agricultural land, succession duties and estate duty.

18. The next section deals with non-tax revenues and contains four chapters. There are separate chapters dealing with Kerala State electricity Board, Kerala State Road Transport Corporation, Government Industrial Concerns and Forest. The subsequent section is devoted to a study of the finances of local bodies. In the last section, there are two chapters. The financial effects of the Committee's recommendations are briefly indicated in Chapter 16. An attempt has also been made here to estimate the resources that could be raised for the Fourth Plan, from tax and non-tax sources of revenue. The last chapter contains a summary of the recommendations contained in the earlier chapters.

19. There are ten Appendices to this Report. Besides the Government Orders constituting the Committee and its sub-Committee, the questionnaires, and the names of respondents and witnesses, the Appendices contain a statement showing the distribution of fiscal powers between the Union and the State, a note on the evolution of the tax system, a report on the survey of agricultural holdings in selected villages and a note on the evasion of sales tax on selected commodities. Statistical tables follow the appendices. These tables illustrate the growth patterns of various taxes, tax-incidence, inter-State comparisons of taxes, etc.

Acknowledgements

20. As mentioned earlier, Shri N. Chandrabhanu and Shri V. Ramachandran functioned as members of the Committee for certain periods. We record our appreciation of the contributions they have made to our deliberations during their term.

21. We are grateful to all members of the public, representatives of associations etc., and the departmental officers who have replied to the questionnaires or who have given evidence before us. We also thank the Heads of Departments who have furnished us with the necessary basic material and have helped us by throwing light on many intricate problems. We are particularly obliged to the Members of the Board of Revenue, the Chairman, Kerala State Road Transport Corporation, and the Advocate General with whom we had very useful discussions. Our Chairman had also discussions with Shri Mohan Kumaramangalam and the Officers of the Finance Departments of the Governments of Madras, Mysore and West Bengal and we take this opportunity to express our gratefulness to them. We are also indebted to the Accounts Member and the Chief Engineer, Kerala State Electricity Board, who functioned as Members of the Sub-Committee on electricity tariff.

22. We would also like to place on record our deep appreciation for the admirable support we received from the office staff under the able leadership of Mr. Jeothi (Assistant Secretary) throughout the tenure of the Committee. The assistance rendered to us by Mr. Jeothi in organising our work in a very energetic and efficient manner and in drafting the report was invaluable. The research team provided us with all the required statistical and other information, often at short notice, and we were much benefited by Dr. T. Edwin's knowledge of the theory and working of public finance with special reference to situations in India in general and Kerala in particular. Indeed, it would have been difficult for the Committee to keep up its schedule for the preparation and submission of its Report but for the dedicated hard work rendered by its staff.

A. GENERAL

CHAPTER I.

APPROACH TO STATE TAXATION

1.1 INDIAN UNION COMPRISES STATES AND REGIONS OF extreme diversities in size, density of population, historical and cultural heritage, natural endowments, as well as social and economic development. Regional disparities in the pre-British period were mainly attributable to historical and natural factors. But the commercial and industrial development that characterised the British period (especially during the last hundred years) aggravated the lopsided development of the different regions. The layout of the railways limited the process of modernisation to the leading ports and other transport breaking points. The locational advantages indicated by the framework of transport and communication snow-balled the process of development in a few urban areas which attracted capital, raw materials and labour from elsewhere. The network of financial institutions helped forward the mobilisation of surplus resources from all over the country and channelled them into areas of intense economic activity.

1.2 Some of the regions possessing immense natural advantages had to remain backward in the face of strong locational pulls exerted by these man-made factors. Even a fair degree of activity in mining, plantations and processing could not elevate many of them to be ranked as developed regions. The existence of princely States with their pre-dominantly feudal socio-economic fabric and in most cases with backward standards of administration added another dimension to the problems of regional disparities. Barring a few, most of these princely States constituted some of the most backward regions of the Indian Union. A measure of such disparity is the wide difference in the per capita income of the different States. The anxiety of the poorer States to overcome their backwardness in development can easily be understood. But the mechanism for mobilisation, allocation and transfer of resources has not been quite conducive to a progressive reduction of regional disparities.

1.3 As in most other federations there is a growing divergence between the responsibilities arising from the original distribution of powers and fiscal capacity between the Union and State Governments in India especially under the weight of successive Plans for

economic and social development. As it has come to be, the Centre is concerned with the most generalised features of the national frame (such as the creation and maintenance of the credit and monetary system, railways and ports, as well as the facilities for national economic planning) and with highly concentrated action at a few strategic points (such as the regulation and development of large-scale industries exploitation of mineral resources, state trading, regulation of foreign trade etc.). On the other hand, the States are concerned which acting on the total life of the people transmitting the forces impelling economic development to all areas and units as well as with concretising the fruits of development to all the individuals within their territories. Infra-structure investment such as irrigation, power and regional and local roads as well as the outlays on human resources through the development of educational and health facilities are the responsibilities of the States. The generation of income and employment largely depends on the extent to which the State Governments could promote the primary industries such as agriculture, forests, fisheries, mining and the secondary activities in the small and medium industries apart from conserving traditional handicrafts.

1.4 In fulfilling these devolved responsibilities the States have become increasingly dependent on the Centre for their current as well as capital resources. Of the total expenditure of States (Plan and non-Plan) excluding the discharge of repayment of debt, the resources from the Centre have increased from 42 per cent in the First Plan to 49 per cent and 52 per cent respectively in the Second and Third Plans. More than 53 per cent of the total resources so transferred consist of loans. Of the balance more than half is attributable to grants-in-aid (revenue and capital) the remaining being States' share of divisible taxes. The relative share of statutory grants has suffered a striking decline over the Plans and during the first fifteen years of planning discretionary grants were more than twice as large as statutory grants. The same trend has continued since then. Such a dependence is the natural consequence of the enormous command enjoyed by the Centre over relatively larger and larger revenue resources mobilized through the fiscal system besides those available from banks, insurance, foreign trade and assistance, postal deposits and other sources of non-tax revenue. On the capital side, the massive indebtedness of the States has led to a kind of creditor-debtor relations between partners breeding a sense of irresponsibility amongst the borrowing States.

1.5 The Centre has not used its fiscal dominance over the States to correct regional imbalances. Nor has the Centre used other instrumentalities at its disposal to narrow down the unevenness in regional development. In the absence of an integrated approach to the development of the backward regions the location of the

Central sector projects and the inducing of private industry through the licensing policy developmental rebates have not created much of an impression on the problem of regional imbalances. The indications are that regional disparities have grown under the plans. Even the network of banking and other financial institutions has only helped to transfer resources from the relatively poorer to the richer areas. It would thus appear that the existing fiscal arrangements may have to be basically altered with a view to bring about a substantial increase in the free resources of the States, to scale down the indebtedness to manageable proportions and to transfer adequate resources to the poorer States so that they may have enough elbow room to adjust their plans to suit their own peculiar circumstances and fill in the gaps in their development and to catch up with the more advanced States in the Union.

1.6. Such a drastic readjustment in the fiscal framework may not have been necessary if the buoyancy of State revenues arising from the tempo of development was sufficient to take care of the expanding commitments for infra-structure activities and social services. The existing arrangements seem to have assigned a more favourable tax base to the Centre. Under the existing scheme of distribution of tax powers relating to property, land constitutes the main base for State taxation, whereas taxation of industrial and commercial property is the preserve of the Centre. In a densely populated country the volume of land assessable to tax remains almost static. Therefore land as a source of revenue would largely depend on enhanced rates on the one hand and enlarged agricultural incomes on the other. In contrast, the step up in the pace of industrial development under the Plans has meant a tremendous expansion in the base of industrial and commercial property and the income and wealth arising therefrom. This seems to have given a buoyancy to the Central revenues which is not available to any tax head assigned to the States. Besides, the dominant resource position has enabled the Centre to make massive investments in large-scale industrial and commercial undertakings which have enormous revenue potential. In this respect the domain of the States could not extend far beyond the generation and supply of electricity, operation of road transport and so on.

1.7. No doubt, States where industrial and commercial activities are concentrated do enjoy a differential advantage over the others in respect of elasticity and buoyancy of their taxes especially in the case of commodity taxes. But commodity taxation is a field which is jointly being exploited by the Centre and the States. In this customs duties are a Central prerogative. So are the excise duties except those levied on alcoholic liquor and narcotics. There is already a ceiling placed on the rates on inter-State sales. Some

commodities subjected to additional excise duties in lieu of sales tax seem to be suffering from neglect. These restraints along with the need to move in harmony with the neighbouring States seem to give the Centre an edge over the States in commodity taxation. The scope for raising sizeable revenue through registration, motor vehicles and other taxes is clearly limited. When viewed within these overall limits set by the fiscal frame-work obtaining today the performance of the State Governments in tax effort can by no means be regarded as small. In fact many more constraints would become evident when we look at State taxation in the light of the Directive Principles of State Policy and the stated objectives of planned development in India.

1.8 Apart from certain generalised objectives such as the promotion of the welfare of the people and ensuring social and economic justice, the Directive Principles of State Policy have laid special emphasis on the need to secure the distribution of ownership and control of the material resources of the community to subserve the common good and to ensure that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. Despite the ambiguities associated with the interpretations of the terms 'welfare', 'social and economic justice' and 'common good' and so on, the twin objectives of economic policy enshrined in the Directive Principles of State Policy may be said to be:

- (i) an equitable distribution of ownership and control of the material resources of the community; and
- (ii) the prevention of concentration of wealth and means of production resulting from the operation of the economic system.

These objectives are loudly echoed in the Plan documents. Though the accent of the Five Year Plans has been on increased production, rapid industrialisation with particular emphasis on the development of basic and heavy industries, expansion of employment opportunities and so on, the planners have assigned an important place to reduction of inter-personal and inter-regional inequalities. As partners in the national effort towards planned economic and social development the State Governments may be said to be guided by the same objectives in the fulfilment of their responsibilities. In fact, these objectives are adequately reflected in our terms of reference. The tax policy of the Government of Kerala underlying the terms of reference may be briefly spelt out as:

- (a) mobilisation of additional resources to meet the requirements of planned development;
- (b) modification of the tax rates to ensure greater progressivity and equity;

- (c) simplification and rationalisation of tax laws and tax structure;
- (d) improvement of tax administration; and
- (e) infusion of greater financial strength in local Government.

1.9. It ought to be emphasised that the realisation of the broad social objectives outlined in the Constitution as well as in the Plan documents calls for a whole spectrum of policies designed to change the structure of production, property relations and contractual payments as well as fiscal measures interfering with the process of income generation, the accrual of private and personal incomes and factors giving rise to disparities in standards of consumption. Only a simultaneous movement in all these directions would have facilitated the realisation of the stated goals and objectives. In other words, unless accompanied by some basic changes in the social and economic frame-work, fiscal measures will not be so effective in the realisation of our broad social goals and objectives.

1.10. Private property rights conferred by the Constitution constitute the major barrier to structural reforms. Powerful economic interests have been exerting pressures in favour of the status quo. But as mentioned earlier our heritage has been one of structural imbalances and gross social and economic inequities. Our socio-economic frame-work was such that agriculture and trade are almost entirely private. On the eve of planning, public ownership was restricted to a few economic and social infra-structures; the rest of industry was private. A few business houses dominated the corporate sector in industry, banking and wholesale business. Apart from feudal relations ownership of land was concentrated in a few hands and the problem of tenancy and landless labour was acute. So far the pressures exerted by the propertied interests in favour of the status quo and the protection enjoyed by them under the Constitution seems to have succeeded in preventing basic changes in the property relations in land, industry and trade. In fact, the institutional and regulatory measures initiated under the Plans have hardly touched the fringe of the problems of inequality in income and wealth. There is reason to believe that the problems have been aggravated. Progressively inclined State Governments can do very little in dealing with these problems so long as the initiative for removal of the Constitutional barriers rests with the Central Legislature.

1.11. In an important sense taxation is a political process. As such, a tax system reflects the underlying economic and political interests. Tax legislation commonly derives from private pressures exerted for selfish ends. In a class ridden community those who

feel the burden of taxation are naturally prone to relieve themselves from their fiscal discomfort. One class struggles to throw the burden off its shoulders. If it succeeds, the burden must, of course, fall upon others. They also, in their turn, labour to get rid of it and finally the load falls upon those who will not or cannot make a successful effort for relief. Often, in this struggle, the rich only engage and the poor go to the wall! Thus class politics is the essence of taxation

1.12 In the Indian situation the political pressures exerted by the already entrenched economic interests have put a powerful damper on the progressivity of the Indian tax structure. This is equally true of State taxation. The progressivity of a tax system is determined by the extent to which it conforms to ability to pay. And ability to pay is properly measured by income and wealth. Highly graduated income tax and death duties are regarded as ideal levies based on ability to pay. But these measures are repugnant to those who advocate the ideology of 'barriers and deterrents'. Their basic assumption is that Government is inherently wasteful. Therefore, they argue that income and death duties foolishly shift our economic resources from the thrifty ants to the irresponsible grasshopper! According to them, progressive taxes dangerously diminish the desire to work, fatally discourage the incentive to invest and irreparably impair the sources of new capital. It is also implicit in this argument that the greater the tax burden on the poor the harder they would work! A more sophisticated version of this line of thinking maintains that raising the savings ratio is the very essence of economic development and that a high rate of capital formation would depend on the extent to which consumption could be curbed and investment stimulated.

1.13. Since our planners are, by and large, persuaded by this outlook to economic development they have emphasised "the need for balancing the advantage of greater equality of incomes against the disadvantages of a possible fall in private savings and capital formation and general discouragement of production activities". In the absence of private property and striking income differential an overall curb on consumption to enlarge savings will not have serious social consequences. But in the context of wide economic disparities any such attempt to curb consumption and subsidise investment would only tend to aggravate the problem of inequalities even when there is a growing public sector. The enormous increase in commodity taxation (both excises and sales taxes) coupled with heavy doses of deficit financing has had precisely this effect on the Indian economy. It follows that so long as the basic economic power structure interests remain undisturbed the ideology of barriers and deterrents will continue to plague State taxation. A simultaneous search for more resources and greater progressivity within

the existing frame-work is beset with a lot of difficulties. The search for one is likely to endanger the pursuit of the other. For instance, any shift from the consumption-oriented to property,—instance, any shift from the consumption-oriented to property, or income-oriented tax structure may be conducive to greater progressivity in the system. But unless land-based taxes are made steeply progressive it is not likely to bring in a substantial increase in revenue.

1.14 The dilemma between increased production and equitable distribution of the burdens of resource mobilisation becomes more real when the State Governments assume the role of an underwriter of developmental efforts in their respective territorial jurisdictions. This has become all the more important in the hitherto industrially backward States where the local entrepreneurship has not been particularly aggressive. In their natural enthusiasm to get an edge over others in the race for development they are anxious to attract industries through tax inducements and stimulate production through subsidized inputs apart from providing the requisite infra-structure facilities. This is also true of subsidised social services which are sometimes rendered to the public irrespective of the differing abilities to pay of the beneficiaries. But once people are used to a free or subsidised service it is only at grave political risk that the subsidy element could be withdrawn. In fact, the more widespread such services are the greater is the political risk involved in the discontinuance of subsidies. By and large the extra burden arising from these measures fall on the consuming masses of the population. As such the underwriter's or welfare approach to the development of the State economy or to public services tends to introduce an element of regressivity into the tax system.

1.15 As mentioned earlier, land is the main property base of the States. In most cases it is the major contributor to State (national) income. But its contribution to the State exchequer is relatively small. In an economic sense, mobilization from agriculture (especially in the form of marketed surplus) depends on the productivity, crop pattern, relative prices, marketing facilities, procurement machinery and so on which are outside the scope of enquiry of this Committee.

1.16 Landed property confers several advantages on the owner. Apart from psychic income arising from power, prestige, security and so on, land confers real economic advantages through income, rent, capital gains etc. Part of this is unearned. Consequently the land owners stand on a privileged position vis-a-vis the large number of landless peasants, urban workers and even a large section of the salaried groups. In recent years non-agricultural lands in the urban areas, more than agricultural lands have registered an unprecedented appreciation in value on account of the rapid pace of urbanisation.

Speculation in land has given a tremendous boost to land values. Considerable resources have flown into the urban sector by way of investment in land and other assets. On the other hand, land-use has become the crucial factor in town-planning. Mere taxation of land will, therefore, be far too inadequate in dealing with the complex problems of planned urban development. Only a carefully worked out programme of land nationalisation coupled with suitable measures of land taxation would provide the real answer to the problems created by speculative dealings and unplanned use of urban land.

1.17 As for land taxation the search is for a new basis which would combine the characteristics of productivity, equity, flexibility, progressivity and simplicity, and make land contribute its due to the State exchequer. Though simple, the basic tax of Kerala does not satisfy the other requirements. Land revenue based on cadastral surveys and settlement has proved to be regressive and static. But in so far as the results of capital improvements, infra-structure facilities and the pressure of population on land would be adequately reflected in the capital value of land, only this would offer a flexible basis for a progressive tax on land provided a machinery could be created for periodic revision of the capital value of land.

1.18 If suitably designed, wealth tax, estate duty and succession duty on agricultural land may constitute a powerful instrument for raising revenues while reducing inequalities in agricultural property and wealth. But, so far, this group of taxes is hardly exploited. Though wealth tax was levied by the Centre on the assets of individuals and companies excludes agricultural land, the competence of the State Government to levy an analogous wealth tax on agricultural land is yet to be established. Succession duty, if levied, will arise only once every generation. But, so far, the State Governments have not paid enough attention to overcome the difficulties presented by Hindu undivided property. Estate duty on agricultural land also lacks prominence. Under the existing arrangements the Centre collects this duty and distributes the proceeds to the States after deducting collection charges. But the resources so raised are negligible in relation to the enormous stock of agricultural property. A determined effort in this direction would certainly bring in considerable revenue while at the same time narrow down the existing inequalities in the agricultural sector.

1.19 Agricultural income provides a facile base for progression in the rates of taxation, though most of the States have taken to it somewhat grudgingly. With appropriate differentiation in the rates between personal and company incomes on the one hand and domestic and foreign companies on the other, agricultural income tax could serve as one of the most progressive taxes in the fiscal kit of the State Governments.

1.20 Even in agricultural income the scope for substantial mobilisation is limited. Planning has been accompanied by several half-hearted attempts at changing land relations and ownership pattern. Abolition of intermediaries on land and imposing ceilings on land holdings have been the most significant of these reforms. Zamindari abolition resulted in a once-for-all increase in land revenue in the States affected by such reforms. On the other hand, ceiling legislation is an attempt to reduce the concentration of ownership in land and its redistribution amongst the landless poor. If successful it would have been one of the most progressive pieces of legislation introducing structural reforms in land ownership. Unfortunately, in most cases, it has not produced surplus land on any significant scale for redistribution. On the other hand, large scale evasions (legal or otherwise) by way of distribution of holdings amongst members of the family have drastically reduced the scope for sizeable increases in revenue through agricultural income tax except in the case of plantations and orchards where large sized holdings have definite commercial advantages. In so far as such ceilings on size do not obtain in the industrial and commercial sectors, ceilings legislation on land may be said to have placed a serious constraint on resource mobilisation while at the same time it has not been so successful in redistributing land in favour of the poor.

1.21 Commodity taxation has become the predominant source of revenue in most of the States. In recent years it has also been enjoying an unusual buoyancy on account of the sharp increase in the general price level. It must be borne in mind that the net increase in revenue from such buoyancy related to price rise is hardly significant. A good part, if not the whole of the revenue effects of rising prices is neutralised by escalations in the cost of public services (Dearness Allowance increase is just one of them). In a sense, both these trends, higher prices and increased commodity taxation are indicative of the enormous burden of taxation shouldered by the less affluent sections of the population, for the bulk of the revenue from sales tax is from commodities of mass consumption. It is true that with the combination of single point with multipoint levies it has been possible to isolate articles of comforts and luxuries which are subjected to higher rates of duties. But since the volume of transactions in such commodities is small, the proceeds from these sources do not carry sufficient weight to make the system progressive. Theoretically there is no limit to the rate of tax on articles of conspicuous consumption. In fact, sales tax on liquors other than toddy is as high as 50 per cent in Kerala. But in this case temperance more than equity or yield is the dominant consideration. In other cases there are real constraints to imposing higher rates on luxury consumption. Some would argue that comforts and luxuries are in fact incentive goods and prohibitively high levies on them act as a deterrent on investment activities. For, according to them entrepreneurs save and invest

so as to carry spendable profit which would give them an advantage over others in conspicuous consumption. In many cases the real barrier in the way of higher taxes on luxuries is the fear of diversion of trade, smuggling and black marketing unless the concerned States move in step with their neighbours. Difficulties would arise when there is a substantial difference in the ideological quotient of the neighbouring Governments. In the absence of uniformity in the ideological outlook regional councils in sales tax would only act as a curb on the progressive proclivities of the forward looking States.

1.22 Under these circumstances Governments inclined towards the strengthening of the progressive features of state taxation will have to resist the temptation for excessive tapping of commodities of mass consumption. Instead they may have to enlarge the list exempting basic consumer goods and moderate the levies on others, while at the same time enhance the rates on luxuries and comforts. As indicated earlier, under the existing fiscal system, there are serious limitations in pursuing this without damaging revenue consideration. There may, however, be considerable room for improving the yield through simplification, rationalisation as well as by plugging the loopholes of evasion and avoidance. Recent years have also witnessed a considerable spurt in activities relating to the construction of residential buildings catering to the affluent sections of the population both in the rural and urban areas. Suitable fiscal contraptions may have to be devised to discourage such conspicuous consumption.

1.23 The scope for further increases in registration fees, stamp duties and taxes on motor vehicles appears some what limited. Logically, as part of the shift towards property-oriented taxes, there may be a case for enhancing the stamp duties arising from transactions in land and other immovable property. But the effect of any such enhancement may be lost unless effective measures are generated to counter attempts towards undervaluation of property. The proposed land tax on the basis of its capital value revised periodically would provide a firmer basis for checking such evasion. Much depends on how soon such an effective evaluation machinery could be brought into existence.

1.24 In recent years road transport has grown into a fairly big industry. It has become a necessary complement of industrial and agricultural development. As such the promotional element in the development of road transport is still kept alive. Though hardly any comprehensive data on the economics of road transport are available the general impression created by organised interests is that the burden of motor vehicles taxation and sales tax on motor spirits weights too heavily on the industry. The proprietors of motor transport companies have been clamouring for improved roads on the one hand and reduced tax burden and enhanced fare structure on the other. It would, therefore, appear that apart from rationalisation and

simplification the scope for enhancement of rates may be limited for some time to come. It may, however, be necessary to review the fees charged for the various services rendered by the Motor Vehicles Department by way of enforcements of the various regulations governing the operation of motor vehicles. However, one has to guard against possible attacks on the tax element in fees. In recent years, there has been a progressive advance towards nationalisation of bus transport. Over time nationalisation may be expected to embrace the entire passenger traffic on roads and even extend to the bulk of goods traffic. In that event, State Governments would be more concerned with the efficient and economic operation of the network of nationalised road transport than about enhancement of the rates of taxes on motor vehicles.

1.25 The role of the States as an underwriter and promoter seems to have constrained the tariff policy of the Electricity Boards in recent years. State Governments especially those with potential surplus of power seem to vie with one another in selling power below cost so as to attract some of the heavily power using industries. In fact some of them (like Kerala) have entered into long term agreements with some bulk buyers. It is not so easy for the Electricity Boards to give up their promotional commitments in the near future. In any case, very little can be done by any particular Board so long as their counterparts in the neighbouring States persist with their policy of gravitating industries through attractive terms for the use of power. It is true that some differentiation in tariff is possible between essential and non-essential uses of power. But if the Boards were to make profit it becomes necessary that the loss incurred on account of the subsidy element involved in the case of contractual buyers (large power using industries) can only be made good by throwing a relatively heavier burden on the mass of the consumers the bulk of whom belong to the middle classes. This is also true of the rapidly expanding rural electrification programme.

1.26 The problem of improving the yield from electricity has to be approached from several angles. If careful attention is paid to planning, feasibility study, detailed cost estimates, phasing and scheduling as well as the controlling of the progress of construction in terms of these cost estimates and work schedule considerable savings would occur in the construction cost of power projects. Effective coordination between generation, transmission and sales promotion would also help to boost the operating receipts through near capacity utilisation. Stage by stage costing in terms of load factors may also be helpful in restructuring the tariffs on a more rational basis. Use of modern techniques of management such as materials management, management accounting and so on would help focussing attention on the most critical problems affecting costs. As for tariffs and duties most of the Boards seem to be committed to raising the return from

electricity undertakings to 11 per cent of the capital base within an accepted time schedule. Yet it seems difficult for the Board to get away from the underwriter's approach

Despite their promotional efforts most State Governments are unable to exploit the industrial potential unless private investors are aggressive enough or the Centre is impressed with the need for developing the potential. Consequently, the public sector undertakings are very few and relatively smaller in the scale of operation. Yet as in the case of electricity, if enough attention could be given to the problems of planning, programming construction and management of public undertakings they would add considerable resources by way of profits from public undertakings.

1.27 Kerala is one of the greatest foreign exchange earners in the country. Her products seem to enjoy an expanding world demand. In most cases the export sector is not properly organised. Nor is it equipped to deal adequately with the whims of the world market. Under these circumstances organisation of marketing-boards or state trading in agricultural commodities may be expected to stimulate exports, while being highly profitable. Similarly the prospect of planned development and use of the forest wealth as well as the development of forest based industries seem to be opening up attractive possibilities. The Plantation Corporation of Kerala only marks the beginning of progress in this direction.

1.28 As in Union-State financial relations the central problem in local finance is to ensure the purposeful matching of the need arising from the discharge of mandatory, discretionary and entrusted functions with resources providing at the same time for the fulfilment of national and regional priorities on the one hand and for a measure of local initiative on the other. The two-tier system of Panchayati Raj emerging in Kerala envisages further decentralisation of developmental and administrative functions and powers and the resources to discharge them. Strengthening the resource base of the local governments does not require Constitutional changes except when the limit on profession tax is sought to be enhanced. It would, however, be necessary to take a fresh look at the taxes assigned to local bodies and review the basis of the tax sharing, grants-in-aid and loans available to them.

1.29 Though taxes are paid for the development of a civilized society, the tax-payer always feels deeply stung by the loss of money. The prevailing business ethics does not seem to jeer at tax avoidance and evasion. In fact some of the notorious tax delinquents occupy positions of power and respectability in society. One of the biggest problems in tax administration is to develop an efficient machinery and procedures to deal with tax delinquents with a heavy hand while minimising the inconveniences to the honest tax payers.

1.30 To sum up, the tax potential in the States is not as great as is sometimes imagined. The Constitution seems to have constrained State finances by placing certain expanding sources of revenue with the Centre and by extending undue protection to private property rights. But the Centre has not used its command over the direction of the overall resources at its disposal towards balanced regional development. The existing fiscal arrangement may, therefore, have to be basically altered to leave enough initiative and resources with the weaker States to clear their backlog in development. Similarly drastic changes in the property relations or income distribution would largely depend on the extent to which private property rights guaranteed under the Constitution could be curbed. The pressures exerted by the existing power structure account for the excessive reliance on commodity taxation and inflationary financing the point of the burden of which has been on the poorer sections of the population. The basic approach of a progressive tax policy should, therefore, be to shift the emphasis from a commodity based to a progressive and flexible group of taxes designed to tap more intensively land and the income and wealth arising therefrom. Secondly, to the extent that the role of the State as a promoter and an underwriter has tended to shift resources from the relatively poorer tax-payers to the affluent investors and producers, the policy of tax inducements and subsidies (hidden or open) may have to be carefully reviewed. But, both these approaches have severe limitations. The revenue potential of a really progressive structure of commodity taxation may be disappointing. On the other hand, where the pressure of population on land is great the scope for mobilization through graduated levies on land and agricultural incomes may not be impressive. At the same time, it would be difficult to ignore the role of the State as a promoter and underwriter of development so long as inter-State rivalries and the bargaining power of the investors remain as they are. It would, therefore, be wise to be selective and direct in dealing with subsidies. Thus, under the existing framework of economic and social relations even the most progressively inclined State Governments would be under severe strain if it were to ignore revenue and developmental considerations for the sake of progressivity.

B. CENTRE-STATE FINANCIAL RELATIONS

CHAPTER 2

CENTRE-STATE FINANCIAL RELATIONS

2.1 The financial relations between the Centre and units are one of the vital and at the same time difficult problems in a federation. In a way, it is inevitable because the political mood of the "founding fathers" influences the shaping of the financial provisions of a federal constitution. Yet, it is these provisions which allocate the fiscal powers and provide for inter-governmental grants and government borrowing which broadly determine the means by which the rates at which public services are developed in the various regions of the country and the extent to which the rates of economic growth will vary between regions. An amount of imbalance between resources and responsibilities is inevitable in any federation. Such problems were hardly serious in the early federal formations where the revenue requirements were moderate. But in the context of dynamic developmental programmes such imbalances tend to assume serious proportion which might endanger the very basis of the federal structure.

2.2 There are two basic principles of fiscal management in any federal system. One is that the maximum possible share of public affairs should be shouldered by the States and local bodies, so that the Central Government can concentrate on matters of broader concern which require unified action and cannot be attended to effectively locally. The second is that the Government which does the spending should as nearly as possible raise its required funds. It also implies that revenues should keep pace with the needs of expenditure. These principles are important enough to be strengthened and affirmed, rather than allowed to be whittled away by any undue centralization of governmental functions or by any overuse of grants-in-aid. Adherence to these principles is in no way inconsistent with a determination to maintain the strength and fitness of a Central Government for the discharge of its grave national responsibilities; nor is it inconsistent with a continued readiness to employ both federal and State grants-in-aid where they can be of unquestioned usefulness.

2.3 The majority of State and local functions do not require the application of either national or State uniformity in their administration or the equalization of tax burdens in their financing which are among the grand objectives of grants-in-aid. Close adjustment to peculiar needs and fiscal capacities is a more desirable condition

in most cases. This being so, then one of the primary objectives of federal fiscal management should be to strengthen the ability of the States and local bodies to finance themselves.

2.4 The question of grants-in-aid and loans apart, there are three main ways in which the tax structures of the States can be made to produce more revenue. One way is for each State to act independently making such changes in its tax structure as it deems best in the light of its particular fiscal requirements and peculiar economic and political conditions taking into account the constitutional provisions. The second way is for the States to act collectively negotiating with the Central Government for its withdrawal from certain fields of taxation so that they could raise more revenue from these sources. The third way is for the States similarly to act collectively and negotiate with the Central Government for the sake of seeking further separation of tax sources as also a closer co-ordination of their and of the federal Government's uses of the same sources so that they may be able to raise more revenue from one and the same source. The exact method or methods that may be adopted would, however, depend on the gravity of the fiscal imbalances and the degree of consensus amongst the Governments of the units and their capacity to generate the requisite political strength to initiate suitable changes in the constitutional and other arrangements in their favour.

2.5 The actual practice in the emerging federations is that there are flexible arrangements for sizeable federal grants, loans and other kinds of financial transfers. Inter-governmental financial transfers should be based on the need of the units for public services and their fiscal capacity. Both these criteria are difficult to measure. The need of the units may be measured in terms of their population, age distribution, density of population, distribution of income, local costs, degree of industrialisation and monetisation, variations in agricultural productivity, etc. Fiscal capacity may be measured in terms of population, per capita income, tax effort, per capita tax revenue, value of taxable property and sales, etc.

2.6 One single formula that reflects all these criteria would be difficult to construct and if done would be highly complex. Population is probably the simplest and most appropriate measure of the relationship between need and capacity because it is a good indicator of the need for public services; it would allow for varying degrees of fiscal capacity and would distribute resources from the high to low income States. Per capita distribution may not adequately reflect the more urgent need for fiscal assistance of the poorest States, but this deficiency could be recognised by reserving a part of the funds for distributing among States with lower per capita incomes. It would be more effective if the distribution is made in proportion to population weighted by the reciprocal of per capita

income. These various devices of financial relationship between the Centre and the units are meant primarily to ensure flexibility in inter-governmental financial relations.

2.7 To achieve this end it is desirable to have a permanent machinery if there is no constitutional provision for financial flexibility and co-ordination. Even if there are provisions there may be areas of friction and conflict which may develop in the course of working. It is in such situations that the necessity of special institutions for federal-state financial co-operation becomes very patent. Inter-governmental financial institutions; serve two broad purposes: (1) they enable co-operation in finance and in economic planning between federal and state governments and (2) they make possible a regular process of adjustment in finances and economic planning to meet new conditions. The problems with which these inter-governmental financial institutions deal can be listed under the following heads: tax distribution, grant distribution, loan co-ordination, economic development and settlement of inter-governmental disputes. It can also review tax and grant allocations by commissions or councils.

2.8 The principle of close correspondence between responsibility and resources as a fundamental federal principle has been referred to earlier when it was established that wherever possible the services provided by each level of government—if clearly demarcable—should be financed by that level. It seems, however, that there is no single item of expenditure in a modern federation which does not involve more than one single agency. The joint activities of federal, State and local governments raise a host of questions ranging from co-ordination of administrative detail at the operating level to the broad policy question of what functions should be assigned to each governmental level. But these aspects are out of our purview here. What we want to establish is that there must be some degree of correspondence between the expenditure one layer of government is likely to be called upon to undertake and its fiscal capacity.

2.9 Further, the powers must expand as functions widen, so that more revenues accrue as responsibilities go up. The principle of distribution of functions should be in accordance with the ability of the layer to discharge them; so also the power to levy a tax should lie with the authority in a position to utilise it more economically and efficiently, i.e., according to the economic allegiance of the tax.

2.10 The federal career of the Indian sub-continent has never run smooth. Until Independence the growth of the Indian federation was through a process of disaggregation. Though there were clearly recognisable diversities in the sub-continent since ages past most of Indian rulers have been attempting a more or less unitary form of government. The same is true of the East India Company and

the Government of India since 1858. There have been several schemes of decentralisation since 1870. But, the Government of India had complete control over taxation, provincial expenditure and borrowing. Though the Mont-Ford Reforms was a half way house towards provincial autonomy it did adopt the federal principle in the allocation of revenue between the two layers of government. But neither the Government of India Act of 1919 nor that of 1935 has been working normally over any stretch of time. Financial working arrangement under the 1919 Act was seriously disturbed by several fluctuations in the course of the economy in the 'twenties and more seriously in the early 'thirties. The Government of India Act of 1935 could not be given a fair trial because of the resignation of the popular governments and the intervention of the World War II. In all these cases the adjustments that were made were clearly in favour of the Central Government.

2.11 Until partition the diversities of the Indian sub-continent were asserting themselves in favour of a stronger federation. In fact, the consensus that emerged from the memoranda submitted by the various Provincial Governments before the Expert Committee on Financial Provisions (otherwise called the Sarkar Committee) was in favour of greater devolution of resources to the Provinces especially through the inclusion of corporation tax and even export duties in the divisible pool while at the same time keeping the ratio favourable to the Provincial Governments. Partition seems to have alerted the Constituent Assembly against possible dangers to the unity of India arising from the divisive forces. Its reaction is reflected in the strong-centre theme which runs through the Constitution. Financial provisions are only an aspect of this strong-centre bias.

2.12 The financial provisions of the Indian Constitution were very closely based on the Government of India Act, 1935. The tax powers of the federation and the units are embodied in two lists—the Union and the State lists—both exhaustive and mutually exclusive (ref: Appendix VII). With respect to all items of taxation included in the State list, the State Government has the sole jurisdiction to levy and collect them and the entire proceeds credited to the Consolidated Fund of the State to be utilised for State purposes. There are 20 such items of which the most important are land revenue, duties of excise on alcoholic liquors and narcotic drugs, general sales-tax and sales-tax on motor, spirits, stamps and registration, taxes on motor vehicles, entertainment taxes and electricity duties.

2.13 Taxes on agricultural income have been included in the State list as also estate duty in respect of agricultural land. Taxes on lands and buildings, taxes on entry of goods into a local area for consumption, use or sale therein, tolls, taxes on animals and

boats, taxes on professions, trades, callings and employment are included in the State list, but in most States they have been assigned to local bodies.

2.14 The Union tax list can be divided into four categories (1) Duties of customs including export duties; corporation taxes; tax on capital value of the assets exclusive of agricultural land of individuals and companies accrue wholly to the Central Government and no part of the proceeds is to be assigned to the States; (2) Taxes on income other than agricultural income and duties of excise on tobacco and other goods manufactured in India except alcoholic liquors and narcotic drugs are to be levied and collected by the Union, but they are to be shared between the Union and the States. There is also a minor difference between them. The proceeds of income tax *shall* be shared, but those of excise duties *may* be shared. (3) Article 269 lists seven taxes which are to be levied and collected by the Centre, but shall be assigned to the States in the manner provided by clause 2 of that article. These are estate and succession duties in respect of property other than agricultural land, terminal tax, tax on railway fares and freights, tax on transactions in stock exchanges and futures markets, tax on sale or purchase of newspapers and on advertisements published therein and tax on sale or purchase of goods other than newspapers where such sale or purchase takes place in the course of inter-State trade or commerce. (4) This category consists of stamp duties and duties of excise on medicinal and toilet preparations which are to be levied by the Centre, but collected and appropriated by the State concerned, the proceeds in the Union territories accruing to the Centre.

2.15 In actual practice in the working of the Constitutional provisions regarding taxation and tax-sharing many difficulties have come to the fore. For instance, let us examine the case of taxes under article 269 where the problem is simple as the Union has no share in them. Out of the seven items enumerated above, inter-State sales tax and estate duty are the only taxes in this category which are being levied at present. A third item—the tax on railway fares—after a short experiment was amalgamated with the fares which has worked to the disadvantage of the States. Of the remaining four items at least three—terminal taxes, taxes on sale or purchase of newspapers and on advertisements, and duties in respect of succession to property other than agricultural land—are potential sources of fairly sizeable revenues to the States. And since the resources position of the States is under acute strain, the Centre should take initiative and impose these taxes, otherwise, neglect in this line would cause heartburn to the States and would remain an area of perpetual conflict between the Centre and the units.

2.16 Secondly, there are some problems with regard to additional excise duties. The Union Government places its interests first by

not being sufficiently alert in enhancing these rates when the excises on similar commodities were raised. Left to them the individual States might have raised their rates. Further, as regards the income assured to the States to cover sales tax losses, it is felt that this sum represents only an arbitrary figure and does not have any correspondence to the actual increase in sales tax receipts if these commodities were subject to sales tax as was the case before 1957.

2.17 Thirdly, the Centre seems to reduce the divisible pool surreptitiously. For example, the Finance Act of 1959 classified the income-tax paid by companies as corporation tax and it ceased to be part of the divisible pool. For sometime, it was also the practice for the companies to pay a 20 per cent tax on all dividends which was deemed to have been paid on behalf of the shareholders being utilised for grossing up the shareholders' income and was credited to them as tax paid on their income. As the states have protested against these inroads into the divisible pool, the Centre has made suitable adjustments in the income-tax laws.

2.18 Finally, even today in good times or bad, surcharges on income-tax for Union purposes continue to be made. While it is true that all these put together amount only to a small portion of the large transfers given to States at the Union's discretion, steps should be taken to ensure that this type of vexation stops. These aspects, however, constitute only a small facet of the Union-State financial relations obtaining at present in India.

2.19 Though in theory there is little overlapping of tax powers, in practice some fields have easily lent themselves towards overlapping. First, the power to levy a tax on trades, professions and callings was used by some States to levy a progressive tax on certain types of income; it was then contended that it was in the nature of a tax on income and came in conflict with the Central power to levy a tax on non-agricultural incomes. This conflict was resolved by an amendment in 1940.

2.20 Secondly, more serious were the anomalies arising from the various State sales taxes on inter-State trade and the overlapping between the sales taxes and excise duties on some commodities. The first problem was examined at length by the Taxation Enquiry Commission (1953-54) which suggested amendment to the Constitution empowering the Union Government to define inter-State trade and levy taxes on it. This was done by inserting an additional item (92-A) in the Union List and sub-clause (g) of Article 269(i). The proceeds of this tax were to be assigned to the States. The Commission also pointed out the need for the Union Government being empowered to lay down a list of commodities, mainly raw materials or intermediate goods where the States could only levy a tax at the last point at not more than certain rates and where

there would be no double taxation by two States. This was given effect to by adding item 33 to the Concurrent List as well as inserting clause (3) to Article 286, subjecting the States' right to levy a tax on purchase or sale to restrictions laid down by Parliament in the matter of goods of special importance in inter-State trade or commerce. But the problems of overlapping between the two taxes (sales tax and excise duty) were not solved by these amendments and modifications and still there are areas of conflict owing to the fact that both are taxes on commodities.

2.21 When the Planning Commission was set up it was thought that it would bring about a closer economic integration of the country through rapid increase in national income, higher standards of living of the masses, reduction of inequalities between regions and individuals, expansion of social services and all round development of agriculture, industry, power and transport. While some degree of economic development has been achieved in every direction, yet from the point of view of balanced regional development planning in India has been a dismal failure.

2.22 The plans formulated by the Planning Commission and accepted by the Union Government and Parliament practically superseded the constitutional division of powers. An all comprehensive plan comprising the subjects allotted to the Union and the States was evolved which had to be financed to a major extent by discretionary grants and loans from the Centre. It is true that the State Governments were consulted but no State Government was satisfied with the loans and grants obtained from the Centre. Thus with the acceleration of the planning process the responsibilities and commitments of expenditure far out-weighed the financial resources at the disposal of the States.

2.23 This state of affairs has led to a kind of centralisation at the federal level bringing the economic functioning of the State Governments under Central directives and controls through the mechanism of grants and loans. Correspondingly, the financial powers of the States are seen to be far too meagre in relation to their clearly defined responsibilities.

2.24 The period of planning has witnessed an enormous expansion of financial power of the Central Government whose dimensions have progressively increased in relation to the combined resources of all State Governments put together. For instance, the current revenues (gross) of the Centre have risen from Rs. 453.58 crores in 1950-51 to Rs. 3128.04 crores in 1967-68—an increase of about 690 per cent. On the other hand, current revenues of the States excluding transfers from the Centre have risen from Rs. 380.50 crores in 1950-51 to Rs. 1545.75 crores in 1967-68—an increase of only 406.51 per cent.

2.25 To an extent the same trend is seen in regard to the rise in revenue expenditure. The total revenue expenditure of the Centre which was Rs. 346.64 crores in 1950-51 rose to Rs. 2425.07 crores in 1967-68, while for all States put together the rise of revenue expenditure over the period was from Rs. 392.63 crores to Rs. 2426.81 crores. The percentage rise works out to 599.59 and 518.09 respectively.

2.26 What made this process of growing divergence between powers and resources of the Centre and States possible was partly the financial powers vested in the Central Government by the Constitution. Only marginally did the Central Government use its strong financial position to augment the resources of the weaker States. Instead, it has utilised the financial and other powers conferred by the Constitution to project itself into more and more of self-arrogated functions (not envisaged in the Constitution). The 'fait accompli' readily became established conventions and practices. To the State Governments no course was open except helpless acquiescence. To a great extent, it is this imbalance in the distribution of powers between the Centre and the States which has been responsible for the spatial distortions in the Indian economy.

2.27 The inter-State imbalances on the eve of planned economic development in India were largely attributable to: (1) the historical and cultural diversities, (2) the uneven distribution of productive natural resources and (3) the lopsided development that characterised the British period in India. But the stark reality is that economic disparities in India have widened in spite of, or perhaps even as a result of, the last 18 years of planning. This is not to deny that some progress has been achieved in every State in some direction or other. But, by and large certain States such as Maharashtra, Gujarat, Madras, Punjab and West Bengal have made greater progress and Uttar Pradesh, Rajasthan, Bihar, Orissa and Kerala have lagged far behind. It may be argued that, to some extent, these disparities are built-in in a vast country like India with wide variations in climate, fertility of soil, availability of natural resources and initiative and enterprise of the people.

2.28 The working of these factors could effectively have been offset if the Central Government and the Planning Commission were really serious about their policy declarations emphasising the need for corrective measures in this direction. But measures undertaken so far have either been inadequate or ineffective in correcting regional disparities.

2.29 An examination of some of the salient inter-State economic variables (for which some data are available) will prove that the plan objective of regional balance has not been adequately realised.

2.30 One of the available methods to measure the inter-State disparities among States is to compare the estimates of per capita

incomes though there may be some limitations in this approach. Following are the official estimates of per capita income of the States made by the Central Statistical Organisation for the year 1964-65, and accepted by the Planning Commission.

TABLE 1
PER CAPITA INCOME IN INDIA (1964-65)

<i>States</i>	<i>Rs.</i>
Punjab	619
Maharashtra	529
Gujarat	523
Haryana	513
West Bengal	495
Andhra Pradesh	458
Mysore	441
Madras	436
<i>All India</i>	<i>423</i>
Assam	394
Kerala	391
Madhya Pradesh	378
Uttar Pradesh	374
Orissa	368
Rajasthan	365
Bihar	292

2.31 As evident from the above table while the country as a whole has a per capita income of Rs. 423, Punjab which is the richest State has Rs. 619. Bihar which is at the bottom of the ladder has an income of only Rs. 292, which is less than half of Punjab's income. The first 8 States have incomes above the national average and the next 7 incomes below the national average.

2.32 Table 2 gives the estimates of per capita national income for 1949-50, 1958-59, 1960-61 and 1964-65. Between 1949-50 and 1958-59 it is seen that no significant change occurred in the ranking of the States with regard to their per capita incomes. In 1949-50, West Bengal, Assam, Punjab, Bombay, Uttar Pradesh and Madhya Pradesh had incomes above the national average (Rs. 248.1). With minor variations, this position was more or less maintained even in 1958-59. However, as the developmental process gathered momentum, some rapid changes took place. By 1961, Maharashtra, West Bengal, Punjab and Gujarat made relatively faster rates of growth and had incomes above the national average. The poorer States of Assam, Kerala, Mysore, Uttar Pradesh, Madhya Pradesh, Orissa, Rajasthan and Bihar did not make any significant gains in income and their positions were below the national average. While

Maharashtra with Rs. 469 ranked the first among the States, Bihar with Rs. 221 was at the bottom. The national average was Rs. 338.

2.33 The progress made by West Bengal, Maharashtra, Gujarat and Madras can be attributed to their industrial expansion; in the case of Punjab it was agriculture that was its mainstay. The same trend has more or less been maintained through 1964-65 except that Andhra, Mysore and Madras have registered better performance than the national average. The progress of the former two States can be attributed to the relative importance given to agriculture during the plans.

2.34 Punjab, Kerala, Madras, Andhra and Haryana have shown significant increases in the consumption of fertilisers and hence in agricultural productivity. But since Punjab, Madras, Andhra Pradesh and Haryana have larger per capita availability of land, the increase in food grains production in these States made a greater impact on per capita income than in Kerala and West Bengal, the two States which registered equally higher productivity in food grains.

2.35 In table 3 are summarised the data contained in the Annual Survey of Industries for 1965, from which the wide disparities in industrial development will be clearly evident. It will be seen that the four States of Maharashtra, West Bengal, Madras and Gujarat with only 29.34 per cent of the total population accounted for more than 50 per cent of the productive capital employed, nearly 60 per cent of the industrial employment and about 62 per cent of the industrial output. Taking the two States of Maharashtra and West Bengal alone the skewed distribution was more marked. With a population of only 17 per cent, they accounted for 36 per cent of the productive capital employed, about 41.5 per cent of the total industrial employment and 45 per cent of the gross output.

2.36 One would have expected that the Central Government with its overall control over credit would have influenced the flow of funds towards the development of the hitherto less developed regions. But the facts seem to have belied such expectations.

2.37 Table 4 gives the State-wise distribution of offices, bank deposits and bank credits of the scheduled commercial banks for 1961 and 1966. From it, it will be seen that there are very wide variations in per capita bank deposit and per capita bank credit in the States. An analysis of these figures would reveal that the richer States have greater access to bank credit on account of their relatively high degree of industrial and commercial activities. This tendency is reflected by the excess of credit over deposits in the richer States like Maharashtra and West Bengal. This is particularly striking of the cities of Bombay and Calcutta. The flow of funds through the net work of banking institutions seems to have helped

the process of siphoning off of the excess deposits found in the less industrialised States in favour of the already developed industrial and commercial centres.

2.38 The same distortions in the utilisation of funds can be seen from Tables 5, 6 and 7. By and large, States like Maharashtra, Gujarat, West Bengal and Madras seem to have absorbed a predominant part of the resources channelled through the Industrial Development Bank of India, Industrial Finance Corporation and Industrial Credit and Investment Corporation of India. Maharashtra and West Bengal alone seem to have accounted for nearly 40 per cent of the financial assistance sanctioned by Industrial Development Bank upto June 1968 and 46 per cent of the credit given by Industrial Credit and Investment Corporation of India upto December 31, 1967. In the case of credit channelled through the Industrial Finance Corporation their share has been about 32 per cent upto June 30, 1968.

2.39 Even the regulation and control over industrial development has not proved to be an effective instrument in mitigating regional disparities in development. As evident from Tables 8 and 9 Maharashtra and West Bengal seem to have absorbed nearly 50 per cent of the licences issued and about 36 per cent of the total capital investment. Since the foreign exchange component of new investment has been estimated to be about 60 per cent of the total, these two States may be said to have been the major beneficiaries of our foreign exchange earnings and external assistance.

2.40 Table 10 gives the State-wise distribution of investments in the Central Government undertakings. It is, however, difficult to find any consistent principle governing locational decisions. While by virtue of their natural advantages, Bihar, Madhya Pradesh and Orissa have received a more than proportionate share of the total investment the leading points of development have, more or less, remained enclaves in the absence of well integrated plans for regional development. On the other hand, States like Kerala and Rajasthan seem to have got a raw deal as regards Central sector investments.

2.41 In this all India picture where giants seem to have held sway both by snatching an undue share of private as well as Central sector investments and by harnessing the bulk of the resources flowing through the organised money market, it is no wonder that Kerala's share from these sources has been relatively small. The fact that the Government of India controls and regulates the flow of funds and influences the locational pattern of investment has not created much of an impression on the problem of regional imbalances especially in States like Kerala.

2.42 Balanced regional development as an objective has figured prominently in the Plan documents. But the Government of India cannot be credited with a determined effort to disperse the growth points. The thinking of the planners seems to have been very much influenced by the picture of capitalist development which in the initial stages gets concentrated in a few leading points from where in course of time it is slowly transmitted to the peripheries. Consequently they were afraid that unless inter-regional transference of resources results in higher marginal productivity in the low income regions the overall development of the economy would be slowed down. Thus, in their concern for rapid development they seem to have ignored the "backwash effects" on the other regions.

2.43 More serious has been the inability of the Government to break the power of the industrial and financial oligarchies which on account of their firm grip over the commanding heights of the economy, have been able to gravitate the bulk of the mobilisable resources into areas advantageous to them. Inevitably such a massive command over resources by a few has also aggravated the spatial distortions in the economic development of the country.

2.44 Kerala is one of those States which have been affected by the backwash effects of the process of development outlined above. This has happened despite some of its natural advantages and a fair degree of early industrial development. Kerala is well known for its plantation industries, having almost a monopoly in pepper, rubber and lemongrass oil in India. It is also a large producer of tea, cashew nuts, tapioca, coir, ginger etc. The traditional character of the regional economy was sought to be changed in the forties when some industrial enterprises were promoted for producing fertiliser, aluminium, sugar, textiles, cables, titanium and other products, and by the time of the integration of the State, the erstwhile Travancore State was one of the foremost amongst princely States in industrialisation. Now after 18 years of national planning Kerala remains one of the industrially backward States in the country. This has happened despite the fact that during these years Kerala has been earning for the nation large sums of precious foreign exchange. It appears that the foreign exchange earned in recent years is larger than the volume of resources made available to Kerala through sharing of taxes and grants.

2.45 As evident from tables 4—10, the bank deposits accruing in Kerala are larger than the bank credits; its share in Industrial Development Bank and Industrial Credit and Investment Corporation of India disbursements has been hardly 2 and 1 per cent respectively; its share in the number of licences issued and amount of capital invested is equally discouraging; and more grievous is the fact that Central has neglected Kerala in the case of location of Central sector projects. The cumulative impact of all these factors

along with the lack of dynamism and experience of the local entrepreneurship accounts for the slow rate of industrial development in Kerala in recent years.

2.46 Despite its relatively good performance in resource mobilisation especially through tax effort, Kerala has not been able to make any substantial breakthrough in its industrial development under the Plans. The tax-income ratio in the State, i.e., the percentage of State income received as tax revenue is one of the highest in India. While the average for all the Indian States in 1960-61 was 3.43 per cent, that of Kerala was 4.36 per cent being a close second to West Bengal (4.47 per cent). The same picture is repeated in 1964-65, when the average for all States was 4.27 per cent while that of Kerala was 5.22 per cent, again second only to West Bengal which had a ratio of 5.62 per cent.

2.47 Tax effort can also be measured in terms of the marginal rate of taxation i.e., proportion of incremental tax revenue to incremental income in any year. This measure has been always much higher than the average propensity to tax (i.e., tax-income ratio) in Kerala during the period 1960-61 to 1964-65. The marginal rate of taxation has been higher in the case of richer States like Maharashtra, Gujarat, Punjab, Madras and West Bengal. This is more a result of relatively greater buoyancy of their taxes arising out of faster rates of growth of incomes attributable to agriculture in Punjab and to industrial and commercial activities in the others rather than due to relatively larger tax efforts.

2.48 Elasticity of tax, i.e., the rate of increase in tax receipts in relation to the rate of increase in income in recent years in Kerala has also been high. Expressed in terms of percentage this measure was on an average 1.63 during the Third Plan period in Kerala. In other words, when the income in the State increased by one per cent on an average during the Third Plan, the corresponding increase in tax receipts was 1.63 per cent. For reasons indicated above, here too the richer States have higher figures.

2.49 Finally, the per capita tax incidence in Kerala for 1968-69 (Budget Estimate) (Rs. 27.61) is much higher than the average for all the States in India (Rs. 22.89) (for more details see tables at the end of the Report).

2.50 One of the obvious remedies to correct the imbalances in the industrial sector would have been for the Government of Kerala to assume the role of the pioneer in industrial development. But as in the case of most other States, Kerala is also held under short leash as far as the availability of financial resources is concerned.

2.51 The following table will explain the increasing dependence of Kerala on the Centre for its plan finance:

TABLE 11
CENTRAL ASSISTANCE TO STATE PLAN—KERALA

	(Rs in crores)		
	<i>I Plan</i>	<i>II Plan</i>	<i>III Plan</i>
State Plan—Actual expenditure	26.1	80.2	182.3
Central assistance	10.3*	34.4	123.0
(i) Grants	...	8.6	19.1
(ii) Loans	...	25.8	103.9
Percentage of Central assistance to State Plan expenditure	39.5	42.9	67.5

* Separate figures of 'grants' & 'loans' are not available.

2.52 Kerala lost certain independent and elastic sources of revenue as a result of federal financial integration. This along with the unprecedented expansion of the functional responsibilities of the State under the plans has increased, the dependence of Kerala on Central resources. As seen from the table grants and loans from the Centre accounted for 39.5 per cent of the Plan outlay under the first Plan and the corresponding ratio increased to 42.9 per cent and 67.5 per cent in the Second and Third Plan periods respectively.

2.53 It can further be seen that the total resources devolved on Kerala by way of share of Central taxes, statutory and other grants-in-aid and loans (net) formed on an average 34.04 per cent of the total revenue expenditure (excluding appropriation for reduction or avoidance of debt) and capital outlay (excluding State trading and appropriation to the Contingency Fund but including net disbursements under Q. Loans) of the State during the Second Plan period and 44.74 per cent in the Third Plan. The share of Central taxes and grants-in-aid together formed on an average 27.08 per cent of the State's revenue expenditure during the Second Plan period and 30.76 per cent in the Third Plan period. Loans (net) from the Centre formed 57.58 per cent of its capital disbursements during the Second Plan period and 86.28 per cent in the Third Plan period. Outstanding loans registered an eight-fold increase over the last eleven years from a modest Rs 22.89 crores on 1st April 1957 to an astounding figure of Rs. 193.36 crores on 1st April 1968 (see table appended to the Chapter).

2.54 The above analysis of the problems of regional imbalances (paragraphs 2.30 to 2.53) would suggest either a lack of sincerity of purpose on the part of the Government of India or its inability to overcome the institutional blockages in the way of balanced regional development despite its good intentions. In the event of the latter it would appear that, unless some drastic steps are taken by way of structural reforms to clip the wings of the powerful oligarchies entrenched in industry and commerce, Government's command over the direction of investible resources will not be effective in bringing about a progressive reduction in regional imbalances. To be effective, these measures should include radical land reforms coupled with schemes of nationalisation of corporate property in industry, banking and wholesale business as well as a realignment of functions and resources as between the Centre and the States.

2.55 Curbing the concentration of economic power or conferring greater initiative and resources on the States would necessitate certain amendments to the fundamental rights relating to private property as well as to the financial provisions of the Constitution. One of the ways of strengthening the fiscal base of the States is by adding to the pool of divisible taxes. Almost all the Provinces were making a powerful plea before the Sarkar Committee for the inclusion of Corporation tax with the shareable taxes. In view of the prevailing imbalances it is necessary that the Centre vacates its right to corporation tax which has shown remarkable buoyancy in recent years along with certain other taxes like gift tax, wealth tax and so on. No useful purpose is served by distinguishing between 'compulsive' (Article 270) and 'permissive' (Article 271) provisions for purposes of sharing of taxes. The basic approach to the sharing of taxes should be to devolve enough resources to cover a substantial proportion, (say, about three-fourths of the revenue component) of the Plan besides balancing the non-Plan revenue account. This would allow enough elbow room to the States for a progressive clearance of the backlog of development while at the same time enable the Planning Commission to balance the revenue requirements of the State Plans in conformity with the broad purposes and priorities of the national Plan.

2.56. The devolution of shareable taxes should continue to be the responsibility of the Finance Commission. Besides retaining its quasi-judicial character it may be desirable to make it a permanent body. Almost all the Finance Commissions constituted so far have complained that they were not able to do full justice to their terms of reference especially for lack of sufficient statistical data. With the formation of a permanent Finance Commission it may be necessary to have a permanent Secretariat for the Finance Commission.

2.57 It is surprising that the framers of the Constitution should have been oblivious of the financial implications of large-scale programmes of planned development. Though planning was included in the Concurrent List they did not even envisage the Planning Commission as a statutory body. Consequently the devolution of resources to the States was made the primary responsibility of the Finance Commission. Apart from shared taxes the Finance Commission was to defray grants-in-aid to the States. As envisaged in Article 275 such grants embraced both revenue and capital grants. But as it has happened the Planning Commission has assumed major responsibility for the plan finance under Article 282 which provides for conditional grants for specific purposes under the heading "Miscellaneous Financial Provisions". Consequently the Finance Commissions had to address themselves to the limited problem of covering the revenue gap of the State budgets on the non-plan side. Though such conditional grants are effective in inviting the participation of the States and inducing them into rationally desirable directions excessive resort to it has proved to be somewhat arbitrary and irritating while at the same time unduly distorting the local priorities. In fact, the Third Finance Commission had admitted that conditional grants have induced the States to undertake unimportant and unsuitable schemes. They tend to frustrate the autonomy of the States by unduly tying their hands in the disposal of resources. The experience all over the world seems to vindicate this appraisal. Even in the United States where specific grants have played a relatively larger role the current thinking is in favour of unconditional transfer of massive resources to the States.

2.58 If, as recommended earlier in this chapter (paragraph 2.55) the divisible pool of taxes is substantially enlarged and the State's share is made sufficient to cover a substantial proportion of the revenue requirement of the plans besides balancing their non-plan expenditures the scope for discretionary grants would be automatically narrowed down while at the same time leaving enough leverage for the Planning Commission to promote the national priorities. Whether under a broader scheme of tax-sharing, Article 275 would become redundant needs to be examined. In any case the marginal heading of Art. 282 may be amended to read "Grants by the Union or a State for any public purpose" instead of "Miscellaneous Financial Provisions" with a view to removing some of the present anomalies.

2.59 The discretion of the Centre can also be restricted by evolving certain principles and criteria for the distribution of Central

assistance to the States for financing their plans. Recently, the National Development Council has evolved a set of principles which are summarised as follows:—

- (1) 60 per cent of Central assistance will be given in proportion to the population of each State.
- (2) 10 per cent of assistance is proposed to be given to States whose per capita income is less than the national average.
- (3) 10 per cent of assistance will be distributed in accordance with the per capita tax effort in relation to its per capita income.
- (4) 10 per cent will be given for continuing major irrigation and power schemes.
- (5) The remaining 10 per cent will be distributed to meet the special problems peculiar to individual States.

2.60 Conformity to national objectives and priorities may be attempted through a few other ways. As of now, the exercises on optimisation, if any, are largely, confined to the Central sector; and the States are expected to peg their respective plans within this frame-work. The patterns of assistance are also designed for this purpose. The Planning Commission seems to have very little appreciation either for local needs and preferences or for special constraints on resource mobilisation. If, within a broad national plan frame, the process of optimisation starts from village and moves upwards to State and thereafter at the national level the planning process might infuse a greater sense of participation and harmonious relations between the various levels of administration. Of course, the primary prerequisite is effective consultation between the Centre and the States on the basic objectives and approaches to the national plan apart from other issues of national importance such as the price policy, credit policy, wage policy, fiscal policy and so on. If properly strengthened and developed the National Development Council would be the most convenient forum for such a high level decision-making on all issues of national importance in planning and policy making for development. Other outstanding inter-State or Centre-State problems could be handled by a National Consultative Council which may be constituted under Article 263.

2.61 As part of the process of strengthening the autonomy of the States, steps may have to be taken to define in precise terms and restrict the areas of Central responsibility and Centre's control over financial resources strictly in relation to these responsibilities. For instance, the Concurrent List which was intended to be a means towards a coordinated effort in the discharge of certain nation-wide functions has proved to be a vehicle for power to gravitate towards

the Centre. In certain cases the Centre has succumbed to the temptation of arrogating to itself functions which strictly belong to the domain of the States. Thus we find an enormous expansion in the Secretariat staff of the Government of India in agriculture, health, education, police and so on which they should be encouraged to shed after rigorous scrutiny. Recently at the instance of the National Development Council several hitherto centrally sponsored schemes have been transferred to the States' sector. The net result of some additions and subtractions is that the total number of centrally sponsored schemes has been brought down from 89 to 63.

2.62 It is, however, desirable that a high powered commission be constituted to review the various constitutional issues and practices affecting Centre-State relations. Such a step would facilitate a gradual realignment of powers between the Centre and the States, with a view for direct matching of financial resources to the needs at different levels of activity in the total context of the balanced economic development of the country. Regional imbalances and disparities would then emerge as a special problem of a few regions that are far behind and special assistance to these States could be envisaged as an important Central responsibility.

2.63 A measure of the massive indebtedness of the States is the way in which loans outstanding have leapt from Rs. 239 crores in 1952 to about Rs. 4,094 crores in 1966. Repayments as a proportion of new loan obligations have grown from 9 per cent to about 40 per cent. Such repayments are generally made through fresh loans and there is no link between loan and repayment capacity. Consequently, interest obligations seem to absorb more than a third of the resources made available through the Fourth Finance Commission. Such an inordinately large service burden is basically the result of an indiscriminate use of miscellaneous development loan on the part of the Centre and its unproductive application by the State Governments. The only way out of this difficult situation seems to be for the Centre to write-off the unremunerative portion of the outstanding debt and confine the loans to productive schemes. This would require that the State seeking loan finance from the Centre will have to submit their projects in advance for Central scrutiny which may not always be to the liking of the States. These irritations may, however, be minimised if, as far as possible, the Centre could allow the States to use the entire amounts of the postal and small savings collected within its territory towards the financing of such project. Besides, the States may also be assisted to borrow more freely from the open market and from other financial institutions like the Life Insurance Corporation, the Unit Trust of India, etc.

2.64 Constitutional readjustments by themselves will not ensure smooth working relations between the Centre and the States. The whole pattern of behaviour should be such that each layer of Government takes the larger interests of the other into account. Each layer should scrupulously avoid trespassing into others' terrain. Measures such as the Central surcharge on income tax, merger of tax on railway fare with the fare and so on should not happen unless agreed upon after mutual consultations. Similarly, interest in resource mobilisation should not flag just because the Centre is not going to be the immediate beneficiary. Centre's attitude towards the exploitation of taxes enumerated under Article 269 or towards additional excise in lieu of sales tax should be based on a solid sense of partnership in development.

Summary of conclusions and recommendations:

1. Many of the State functions do not require the application of national uniformity in their administration. There is need, therefore, to strengthen the ability of the States to finance themselves.
(Paragraphs 2.2, 2.3 & 2.8)
2. Intergovernmental financial transfers should be based on the need of the units for public services and their fiscal capacity.
(Paragraph 2.5)
3. The amalgamation of the tax on railway fares with the ticket fares has worked to the disadvantage of the States.
(Paragraph 2.15)
4. The Centre should take the requisite initiative in exploiting for the benefit of the States all the taxes enumerated in Article 269 of the Constitution.
(Paragraph 2.15)
5. The Centre should show greater interest in tapping more intensively the commodities entrusted to the Centre for the levy of additional excise duty in lieu of sales tax.
(Paragraph 2.16)
6. The Centre has made occasional inroads into the divisible pool; this practice should be given up.
(Paragraph 2.17)
7. Though one of the aims of the Planning Commission when it was set up was to reduce regional disparities and bring about economic integration, this objective has not been realised.
(Paragraph 2.21)

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2.64 Constitutional readjustments by themselves will not ensure smooth working relations between the Centre and the States. The whole pattern of behaviour should be such that each layer of Government takes the larger interests of the other into account. Each layer should scrupulously avoid trespassing into others' terrain. Measures such as the Central surcharge on income tax, merger of tax on railway fare with the fare and so on should not happen unless agreed upon after mutual consultations. Similarly, interest in resource mobilisation should not flag just because the Centre is not going to be the immediate beneficiary. Centre's attitude towards the exploitation of taxes enumerated under Article 269 or towards additional excise in lieu of sales tax should be based on a solid sense of partnership in development.

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6. The Centre has made occasional inroads into the divisible pool; this practice should be given up.
(Paragraph 2.17)
7. Though one of the aims of the Planning Commission when it was set up was to reduce regional disparities and bring about economic integration, this objective has not been realised.
(Paragraph 2.21)

8. With the acceleration of the planning process the responsibilities and commitments of expenditure far outweighed the financial resources at the disposal of the States. At the same time, the plan period has witnessed an enormous expansion of the financial powers of the Centre. The growth in its revenues and expenditures has far outstripped that of the States.
(Paragraphs 2.22 & 2.25)
9. The imbalances between the powers of the Centre and the States have caused distortions in the Indian economy.
(Paragraph 2.26)
10. Economic disparities in India have widened in spite of, or perhaps even as a result of, the last 18 years of planning.
(Paragraph 2.27)
11. Measures undertaken so far to narrow down the regional disparities have been either inadequate or ineffective.
(Paragraph 2.28)
12. The Annual Survey of Industries reveals wide inter-State disparities in industrial development.
(Paragraph 2.35)
13. There are also very wide variations in per capita bank deposit and per capita bank credit in the States.
(Paragraph 2.37)
14. By and large the richer States seem to have absorbed a predominant part of the resources channelled through the financial institutions in India.
(Paragraph 2.38)
15. Even the regulation and control over industrial development have not proved to be an effective instrument in mitigating regional disparities in development.
(Paragraph 2.39)
16. No consistent principle governing locational decisions regarding Central investments is discernible.
(Paragraph 2.40)
17. Kerala is one of those States which have been affected by the backwash effects of the process of development in India. The bank deposits accruing in Kerala are larger than the bank credits, its share in Industrial Development Bank and Industrial Credit and Investment Corporation of

India disbursements has been hardly 2 and 1 per cent respectively; its share in the number of licences issued and amount of capital invested is equally discouraging; and more grievous is the fact that the Centre has neglected Kerala in the case of location of Central Sector Projects. The cumulative impact of all these factors along with the lack of dynamism and experience of the local interpreneurship accounts for the slow rate of industrial development in Kerala in recent years:

(Paragraphs 2.44 & 2.45)

18. Kerala has been able to show good performance in resource mobilisation especially through tax effort.

(Paragraphs 2.46 & 2.47)

19. Kerala is held under short leash as far as the availability of financial resources is concerned.

(Paragraphs 2.50 to 2.53)

20. Corporate tax should be included in the divisible pool. Meeting a substantial portion of the revenue component of the State Plan (about 75 per cent) besides balancing the non-plan revenue account should be the basic principle of devolution of taxes.

(Paragraph 2.55)

21. The Finance Commission should be made permanent with a permanent Secretariat.

(Paragraph 2.56)

22. Conditional grants from the Centre have induced the States to undertake unimportant and unsuitable schemes.

(Paragraph 2.57)

23. If, within a broad national plan frame, the process of optimisation starts from the village and moves upwards to the State and thereafter at the national level, the planning process might infuse a greater sense of participation and harmonious relations between the various levels of administration.

(Paragraph 2.60)

24. If properly strengthened and developed, the National Development Council would be the most convenient forum for high level decision-making on all issues of national importance in planning and policy-making for development. Other outstanding inter-State or Centre-State problems could be

handled by a National Consultative Council which may be constituted under Article 263.

(Paragraph 2.60)

25. The Concurrent List has proved to be a vehicle for power to gravitate towards the Centre.

(Paragraph 2.61)

26. It is desirable that a high powered commission be set up to review the various Constitutional issues and practices affecting Centre-State relations.

(Paragraph 2.62)

27. The Centre should write off the unremunerative portion of the outstanding debt of the States and should confine loan financing to productive schemes. The entire amounts of the postal and small savings collections from a State should be allowed to be used by that State for financing productive schemes. There should be more liberal terms of borrowing by the States from the Life Insurance Corporation and from the Unit Trust of India.

(Paragraph 2.63)

28. In fine, the whole pattern of Centre-State behaviour should be such that each layer of Government takes the larger interest of the other into account.

(Paragraph 2.64)

TABLE 2

Comparative statement of per Capita Income of States

Per Capita Income	West Bengal	Assam	Punjab Hariyana	Bombay Maharashtra Gujarat	Uttar Pradesh	Madhya Pradesh	Kerala	Madras	Andhra Pradesh	Bihar	Orissa	Mysore	Rajasthan	All India
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
49-50 RANK	353 1 1	343.4 2	330.7 3	272.6 4	262.0 5	255.9 6	234.1 8	229.0 9	228.8 10	199.8 11	188.1 12	186.1 13	172.6 14	248.1 7
58-59 RANK	398 4 2	323.5 3	406.4 1	313.2 5	287.4 6	318.8 4	241.6 10	269.3 8	261.1 9	235.1 12	199.2 14	204.9 13	238.5 11	281.9 7
60-61 RANK	465 2	333 7	451 3	469 393 1/4	297 10	285 12	315 8	334 6	287 11	221 15	276 13	305 9	267 14	338 5
64-65 RANK	495 5	394 10	619 513 1/4	529 523 2/3	374 13	378 12	391 11	436 8	458 6	292 16	368 14	441 7	363 15	423 9

Source: Estimates for 1948-49 and 1958-59 by K. N. Raj (from Regional and Caste Factors in India's Development).
 Estimates for 1960-61 by NCAER.
 Estimates for 1943-65 by Research Bureau, Commerce.

TABLE 3
Population—Factories—Capital—Output
State-wise distribution—1965

<i>S. No.</i>	<i>Name of States</i>	<i>Maharashtra</i>	<i>West Bengal</i>	<i>Madras</i>	<i>Gujarat</i>	<i>Bihar</i>	<i>Uttar Pradesh</i>	<i>Mysore</i>	<i>Punjab & Hariyana</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	POPULATION (Millions)	44.18	39.24	36.23	23.20	51.28	81.16	26.06	12.71
2	Percentage to Total	9.07	8.06	7.44	4.76	10.53	16.67	5.95	8.66
3	No. of FACTORIES	2823	2033	1181	1196	381	863	677	637
4	Percentage to Total	20.8	15.3	8.9	9.2	2.9	6.5	5.1	4.6
5	Productive Capital employed (Rs. crores)	1048	1219	512	395	505	493	240	348
6	Percentage to Total	16.6	19.3	8.1	6.3	8.0	7.8	3.8	5.5
7	No. of persons employed (In thousands)	775.3	866.9	345	338.6	209.2	295.5	163.5	136.2
8	Percentage to Total	19.6	21.9	8.7	8.6	5.3	7.5	4.1	3.5
9	Gross OUTPUT Ex-factory value (Rs. crores)	1516	1376	545	518	439	463	229	249
10	Percentage to Total	23.6	21.4	8.5	8.1	6.8	7.2	3.6	3.9
11	Value Added by Manufacture (Rs. crores)	417	365	150	142	120	107	75	60
12	Percentage to Total	24.7	21.7	8.9	8.4	7.1	6.3	4.5	3.6

TABLE 3—(Contd.)

S. No.	Name of States	Andhra Pradesh (11)	Madhya Pradesh (12)	Orissa (13)	Kerala (14)	Assam (15)	Rajasthan (16)	Jammu & Kashmir (17)	Union Territories (18)	Total (19)
1	POPULATION (Millions)	39.10	36.03	19.30	18.82	13.45	22.82	3.78	10.97	486.99
2	Percentage to Total	8.03	7.40	3.96	3.96	2.76	4.69	0.78	2.25	100
3	No. of FACTORIES	769	864	240	629	526	222	52	360	13458
4	Percentage to Total	5.9	6.2	1.5	4.7	4.0	1.6	0.3	2.7	100
5	Productive Capital employed (Rs. crores)	239	524	347	83	142	111	3.6	92	63004
6	Percentage to Total	3.8	8.3	5.5	1.3	2.3	1.8	0.1	1.7	100
7	No. of persons employed (In thousands)	215.4	149.4	68.4	154.3	75.6	67.9	9.3	84	3953.2
8	Percentage to Total	5.5	3.9	1.7	3.9	1.9	1.7	0.2	2.1	284
9	Gross OUTPUT Ex-factory value (Rs. crores)	253	228	141	130	114	80	4.9	135	6419.6
10	Percentage to Total	3.9	2.8	2.0	2.0	1.8	0.2	0.3	2.31	100
11	Value Added by Manufacture (Rs. crores)	53	49	39	33	22	20.5	2.6	32	1686.5
12	Percentage to Total	3.1	2.9	2.3	2.0	1.3	1.2	0.2	2.0	100

TABLE 4
Inter-State distribution of offices, Deposits and Bank Credit of Scheduled Commercial Banks

State	Number of offices		Deposits (Rs. crores)		Bank credit (Rs. crores)		Population per office (in 000s)		Per capita deposit (Rupees)		Per capita Bank credit (Rupees)	
	1961	1966	1961	1966	1961	1966	1961	1966	1961	1966	1961	1966
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Andhra Pradesh	332	461	58.9	132.9	48.1	81.1	108	86	16.4	33.3	13.4	20.3
Assam	45	65	17.7	36.3	5.0	9.8	264	213	14.9	26.2	4.2	7.1
Bihar	178	226	56.3	111.7	24.2	40.9	261	232	12.1	21.3	5.2	7.8
Gujarat	334	544	136.0	295.8	79.0	145.7	62	44	66.0	124.1	38.4	61.1
Jammu & Kashmir	14	15	11.0	19.6	1.2	1.4	257	256	30.5	51.1	3.4	3.7
Kerala	241	400	51.7	111.5	30.8	66.3	70	48	30.6	57.8	18.2	34.3
Madhya Pradesh	185	265	53.8	87.9	26.3	58.8	175	139	16.6	23.8	8.1	15.9
Madras	608	923	126.5	241.3	119.8	244.2	55	40	37.5	65.5	35.5	66.3
Maharashtra	584	865	477.9	923.8	384.0	759.0	68	52	20.7	203.9	97.0	174.1
Mysore	426	611	77.6	182.2	52.9	116.6	55	44	32.9	68.3	22.4	43.7
Orissa	53	81	7.8	19.7	5.4	8.9	330	244	4.5	10.0	3.1	4.5
Punjab & Hariyana	322	389	101.3	206.9	34.6	69.9	53	48	49.9	109.8	17.0	37.1
Rajasthan	179	259	33.8	61.7	15.7	28.8	113	91	16.7	26.3	7.8	12.2
Uttar Pradesh	460	575	192.7	268.0	76.0	133.1	160	144	18.0	32.3	10.3	13.6
West Bengal	257	382	311.8	516.7	326.3	575.5	136	106	89.3	128.2	93.5	142.
Total (including others)	4414	6383	1960.7	3594.1	1286.1	2443.0	100	78	44.6	72.1	29.3	50.0

Source: Reports of Joint Stock Banks in India.

TABLE 5

State-wise Classification of Financial Assistance sanctioned and disbursed by Industrial Development Bank of India during July 1964—June 1968

(Rs. in crores)

States	Sanctions					Disbursements					
	Refinance	Loans	Under-writings	Redis-counting	Total	Guaran-tees	Refinance	Loans	Under-writings	Redis-counting	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Andhra Pradesh	5.34	9.85	0.82	..	16.01	..	4.76	9.20	0.57	..	14.53
Assam	0.12	..	..	..	0.12	..	0.12	..	..	..	0.12
Bihar	0.94	6.08	1.90	0.21	9.13	..	0.81	0.35	0.09	0.18	1.43
Gujarat	6.23	18.00	3.93	0.90	29.06	5.12	7.33	18.00	3.72	0.78	29.83
Hariyana	1.25	..	0.20	..	1.45	..	1.55	..	0.10	..	1.65
Jammu & Kashmir	..	..	..	..	..	..	..	..	..	..	..
Kerala	1.38	1.10	0.04	..	2.52	..	0.95	1.05	0.04	..	2.04
Madhya Pradesh	2.86	..	0.49*	0.36	3.71	..	2.87	..	0.49	0.31	3.67
Madras	15.71	12.98†	2.64	2.92	34.25	..	15.17	3.40	0.79	2.52	21.88
Maharashtra	22.25	22.05†	5.07	11.94	61.31	12.39†	22.78	19.70	4.63	10.27	57.38
Mysore	2.94	2.17	0.39	0.67	6.17	..	2.64	1.71	0.28	0.58	5.11
Nagaland	..	..	..	..	..	..	..	..	..	..	..
Orissa	0.41	0.60	0.35	0.20	1.56	..	0.36	0.45	0.35	0.17	1.33
Punjab	1.47	..	..	..	1.47	..	1.29	..	..	..	1.29
Rajasthan	0.71	4.16	0.05	..	4.92	2.41	0.60	1.25	0.04	..	1.89
Uttar Pradesh	1.96	4.72	0.64	0.39	7.71	2.95	1.46	1.57	0.32	0.33	3.68
West Bengal	8.30	7.61	1.42	4.26	21.59	..	10.16	0.74	0.65	3.67	15.22
Union Territories	1.21	2.00	..	..	3.21	..	1.49	1.25	..	..	2.74
Total	73.08	91.32	17.94	21.85	204.19	22.87	74.34	58.57	12.07	18.81	163.78

Note: Figures may not add up exactly to totals owing to slight differences caused by rounding.

* In the case of one Company, the assistance sanctioned in 1965-66 was for expansion of its units in Rajasthan and Maharashtra also.

† In the case of two companies, the assistance sanctioned in 1965-66 and 1966-67 was for expansion schemes of new and existing units in Maharashtra, Mysore, Madhya Pradesh, Bihar, Gujarat, West Bengal, Rajasthan and Madras States.

Source: Industrial Development Bank of India.

TABLE 6

State-wise Distribution of Financial Assistance sanctioned and disbursed by Industrial Finance Corporation upto 30th June, 1968

(Rs. in crores)

States	Financial Assistance Sanctioned			Financial Assistance disbursed (Excluding foreign currency)			
	Public limited Companies	Co-operatives	Total	Loans	Investment in Shares/debentures*	Guarantees issued	Total (4+5+6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Andhra Pradesh	18.54	4.35	22.89	8.61	1.55	9.26	20.42
Assam	6.89	0.60	7.49	2.02	3.44	..	5.46
Bihar	16.01	1.15	17.16	12.05	0.19	3.30	15.54
Gujarat	17.19	4.88	22.07	13.52	0.98	0.82	15.38
Hariyana	6.94	1.96	8.90	4.32	0.24	0.11	4.67
Kerala	9.47	1.80	11.27	8.34	0.16	1.72	10.22
Madhya Pradesh	7.14	1.20	8.34	3.87	1.55	0.44	5.82
Madras	42.24	4.43	46.67	20.65	3.01	11.64	35.30
Maharashtra	39.97	22.33	62.30	36.76	4.10	3.76	44.10
Mysore	11.63	6.45	18.00	10.80	0.52	2.22	13.54
Orissa	6.34	1.16	7.50	4.84	0.69	..	5.53
Punjab	3.26	2.25	5.51	4.94	..	0.10	5.04
Rajasthan	15.48	1.20	16.68	5.41	0.14	7.57	13.12
Uttar Pradesh	18.84	3.30	22.14	11.95	0.83	3.22	16.00
West Bengal	38.81	..	38.81	16.30	1.78	5.10	23.18
Union Territories	3.34	..	3.34	2.20	0.08	0.91	3.19
Total	262.09	57.06	319.15	167.58	19.26	50.13	236.97

In pursuance of underwriting operations and direct subscription.

Source: Industrial Finance Corporation Report.

TABLE 7

**State-wise loan disbursements by the Industrial Credit and
Investment Corporation of India upto 31-12-1966**

<i>States or Union Territory</i>	<i>Net amount sanctioned (Rupees crores)</i>	<i>Percentage of amount sanctioned to total sanctions</i>
(1)	(2)	(3)
Andhra Pradesh	9.04	5.1
Assam	1.90	1.1
Bihar	27.62	4.3
Gujarat	23.92	13.4
Hariyana	2.29	1.3
Kerala	1.96	1.1
Madhya Pradesh	3.42	1.9
Madras	19.67	11.0
Maharashtra	66.53	37.4
Mysore	12.39	7.0
Orissa	4.09	2.3
Punjab	0.10	0.1
Rajasthan	2.37	1.3
Uttar Pradesh	5.67	3.2
West Bengal	16.00	9.0
Union Territories	1.03	0.5
	<u>178.00</u>	<u>100.00</u>

Source: Reports of Industrial Credit and Investment Corporation of India.

TABLE 8

Industries (Dev. & Reg.) Act, 1951—Statement of Licences Issued

State-wise

States	Year											Total
	1952 to 1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	
Andaman & Nicobar	2	1	..	..	..	1	..	..	..	..	..	5
Andhra	77	15	31	45	48	46	24	41	22	19	11	379
Assam	18	..	14	25	12	10	8	4	2	2	3	105
Bihar	91	16	19	53	40	90	86	40	64	52	20	571
Delhi	56	12	44	45	23	12	12	4	4	..	3	215
Goa	..	..	..	..	..	..	4	2	5	2	..	13
Gujarat	173	59	99	129	131	122	82	66	33	33	31	963
Hariyana	..	..	..	..	..	..	..	..	..	13	9	22
Himachal Pradesh	..	..	2	2	..	1	1	1	1	..	..	8
Jammu & Kashmir	..	..	..	..	..	2	2	1	1	..	..	6
Kerala	54	16	24	140	60	35	21	20	7	11	7	395
Laccadive	..	..	..	..	..	..	..	..	..	..	..	..
Madhya Pradesh	56	5	12	40	34	42	38	12	17	13	6	275
Madras	262	72	142	148	105	74	80	144	55	30	17	1149

(TABLE 8—Contd.)

<i>States</i>	1952 to 1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	<i>Total</i>
Maharashtra	504	224	382	506	424	275	246	183	127	112	101	3084
Manipur	..	..	..	..	..	..	1	1	..	..	..	2
Mysore	84	13	34	73	39	36	26	34	20	14	7	380
Nagaland	..	..	..	..	..	..	..	..	..	..	..	..
NEFA	..	..	..	..	1	..	..	..	..	..	..	1
Orissa	41	11	10	16	12	19	11	10	5	6	2	143
Pondicherry	..	..	..	..	1	2	..	4	7	..	..	14
Punjab	161	37	94	131	82	68	67	43	25	19	4	731
Rajasthan	32	7	10	30	29	32	21	8	14	10	10	203
Tripura	..	..	..	..	..	..	1	1	..	..	..	2
Uttar Pradesh	172	42	68	134	104	49	70	40	47	20	13	748
West Bengal	379	122	217	309	209	184	169	101	66	50	48	1854
Total	2182	659	1202	1826	1354	1100	950	761	527	415	292	11268

Source: R. K. Hazari's Report on Industrial Licencing.

TABLE 9
Approvals by States
1959—June 1966
(Percentages)

<i>States</i>		1959	1960	1961	1962	1963	1964	1965	1966	Total
Grand total	No. Investment	100.00 100.00	100.00 100.00	100.00 100.00	100.00 100.00	100.00 100.00	100.00 100.00	100.00 100.00	100.00 100.00	100.00 100.00
Andhra	No. Investment	2.29 2.64	3.06 4.89	3.79 6.79	2.76 9.13	2.73 5.62	3.37 3.94	4.46 3.06	2.18 7.73	3.09 5.40
Assam	No. Investment	1.14 0.47	1.60 1.76	1.65 5.66	0.64 2.20	0.59 0.23	0.00 0.00	0.00 0.00	0.00 0.00	0.82 1.27
Bihar	No. Investment	1.86 5.94	2.77 3.44	2.84 2.11	4.03 4.57	4.10 6.39	2.62 9.42	5.13 17.10	2.81 1.97	3.19 7.52
Delhi	No. Investment	5.73 2.62	5.83 8.27	2.36 0.75	2.54 0.78	0.39 0.11	2.06 0.71	1.12 0.34	4.23 1.05	2.10 2.09
Jammu & Kashmir	No. Investment	0.00 0.00	0.00 0.00	0.00 0.00	0.00 0.00	0.58 0.34	1.87 0.07	0.00 0.00	0.00 0.00	0.10 0.15
Gujarat	No. Investment	5.01 2.65	5.83 2.55	10.88 8.24	8.70 2.96	7.22 5.23	8.24 8.54	8.03 4.72	9.15 7.04	7.46 4.95
Kerala	No. Investment	2.15 2.09	2.04 1.54	3.55 2.97	2.55 2.57	2.15 4.87	0.94 2.22	2.23 0.81	2.11 1.25	2.17 2.26
Madhya Pradesh	No. Investment	1.60 10.12	8.20 1.30	2.65 1.31	4.05 13.56	4.90 18.67	1.30 8.29	3.35 5.89	1.41 0.48	9.94 7.20
Madras	No. Investment	7.74 7.86	8.18 7.07	7.11 12.40	8.70 6.09	7.42 6.57	3.43 13.75	9.60 8.80	9.15 41.03	8.18 10.14

TABLE 9—(Contd.)

States		1959	1960	1961	1962	1963	1964	1965	1966	Total
Maharashtra	No.	35.37	31.39	32.46	31.42	31.05	32.77	26.79	33.10	31.90
	Investment	23.57	20.36	29.97	28.88	15.77	18.42	18.51	12.28	21.46
Mysore	No.	5.01	2.63	2.84	3.82	3.71	3.56	3.57	4.23	3.66
	Investment	7.76	4.01	2.61	1.44	6.53	6.58	4.96	6.69	4.73
Orissa	No.	0.72	1.02	0.24	2.76	1.37	1.69	0.45	1.41	1.18
	Investment	1.00	0.75	0.07	6.85	1.80	3.75	1.45	1.43	2.49
Punjab, Haryana & Himachal	No.	5.16	5.55	6.16	7.22	8.40	7.87	10.49	6.34	7.03
	Investment	2.45	4.16	5.04	2.09	6.71	5.47	5.24	2.07	4.36
Rajasthan	No.	1.00	1.02	3.55	2.34	1.17	1.12	2.46	0.00	1.61
	Investment	0.33	0.74	2.51	1.52	1.10	1.27	14.06	0.00	3.25
Uttar Pradesh	No.	3.87	6.42	4.27	4.25	5.91	5.81	8.48	3.65	5.27
	Investment	11.08	18.32	4.82	2.70	6.93	4.18	5.49	3.19	7.94
West Bengal	No.	21.35	20.88	15.40	14.01	19.53	17.79	13.17	18.31	17.97
	Investment	19.42	20.76	14.49	14.68	11.20	13.05	9.24	13.79	14.53
Others	No.	0.00	0.15	0.24	0.21	0.78	0.56	0.67	0.00	0.33
	Investment	0.00	0.08	0.26	0.00	1.36	0.34	0.33	0.00	0.36

** Excluding those for which Investment data are not available.

Source: R. K. Hazari's Report on Industrial Licensing.

TABLE 10

State-wise investment on Central Industrial Projects

<i>States</i>	<i>Investment in 1st Plan</i>	<i>Investment in 2nd Plan</i>	<i>Investment in 3rd Plan</i>	<i>Total investment during the three plan periods</i>	<i>Estimated investment in 1966-68</i>	<i>Total investment during 1951-68</i>	<i>Balance investment to be made for completing the Project</i>
Andhra Pradesh	8.3	1.7	52.5	62.5	24.8	87.3	36.1
Assam	..	..	32.8	32.0	7.4	40.2	31.0
Bihar	8.2	21.2	184.7	214.1	142.4	356.5	739.2
Gujarat	..	..	45.0	45.0	3.0	48.0	111.5
Jammu & Kashmir	..	..	..	..	..	..	..
Kerala	1.0	0.9	49.2	51.1	17.2	68.3	67.0
Maharashtra	2.0	1.7	43.6	47.3	2.6	49.9	139.6
Madhya Pradesh	..	221.8	192.6	414.4	44.7	459.1	153.0
Madras	5.8	33.4	141.4	180.6	65.2	245.8	53.5
Mysore	7.1	3.3	17.2	27.6	20.8	48.4	8.7
Orissa	6.5	199.3	154.7	360.5	57.6	418.1	8.0
Punjab	..	28.0	4.2	32.2	..	32.2	..
Haryana	..	..	7.0	7.0	1.5	8.5	..
Rajasthan	..	..	12.2	12.2	18.3	30.5	85.9

Source: Planning Commission

TABLE 12

Devolution of Finances from the Centre to Kerala

(Rs. in lakhs)

	II Plan					III Plan				
	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
I. Total Revenue Expenditure (excluding appropriation for reduction or avoidance of debt)	2169	3271	3925	4542	5091	5899	6592	7047	7440	8129
II. Capital Disbursements										
(a) Capital Expenditure (excluding State trading & appropriation to Contingency Fund)	912	769	815	771	808	1102	1263	1266	1253	1410
(b) Q. Loans by the State (Net)	70	402	319	276	478	431	797	943	1499	1850
(c) Total (a+b)	982	1171	1134	1047	1286	1533	2060	2209	2752	3260
III. Total I and II	3151	4442	5059	5589	6377	7432	8652	9256	10192	11389
IV. Resources from the Centre										
(a) Share of Central taxes	129	427	528	563	582	627	931	1095	1069	1160
(b) Grant-in-aid	278	422	656	671	889	751	1209	1178	1300	1478
(c) Total (a+b)	407	849	1184	1234	1471	1378	2140	2273	2369	2638
(d) Loans from the Centre (Net)	197	740	706	609	984	1086	1839	1778	2193	3297
(e) Total (c+d)	604	1589	1890	1843	2455	2464	3979	4051	4562	5935
<i>Percentages</i>										
(i) Percentage of item IV(e) to item III	19.17	35.77	37.36	32.98	38.50	33.15	45.99	43.77	44.76	52.11
(ii) " " IV(c) I	18.76	25.96	30.17	27.17	28.89	23.36	32.46	32.25	31.84	32.45
(iii) " " IV(d) II(c)	20.06	63.19	62.26	58.17	76.52	70.84	89.27	80.49	79.69	101.13

C. STATE TAXES

CHAPTER 3

EVOLUTION OF THE TAX SYSTEM

3.1 The State of Kerala was formed on 1st November, 1956 by the States Reorganisation Act of 1956 by merging the Travancore-Cochin State (excluding the predominantly Tamil-speaking areas), with the Malabar District and the Kasaragode taluk of South Canara District of Madras State. The former Travancore-Cochin State itself had been formed only on 1st July, 1949, by the integration of the princely states of Travancore and Cochin. Thus the major constituent units of Kerala are Travancore, Cochin and Malabar. To trace the gradual evolution of the tax system in Kerala one has to go back to the beginnings of recorded history and make a brief review of the various fiscal measures introduced from time to time in these three constituent units.

A. *Travancore*

3.2 The State of Travancore was formed during the first half of the eighteenth century. We do not have adequate and reliable information about the taxes levied by the rulers in periods prior to the formation of the State of Travancore. From certain inscriptions in temples etc., it is gathered that land taxes in their primitive forms (ground rent, tree tax, etc.), customs duty, taxes on certain professions etc., were levied in those days. The rulers levied the taxes arbitrarily to meet their personal and military expenses. The unification of the petty kingdoms into an extensive and well-knit State during the period of King Marthandavarma necessitated a systematic collection of revenues. Customs houses called *chowkeys* were established on the frontiers of the State to levy duties on articles exported and imported. The purchase and sale of pepper, tobacco and other important articles were made the monopoly of the State. Thus, the State entered into the field of trade in respect of the agricultural produce which held a key position in the economy. In order to improve collections from land tax, a survey of lands in the State was undertaken in 1750-51, and completed in three years' time, *Pattahs* specifying the tax levied on each property were also given to the landholders.

3.3 The system of levying "poll tax" was in vogue in early Travancore. A tax used to be imposed on males within the age group of 16 to 60 except *Nayars*, *Moplahs* and artisans.

3.4 From the *Sathavariola* (collection of rules and regulations) issued towards the close of the 18th century it is seen that the State

levied fees from parties in dispute, while dispensing justice. Thus, in disputes concerning landed property, the party gaining the case had to pay 10 per cent of the amount of the suit while the other party had to pay 5 per cent to the State.

3.5 Between 1811 and 1815 a number of important tax reforms were introduced. Several imposts like tax on inheritance of property, capitation tax, tax on Christian festivals and tax on slaves were abolished. Salt was made an article of Government monopoly. A number of *chowkeys* were opened and duties were imposed on exports and imports. The rates of duty were five per cent on exports and eight per cent on imports. Goods transported from one part of the State to another were also subject to an inland duty of five per cent.

3.6 The law relating to writing of documents was laid down in the Royal Proclamation of 1817 whereby stamped *cadjans* (palmyrah leaves) were introduced for the first time for this purpose.

3.7 In 1836 customs duty on a number of articles was abolished in order to give a stimulus to trade. Inland transit duties were also abolished. The frontier and sea-board *chowkeys* were alone retained.

3.8 In 1860 monopoly trade in pepper was discontinued; an export duty of 15 per cent, *ad valorem* was imposed instead on pepper exported by sea or land. A few years later the State monopoly on tobacco was abolished, and in its place an import duty was introduced. This change became necessary because of the large scale smuggling consequent on the abolition of monopoly in this article in British India. These measures involved some loss of revenue to the State as the profits on the sale of pepper and tobacco had been a major source of revenue till then.

3.9 In the year 1865, the Travancore Government entered into a commercial treaty with the Indian Government and the Cochin Government with a view to secure freedom of inter-portal trade. This treaty was known as the "Inter-portal Trade Convention". According to the provisions of this treaty, goods which were produced or manufactured in Travancore were allowed free access to the Cochin State and the British Indian territories and vice versa. This free trade concession was not extended to articles of monopoly or articles having sizeable revenue potential, viz., tobacco, salt, opium and spirits. These goods continued to be taxed as before. Customs duties were also levied on foreign goods, i.e., goods which were not the produce or manufacture of Travancore State or British India; but if such goods paid the duty once either to the Travancore Government or the Cochin Government or to the British Government, customs duty would not be levied again on them by the other Governments. The loss of revenue to the Travancore State consequent on this concession was made good by the British Government.

3.10 In 1866-67, the Maharaja issued a Regulation regarding registration of deeds. This was based on the Indian Act for registration of assurances. Under this Regulation, all deeds relating to immovable property should be registered. For movable property registration was not compulsory. The Regulation came into effect on 14th December, 1867.

3.11 In order to streamline the system of abkari administration and to augment revenue from this source, a new Regulation was introduced in the year, 1879-80. The shops selling European liquors had to take out licences renewable from year to year. The abkari farms were rented on triennial leases and on the expiry of the period they were put to auction and given to the highest bidder.

3.12 Even in very early times there was a duty on the transfer of property based on its value; both the seller and the buyer were liable to pay the duty. A Stamp Regulation was passed on 5th February 1884, generally on the lines of the Indian Act, and given effect to from 11th May, 1884. At first, Madras stamps were used in the State. From 1885-86 onwards, the Travancore Government commenced printing its own stamp papers.

3.13 The first systematic survey of lands was undertaken in 1886 and a settlement of land revenue demand was made on that basis. A uniform standard of measurement of area in acres and cents and of grains in *paras* and *edangazhis* was adopted for the first time throughout the State. The method of fixing the full "*pattom*" for wet lands was to estimate the gross produce on the basis of available data and to deduct therefrom the seed sown and an equal quantity for cultivation expenses. Out of the remainder one-third was fixed as the cultivator's share and the remaining two-thirds was divided in the proportion of 6:4 between the Government and the landholder. The wet lands were divided into 13 classes, the rates of Sarkar tax varying according to the type of tenure and the nature of the land and its productivity. Garden lands were divided into four categories with reference to their situation, soil and productiveness and each category charged with a distinctive rate. Tax on garden lands consisted of a ground rent as well as tree tax. Except in the case of paddy lands, tax was payable in cash only. In the case of paddy lands, tax was payable partly in kind and partly in cash. The system of collecting a portion of the tax on wet lands in kind was completely given up only by 1926.

3.14 The practice of levying various kinds of cesses on wet lands was prevalent in the State; in 1893 such cesses were replaced by a water rate on wet lands and areas irrigated by rivers or rain-fed tanks.

3.15 The year 1899-1900 witnessed an important change in the abkari policy of the Government. As an experiment the "excise

system" was introduced in the Trivandrum division in the place of the "farming system". The privilege of manufacture and supply of arrack was disposed of by tender and was granted to the tenderer who offered the largest share of the prescribed still-head charges. The privilege of sale of arrack was sold by auction. The manufacturer was required to supply to the shops arrack at specified price. The exclusive right of sale of toddy was separately sold by auction and granted to the highest bidder. This system was extended next year to the Padmanabhapuram division and in due course throughout the State. A tree tax on coconut, palmyrah and choondapana was imposed since 1904-05.

3.16 Court fee stamps were introduced for the first time in 1904-05.

3.17 Registration of motor vehicles was made compulsory in 1911-12. From 1913 tolls on roads and bridges were introduced to meet the maintenance charges of roads and bridges. The Hackney Carriage Regulation was passed next year by which carriages were to be registered compulsorily and drivers were to take driving licences.

3.18 An important landmark in the modernization of the tax structure was the levy of income-tax in August 1921. Agricultural income was, however, excluded from the purview of the tax. In the case of those other than companies and registered firms incomes not exceeding Rs. 2,000 were exempt from the tax; for incomes above this level the rate of tax varied from 10 *cash* in the rupee (about 2 per cent) to 2 *chuckrams* (about 7 per cent). In the case of companies and registered firms, tax was levied at the maximum rate of two *chuckrams* in the rupee.

3.19 Since 1931 the Travancore Government got a share of the customs duties realised at the Cochin Port. According to the principle of division of the proceeds as finally accepted in 1934 the share of the Travancore State was fixed at one-third if the customs revenue in a year did not exceed Rs. 49½ lakhs, or at Rs. 16½ lakhs if the customs revenue exceeded Rs. 49½ lakhs but did not exceed Rs. 63 lakhs or at Rs. 16½ lakhs plus 6 per cent of the excess over Rs. 63 lakhs, if the total revenue exceeded Rs. 63 lakhs.

3.20 A greater degree of progressivity was introduced in the income-tax structure by the levy of a supertax in 1936-37. In August 1940 the rates of income-tax and supertax were enhanced for augmenting the State's revenues. A surcharge on income-tax and supertax was also levied in 1943. Agricultural incomes were subjected to tax for the first time in August 1943 by a separate enactment. Both in respect of exemptions as well as rates of levy, the scheme of taxation of agricultural incomes was more favourable to the assesseees.

3.21 The increased commitments of the State on account of the War forced the Government to seek new avenues of raising resources.

Taxation of profits of businesses was attempted in 1944 by passing the Excess Profit Tax Act. The rate of tax was 60 per cent of the profit in excess of the 'standard profit', computed in the manner prescribed in the Act.

3.22 The system of levying tolls was abolished and motor vehicles tax introduced during 1945-46.

3.23 In 1946, a unified Income Tax Act was passed replacing the separate enactments relating to income-tax and agricultural income-tax. This Act was modelled on the Indian Income Tax Act 1922, but the rates of tax were somewhat lower. The categories of income assessable to tax under the new Act were salaries, interest on security, income from property, profits and gains of business, profession or vocation, agricultural income and income from other sources. In addition to income-tax, assesseees were liable to pay supertax.

3.24 The Travancore Land Tax Proclamation dated 9th July, 1946, heralded a new chapter in the history of land taxes in the State. According to this Proclamation, a basic tax at a flat rate of 4 *cash* per cent of land (about 88 paise for one acre) was levied on all lands excepting those coming under some special tenures like *Sripandaravagai*, *Sripadam*, *Kandukrishi* and *Edavagai*. This reduced assessment of land revenue to a mere arithmetic calculation with reference to the extent of the land. With the introduction of basic tax, all taxes levied on land till then were abolished. This was the last important tax reform of the princely administration of the State.

3.25 The congress leadership was wedded to a policy of prohibition. The new democratically elected Government of Travancore decided to implement this policy by stages. Accordingly, in 1948, prohibition was introduced in the six taluks of Thovala, Agastheeswaram, Kalkulam, Vilavancode, Neyyattinkara and Shencottai.

3.26 To offset the loss of revenue consequent on the introduction of prohibition, sales tax was introduced in the State on turnovers exceeding Rs. 10,000. The tax system was generally a multipoint one. Luxury articles were subjected to an additional tax at varying rates at the first assessable point of sale in the State.

B. Cochin

3.27 The Kingdom of *Perumpadappu* or Cochin came into existence by the sixth century A.D. Very little information is available on the system of taxation that prevailed in the State in the early periods. It is stated in the Cochin State Manual that, at the beginning of the 16th century, the chief sources of the king's revenue were the income from crown lands and customs. Crown lands were in existence from much earlier times. The State had also been enjoying extensive trade relations with other countries even from olden days. But the

Rajas of Cochin did not exercise the right of levying duty on goods imported till the advent of the Portuguese into the scene. The Portuguese systematically levied duties on goods imported from other countries and the proceeds were shared with the Raja of Cochin. The Raja levied export duty at 6 per cent; besides this, inland customs at the rate of 1 per cent *ad valorem* were collected at a number of stations. There was no regular land tax during this period, though the king derived a fair amount of income from lands held by local chieftains by way of cess on cocoanut trees (*kettutengu*). There were several minor items of receipts like *ankam* (fee received in fights and duels), *nuzzar* (a portion of the value of estates bequeathed to adopted children), fines and penalties like *ezha*, *tappu*, *pizha* etc., poll tax (*talapanam*), gifts (*kozha*) etc.

3.28 Towards the close of the 16th century, the Portuguese lost their position of influence in the State and the Dutch stepped into their place. An agreement was concluded between the Dutch and the Raja of Cochin in 1663 by which the import duties levied were shared with the Raja. The duty was fixed at a uniform rate of 10 per cent. Export duty continued to be levied at the rate of 6 per cent. A duty on commodities such as pepper at the rate of half a ducat per candy was collected from merchants who sold them. This duty seems to be analogous to the sales tax levied in present times.

3.29 Tax on land known as '*Rajabhogam*' was levied for the first time in 1762. Till then the revenue received by the king from the land was not by virtue of his authority as king but only on account of his *jenmom* (proprietary) right on crown lands. It was to meet the increasing expenditure consequent on the wars with the Zamorin of Calicut and Maharaja of Travancore that land tax on a limited scale was introduced from 1762. The assessment was made at differential rates depending on the tenures under which lands were held, like *verumpattom*, *kanam*, *inam* or *anubhogam* etc. Lands were broadly divided into '*nilams*' (paddy lands) and '*parambas*' (dry and garden lands). There was a further classification of lands into *pandaravaka* (i.e. lands in which the State had proprietary rights) and *puravaka* (i.e. lands in which private individuals and institutions had proprietary right). The assessment was finalised after making oral enquiries. A tax called '*muppara*' at the rate of 3 paras of paddy for every 10 paras of land was charged on all *pandaravaka kanam* lands, in addition to *michavaram* rent. '*Muppara*' was also levied on all *puravaka* lands demised to tenants on *kanam* or *anubhogam* tenures. Bearing trees (cocoanut, arecanut and jack) standing in *pandaravaka parambas* were charged at varying rates. Trees in the *puravaka parambas* were charged at one-eighth of such rates. *Parambas* not containing any taxable trees were assessed to a *varam* or cess at one-tenth or one-twentieth of the gross produce according as they were *pandaravaka* or *puravaka*. The new taxes on land were generally known as

'*Rajabhogam*' or the King's share. *Jenmabhogam* or the share due to the king in his capacity as the proprietor also continued to be levied in respect of crown lands.

3.30 The system of levying fees from parties in civil suits appears to have been introduced in 1762.

3.31 In 1785 the Raja imposed tolls on rice and other durable articles going into Cochin through backwaters. *Chowkeys* or customs houses were opened at important places to levy the tolls.

3.32 During the Diwanship of Col. Munroe (1812-17) several tax reforms were introduced. Court fees were levied and stamped *cadjans* were introduced for engrossing documents. Salt was made a monopoly article. An important change was made in the system of regulating the manufacture and sale of liquor. The tax on drawers of toddy and distillers of arrack levied till then was abolished and the "farming system" was introduced in certain taluks of the State. In the other taluks a duty on toddy and arrack was levied. The first systematic settlement based on a survey or an inspection of land was made in this period. *Parambas* having taxable trees were assessed with a tree tax (*vrikshapattom*) and those without such trees were assessed to ground rent (*payattupattom*). The trees treated as taxable were the cocoanut, arecanut, palmyrah and jack. The trees were divided into many classes based on their yield and different rates were fixed for each class. The wet lands were not actually measured, but the extent was estimated by inspection. The rates of tax varied not only according to the quality of the soil, but also according to the tenure of the holding. This settlement resulted in a more even and equitable distribution of the tax burden. Lands benefited by irrigation works constructed at the cost of the Government were charged a special cess called '*chiravari*'. Another important reform was that land tax was collected in money.

3.33 By 1825, the "farming system for the manufacture and sale of arrack and toddy was extended throughout the State.

3.34 Stamp duty was levied for the first time in 1837 when a regulation was issued requiring documents relating to properties to be written in stamped *cadjans*.

3.35 In the year 1840 inland customs duties were reduced and in the case of rice and other food articles the duty was completely given up. In 1865 the Cochin Government signed "the Inter-portal Trade Convention" with Travancore and the British Government. In pursuance of this treaty all inland customs were abolished; on all imports and exports by sea, duties were levied as at the British ports. The convention proved to be a great boon to the State as it gave an impetus to the inland trade of the State.

3.36 Tolls on conveyances were introduced for the first time in the year 1870.

3.37 The system of registering documents was brought into force in August 1875. In 1895 a new Regulation was passed in regard to the levy of stamp duties, and stamped papers were introduced in the place of stamped cadjans. In 1905 a new Court Fees Regulation was passed under which court fees were levied and collected through stamps.

3.38 A comprehensive settlement of all lands was undertaken in 1905. To facilitate this work a cadastral survey had been taken up a few years earlier and classification of soils according to fertility was also completed. *Pandaravaka verumpattom* was treated as the normal tenure for settling the full State demand and all other tenures were brought under one or other of the three tenures of *Pandaravaka Kanam*, *Puravaka* and *Inam*. The State demand on *pandaravaka kanam* lands was made two-thirds of that on *verumpattom* lands, one-third being waived in lieu of the extinction of the customary incidence of *kanam* tenure. The *puravaka* assessment was one-half of that of *pandaravaka verumpattam* in the case of *nilams* and one-fourth in the case of *parambas*. For fixing the rates of assessment on *nilams* (wet lands) the gross produce was estimated by means of harvest experiments and the outturn thus arrived at was commuted into money. From this, deductions were made on account of vicissitudes of season, unprofitability of the area and cultivation expenses etc., and the balance was reckoned as the net produce. One-half of the net produce was treated as the share due to the State in respect of lands held under the normal tenure, viz., *pandaravaka verumpattam*. The lands were divided into 9 *tarams* according to productivity and nine rates of assessments were adopted. *parambas* without taxable trees were similarly divided into 8 *tarams*. In respect of lands having taxable trees the assessment was made not on the land but on the trees. The cocoanut trees were divided into four classes based on yield. Arecanut and jack trees were taxed at uniform rates throughout the State. The maximum number of trees assessable in an acre was also fixed. Along with this comprehensive settlement all minor cesses used to be levied from landlords were abolished and instead a '*thirumulkazcha*' or royalty cess at a uniform rate was levied on each holding.

3.39 In 1904-05 the Abkari Regulation was introduced to regulate the supply and sale of toddy and arrack in the State. The exclusive privilege of the manufacture and sale of country spirit and toddy was sold by public auction or by inviting tenders. Licences were issued for sale of foreign liquor and for tapping for jaggery.

3.40 By the Cochin Registration Act brought into force in 1909 registration of certain instruments such as gifts of immovable property, lease of property etc. was made compulsory.

3.41 In 1911 12 changes were made in the abkari policy of the State. The system of selling independent arrack shops was introduced in certain taluks of the State. The right to manufacture and vend arrack was separated from that of toddy, and the toddy shops were sold independently. A duty was levied on the arrack supplied from the distillery to the independent shops. Tree tax was also levied as part of the new policy. The new system was extended to other parts of the State also within a few years.

3.42 In order to consolidate the law relating to motor vehicles in the State, a new Regulation was passed in 1918-19 modelled on the Indian Motor Vehicles Act. In 1922-23 the Cochin Hackney Carriages Act was passed prescribing annual registration of hackney carriages.

3.43 A tax on income began to be levied for the first time in the State in August 1934. Agricultural income was then exempted from income-tax. The scope of the Income-tax Regulation was extended subsequently by providing for the assessment of foreign incomes also. A supertax was imposed in 1938 on incomes of companies exceeding Rs. 50,000 and on incomes of other assesseees exceeding Rs. 75,000. In 1941-42 a new Income Tax Act was passed on the model of the Indian Income Tax Act 1922. The rates of income-tax and supertax were also enhanced. In the same year an Excess Profit Tax Act was passed with a view to tapping excess profits arising out of certain businesses. The rate was 60 per cent of the amount in excess of the "standard profit" computed on the basis of the principles laid down in the Act. The Income Tax Act was further amended in 1946-47 by bringing agricultural income also within its purview.

3.44 In 1934 the Cochin Government agreed with the Government of India and Travancore to share the proceeds of the customs duties collected at the Cochin port. The share of the Cochin Government was one-third if the customs revenue in a year did not exceed Rs. 63 lakhs or Rs. 21 lakhs plus 10 per cent of the excess over Rs. 63 lakhs if the revenue exceeded Rs. 63 lakhs.

3.45 By the Irrigation Regulation of 1935-36 the State Government was empowered to levy a cess on any area benefited by a new irrigation work. As regards major irrigation works the cess could be levied so as to ensure a return of 3 per cent on the capital outlay after making provision for depreciation etc. There was also provision in the Regulation to constitute Irrigation Boards for local areas to regulate the distribution of water of any irrigation work.

3.46 A tax on motor vehicles was levied in the State from August 1946. Tolls and carriage taxes levied by municipalities were abolished and the local bodies were given compensation from out of the proceeds of the motor vehicles tax.

3.47 In pursuance of the policy followed by the Indian National Congress, the Government of Cochin decided to introduce prohibition

in the State by stages, and with effect from 1-10-1947, the Chittur taluk went "dry".

3.48 Sales tax was introduced in the State in 1946, when the rate of tax was fixed as follows:—

(i) for turnover upto Rs. 10,000	nil
(ii) for turnover upto Rs. 15,000	Rs. 96
(iii) for turnover between Rs. 15,000 and Rs. 20,000	Rs. 144
(iv) for turnover exceeding Rs. 20,000	1% of the turnover.

The rate-structure of sales tax was recast towards the end of 1948. Under the new system, a multi-point tax at the rate 3 pies in the rupee was levied on the turnover. An additional tax was also charged on certain luxury articles and was collected from the first assessable dealer in such goods in the State.

3.49 In 1948-49 the rates of income-tax and supertax were further revised and brought on a par with the rates of Central income-tax as prescribed in the Indian Finance Act 1948. The exemption limit for income-tax was raised from Rs. 2,000 to Rs. 3,000. Provision was also made to levy supertax at different rates on earned and unearned incomes.

C. TRAVANCORE-COCHIN

3.50 We have seen that the evolution of the tax systems in the States of Travancore and Cochin followed more or less the same pattern. Not only were these States geographically contiguous, but their economy had several common features. Though both were maritime States, they had a predominantly agricultural economy with rich forest resources. Owing to the continuous contacts these States had with the outside world even from very early times, a degree of adaptability to new developments was discernible in the people. Travancore and Cochin were, therefore, often ahead of many other parts of India in modernising social and economic systems, practices and institutions. The history of the tax system briefly described in the foregoing paragraphs shows how the tax structure had expanded from time to time, undergone necessary changes and grown into new dimensions on the basis of the emerging political and economic forces. Though these States were autonomous political units, their sovereignty was subject to the paramountcy of the British Crown ever since the British established mastery over India. The fiscal and trade policies of these States were, therefore, largely influenced, and inhibited by the policies of the British Government. The States did not have unfettered freedom to pursue financial and trade policies of their own and to develop whatever tax potential they had. Even the proceeds of certain duties levied in the States were made shareable with

the Government of India. For instance, since the 1930's excise duty on a few commodities—matches, betel-nut (cured), coffee (cured) and tea (manufactured)—were levied by Travancore and Cochin States, but the proceeds were paid to a pool for distribution between British India and the States on the basis of population.

3.51 As mentioned earlier the States of Travancore and Cochin were integrated on 1st July, 1949. One of the earliest measures introduced by the new Government was the extension of prohibition to four more taluks, thus bringing the total number of dry taluks to 11. A number of drastic changes were introduced in the customs policy of the State. All land customs at the frontiers of the State were abolished and only 5 sea customs houses continued to function. The Indian customs tariff was adopted for the levy of duty.

3.52 The outstanding event of financial significance which followed the formation of the new State was the 'federal financial integration' which took effect from 1-4-1950. The object of this scheme was to bring about a uniform fiscal and financial system all over the country. Under this scheme the following items of revenue and expenditure were taken over by the Government of India:

<i>Items of Revenue</i>	<i>Items of Expenditure</i>
1. Customs Duties	1. Cost of collection of taxes
2. Corporation Tax	(i) Customs
3. Income-tax excluding agri-cultural income-tax	(ii) Central Excise
4. Central Excise	(iii) Income-tax including Corporation Tax
5. Railways	2. National Highways
6. Telephones	3. Defence
7. Posts & Telegraphs (Anchal)	4. Aviation
8. Coinage & Mint	5. Broadcasting
9. Patents, Copyrights, Trade Marks, Joint Stock Companies	6. Meteriology
	7. Archaeology
	8. Coinage & Mint
	9. Patents, Copyrights, Trade Marks, Joint Stock Companies
	10. Audit and Accounts
	11. Pensions—Military and other Federal Civil Personnel
	12. Privy purses of the ex-rulers
	13. Census

It was not easy then to visualise the full impact of federal financial integration on the State's financial structure. The most important and elastic sources of revenue were taken over by the Centre (e.g. customs and income-tax), and these were comparatively well developed sources, too. At the same time all social and developmental services like agriculture, industry, irrigation, education, public health

etc. continued to be the responsibility of the State. Thus an imbalance between functions and resources was created which was to have very serious repercussions on the Centre-State financial relations. As an interim arrangement the Central Government agreed to make good the revenue gap consequent on the financial integration for a period of ten years by giving grants which would taper off from the sixth year. These grants were, however, set off against the share of divisible taxes which became available to the State since 1952-53 under the award of the First Finance Commission. The share of divisible taxes soon exceeded the compensation promised at the time of financial integration.

3.53 Sales tax on tobacco was introduced from January 1951. The separate Travancore and Cochin Sales Tax Acts were repealed and a unified Act was given effect to from 1-6-1950. The scheme of taxation, however, remained basically a multi-point one, with a single-point tax on selected articles and an additional tax on certain luxury articles and tobacco at the point of first sale. The various other taxation Acts were also unified. The rate of basic tax on land levied in the Travancore area was revised and fixed at 3 pies per cent of land or Re. 1 and annas nine per acre, with effect from 1-4-1950. This system of land tax was extended to the Cochin area in April 1956. The Travancore-Cochin Agricultural Income Tax Act was passed in 1950 and brought into force from 1-4-1951. The Indian Registration Act 1908 was adopted by the Travancore-Cochin Government in 1951. Prohibition was extended to two more taluks in 1950-51 and to one taluk in 1955-56.

3.54 The first Finance Commission was appointed in November 1951 to make recommendations on the devolution of resources from the Union to the States. On the basis of the Commission's recommendations the State received shares of the proceeds of the divisible taxes and also grants-in-aid under article 275(1) of the Constitution from 1952-53 onwards.

D. MALABAR

3.55 In the early periods, the Rajas of Malabar had extensive private properties, and the income derived from these properties was by and large sufficient to maintain the royal pomp and meet the limited administrative expenses. The system of revenue in existence then was therefore "one of aid and perquisites and forced contributions rather than of fixed taxes and assessments". Abdul Razaak, a Persian envoy who visited Malabar in 1442 had mentioned about the practice followed at the Calicut port of the officers of the Zamorin levying a tax on the sale of goods brought by the merchants from other countries. There is also evidence to show that fees were levied for the administration of justice. A tax on intoxicating liquors (*kattichatti*) was also levied in the shape of a profession tax upon

drawers of toddy and distillers of arrack. The earliest instance of the levy of a land tax in Malabar occurs in 1731-32 when Kolathiri Raja imposed a tax of 20 per cent on the *pattom* of all paddy lands, following the invasion of his territory by the Bednore Raja. In 1757 the Zamorin imposed a levy on land called '*kavalpanam*' in order to meet the expenses of the army kept for defence against the ruler of Mysore.

3.56 A regular levy of land tax was made in 1776 by Sirdar Khan, the Governor and representative of Hyder Ali. This tax ranged from one-tenth to one-third of the *pattom* on paddy lands. On garden lands a nominal tree tax was also levied. Following the treaty of Srirangapattanam between the East India Company and Tippu Sultan, Malabar came under the rule of the Company and later the British Government.

3.57 The earliest attempt to introduce a system of land tax based on gross produce from land was made in 1802. A detailed enquiry was then conducted throughout Malabar. The principles adopted in this assessment were more or less similar to those prevalent in the neighbouring States, viz. estimating the gross produce on wet lands, deducting cost of seed, cultivation expenses etc., earmarking a portion of the net produce to the cultivator and dividing the residue between the *sarkar* and the *jenmi* in a fixed proportion. On *parambu* or orchard lands, one-third of the coconut, arecanut and jack tree produce was held sufficient for the *kudiyar* and the remainder was equally divided between the *sirkar* and the *jenmi*. A modified form of this kind of settlement was introduced in Wynad a few years later. In 1822, an additional levy called *jenmabhogam* was introduced at varying rates on lands of which Government was the proprietor.

3.58 "Farming system" for production and sale of intoxicants was introduced in 1860.

3.59 From 1870 court fees began to be levied under the provisions of the Indian Court Fees Act.

3.60 In 1886 the privilege of the manufacture of arrack was assigned to a contractor on payment of a lump amount determined by competition. Arrack issued from the distillery was subject to a duty. The privilege of retail sales was sold by auction; in municipal towns, shops were auctioned separately. In the case of toddy a tree-tax was levied on each tree tapped and the privilege to open shops for sale of toddy was auctioned. The above system, first introduced in certain parts of Malabar, was extended to the whole area by 1889.

3.61 Stamp duties began to be levied in Malabar under the provisions of the Indian Stamp Act 1899.

3.62 The first systematic survey and settlement of lands was taken up during the period 1900-1904. The distinguishing feature of the

assessment was that tree tax was abolished, as also the practice of imposing tax only on certain specified crops and gardens. Cultivable lands were classified according to the soil and tax was levied only on the extent cultivated in each year. The wet lands were divided into 8 *tarams*. On lands regularly yielding two crops, the charge for the second crop was fixed at one-fourth of the first crop. For dry lands, the method adopted was to deduct cultivation expenses from the gross produce and to make a suitable allowance for vicissitudes of season. One-third of the net produce was determined as the cultivator's share and the balance was divided equally between the Government and the *jenmi*. Garden lands were divided into seven *tarams* and the tax for each *taram* was prescribed.

3.63 There was a general enhancement of stamp duties in 1922 by about 50 per cent. The court fees were also enhanced more or less to the same extent in that year.

3.64 Till 1931 there was no uniform system of levy of tax on motor vehicles. Local bodies were collecting taxes on vehicles and tolls. By the Madras Motor Vehicles Taxation Act of 1931 tolls were abolished and a tax on motor vehicles imposed by the State. The tax was based on laden weight in the case of goods vehicles, seating capacity in the case of taxis and buses and unladen weight in the case of private cars. The rates of motor vehicle tax were enhanced in 1938.

3.65 Sales tax was introduced in 1939 by the Madras General Sales Tax Act 1939. The tax was levied on dealers whose turnover exceeded Rs. 10,000 a year. Dealers whose turnover ranged from Rs. 10,000 to Rs. 20,000 were to pay a fixed monthly rate of Rs. 5. Turnovers exceeding Rs. 20,000 were subjected to tax at one-half per cent.

3.66 During 1943 the rates of stamp duty on certain instruments were enhanced with effect from 1st October. There was a 100 per cent increase in the duties on instruments connected with business; while the increase in other cases was 50 per cent.

3.67 Following the revival of the prohibition policy of the Government of Madras in 1946-47, prohibition was introduced throughout Malabar in October 1947. The Government also decided to exploit sales tax further to make good the loss on account of prohibition. The Madras General Sales Tax Act was amended for this purpose with effect from 1st January 1948. The slab rates of tax were replaced by a general rate of 3 pies in the rupee. On certain luxury articles such as motor vehicles and their spare parts, radio sets etc. an additional tax was also introduced. Some of the exemptions were withdrawn.

3.68 The rates of motor vehicles tax were revised with effect from 1st July 1949. A tax on passengers and goods was newly introduced from 1st February 1953.

3.69 In 1955 a tax on the incomes derived from plantations was levied by the Madras Plantation Agricultural Income Tax Act 1955. This Act was applicable only on plantations and there was no tax on agricultural incomes generally.

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3.70 The unification of the tax systems in the Travancore-Cochin area and the Malabar area was done by stages. With effect from 2-4-1957, the Travancore-Cochin Agricultural Income Tax Act was extended to Malabar. The system of basic tax on land that prevailed in the erstwhile Travancore-Cochin State was brought into force throughout the State from 1st September 1957. This tax had, however, a chequered career; the tax law was held by the Supreme Court to be ultra vires the Constitution. The new Land Tax Act which was designed to remedy the legal defects of the earlier law met with the same fate in 1962 when the High Court struck down this Act. The deadlock was finally resolved by including the Kerala Land Tax Act in the Ninth Schedule to the Constitution by amending the Constitution in 1964. In 1961 Government had brought forward a legislation to levy additional land tax over and above the basic tax but this law was rendered ineffective when the Land Tax Act was struck down. The Additional Land Tax Act, however, remained in the statute book till it was formally repealed in 1967. From April 1960, the Government has been levying a tax on plantations. Lands where coconut, arecanut, rubber, coffee, tea, cardamom or pepper is grown are treated as plantations and tax is assessed on them based on their extent or area determined on the lines prescribed in the Act.

3.71 Sales tax assumed the pride of place among State taxes in point of yield. Not only were the rates of tax raised from time to time but the whole system was rationalised in 1963 based on the recommendations made by a High Level Sales Tax Committee which had studied the problems of administration and the difficulties of dealers. The rates of stamp duty were unified in 1959 and enhanced twice in 1963 and 1967. The taxation of motor vehicles was made on a uniform basis throughout the State in 1963.

3.72 Till 1967 there was no change in the prohibition policy of the State of Kerala. When the State was formed, about 58.8 per cent of the area was in the "dry" belt where the manufacture, sale or consumption of liquor was prohibited. The growing revenue needs of the State, the difficulties in administering dry laws and wet laws in adjoining areas and the problems arising from the widespread practice of illicit distillation and manufacture of liquor led to a rethinking on the prohibition policy and with effect from 1st May 1967 prohibition was lifted throughout the State.

3.73 Quite recently, the State has turned to new sources for raising revenues. A scheme for the running of lotteries has been successfully

put through and in this matter the State has given the lead to others. Efforts are also under way to take up certain commercial and business activities like a hire purchase scheme, running of chitties, collection and marketing of forest produce etc.

3.74 A detailed note on the evolution of the tax system is given as Appendix VIII. We have in this chapter attempted to indicate the main stages in the growth of the tax system. Far-reaching changes in the social order, the political system and the economic structure have taken place over the centuries and those have had their impact on the tax systems. Personal and arbitrary levies meant to maintain royal pomp and glory and military prowess have given place to modern systems of taxes. Taxation acquired a legal basis very early; and Regulations, and later on Acts, were passed on the basis of which taxes were imposed and collected. Since the coming into force of the Constitution several tax laws were challenged in the courts and some of them were struck down on various grounds. The modern trends in the economy opened up new sources of revenue to the State. If land revenue was the mainstay of Government finances till about fifty years back, its importance has diminished with the emergence of commodity taxation and taxation of incomes. We have now reached the stage where, owing to the increasingly direct participation of the State in productive activities and in key sectors of economic development, non-tax revenues assume far greater significance than in days gone by.

CHAPTER 4

TAXES ON LANDS AND BUILDINGS

4.1 Though taxation of land relates both to agricultural and non-agricultural land, the problem is generally discussed with special reference to the agricultural sector. The case for mobilisation of additional resources from this sector would depend upon the extent to which the income or surpluses generated in this sector is tapped. The implementation of the Five Year Plans has resulted in a progressive step-up in public outlays in the agricultural sector. Under the First Plan, the outlay was Rs. 600 crores for the country as a whole; it rose to Rs. 980 crores under the Second Plan and further to Rs. 1718 crores under the Third. But the studies made by the Planning Commission have revealed that in 1950-51 the agricultural sector paid only Rs. 186 crores in taxes while it received Rs. 286 crores out of the current expenditure of the Government. On the other hand the non-agricultural sector paid Rs. 391 crores in taxes and received only Rs. 286 crores. The net flow of funds into the agricultural sector has considerably increased over the plan period. In 1961-62 agricultural sector received Rs. 781 crores from the current budget of the Government while it paid only Rs. 413 crores by way of taxes. As the patterns of taxation and outlay have not undergone any material changes since then, it can be concluded that the same trend persists now.

4.2 Income from agriculture increased from Rs. 4780 crores in 1950-51 to Rs. 10,930 crores in 1966-67. The agriculturists in general have benefited not only from increases in farm productivity but also from favourable market conditions. The bulk of the benefits that accrued to this sector has, however, gone to a small section of well-to-do farmers who, on account of their position of vantage and by their political pulls and pressures, have been able to annex a significant portion of the aids and subsidies offered by the Government. The following observations have been made in the Planning Commission's note:—

Indicative of the unequal distribution of income in the agricultural sector, about three-fifths of the increase in agricultural income in recent years accrued, it is estimated, to farmers having ten acres or more of land. These well-to-do farmers

Note: The facts and figures quoted in paragraphs 4.1 to 4.3 have been taken from the paper on "Mobilisation of Additional Resources from the Agricultural Sector for the Fourth Plan" prepared by the Planning Commission and circulated to the members of the National Development Council.

who account for nearly 61 per cent of the total operational area and belong to about 15 per cent of the rural households, it is obvious, also got bulk of the benefits arising from the facilities provided in the form of better seeds, subsidised fertilisers and pesticides and loans and subsidies for other purposes”.

Such a situation leading to the concentration of wealth in the upper income strata of the agricultural sector was only to be expected because of the defective framework of our planning characterised by an almost total neglect of the distributive processes.

4.3 The available data regarding sector-wise incidence of taxation show that agricultural sector is relatively undertaxed. This has been very well established through several studies such as the one undertaken by the Taxation Enquiry Commission in 1953-54, by Dr. K. N. Raj, Dr. Ved P. Gandhi and Dr. E. T. Mathew though there have been some differences between these studies with respect to the coverage and methodology. The Planning Commission has recently made the following estimations in regard to sector-wise tax incidence.

	1953-54	1958-59	1965-66
1. Agricultural Income (Rs. in crores)	5,200	6,089	9,080
2. Non-agricultural Income (Rs. in crores)	5,280	6,520	11,260
3. Direct taxes on (1) (Rs. in crores)	74.5	103.6	134.2
4. Indirect taxes on (1) (Rs. in crores)	185.9	326.2	855.9
5. Total taxes on (1) (Rs. in crores)	260.4	429.8	990.1
6. Direct taxes on (2) (Rs. in crores)	164.4	237.0	594.1
7. Indirect taxes on (2) (Rs. in crores)	218.9	405.3	1,157.4
8. Total taxes on (2) (Rs. in crores)	383.3	642.3	1,751.4
9. (5) as a per cent of (1)	5.0	7.1	10.9
10. (8) as a per cent of (2)	7.3	9.85	15.6

4.4 The tax potential revealed by these studies underline the need for stepping up efforts at mobilising resources from the agricultural sector. But one has to pay adequate attention to the differing abili-

ties to pay of various income groups within the agricultural sector while dealing with its relative incidence. Considering the patterns of development in the agricultural sector, a steeply progressive tax on agricultural incomes may have to be designed. The land tax too which has dwindled into comparative insignificance has to be given increased attention. In this chapter we are dealing with taxes on land and buildings, as also with irrigation rates and betterment levy which are relatively of minor importance.

A. Taxes on Land

History of land taxes

4.5 Land tax or land revenue as a share of the produce of the land is one of the oldest taxes that held a dominant position in our early fiscal systems. With the growth and diversification of the economy, the relative importance of land as the source of wealth declined; so, too, the taxes based on land. But even now land tax in one form or other exists all over the world. The methods of levying it vary from country to country. For example, in some countries it is based on the capital value of the land, the value being determined periodically; in some countries it is based on the unimproved or the public value of the land or that part of the capital value which is not due to the efforts or investments of the owners or occupiers. The net produce of the land forms the basis of tax in some other countries and by the term net produce is meant the gross produce minus the cost of production which includes the cost of cultivation and cost of maintenance of the cultivator and his family. Some countries base the tax on the annual value of the land which means the produce minus the earnings of the management.

4.6 In India the system of sharing a part of the produce from the land with the King or the Chief of the community had been in existence from time immemorial. The King's share was one sixth of the gross produce in the days of Manu and was paid in kind. The assessment of the King's share in monetary terms was the first important development that took place in modern times. It was Emperor Akbar who reformed the system of land revenue assessment and laid the foundations of a land revenue policy which continued, with suitable modifications, upto the present times. The principles he introduced were measurement of all lands by a uniform standard, classification of lands based on the nature of soil, fertility etc., determination of the average produce and commutation of the produce into cash. These principles formed the cornerstone of the land revenue settlements in India since then. The development of the land revenue system has not, however, been on the same lines throughout the country. In those areas which now fall within the States of Punjab, Maharashtra, Mysore, Madras and Kerala, lands were surveyed, measured and settled on some definite principles. In Rajasthan and certain parts of Madhya Pradesh, extensive areas

were left unsurveyed and no scientific principles were followed in assessments. The lands falling in the present States of Uttar Pradesh, Bihar, Orissa and West Bengal had a permanent settlement during the British rule under which the liability to pay the tax was fixed on the Zamindar or the intermediary between the Government and the cultivator. The next important development in the land revenue system took place after independence when the Zamindari system was abolished and land reforms were put through in most of the States fixing a ceiling on holdings and conferring proprietary rights on the cultivator.

4.7 In the constituent units of Kerala State, the regular levy of land revenue commenced only during the eighteenth century. The Rajahs and chiefs who ruled over various parts of the State till then possessed lands over which they had *jennom* rights and the income from these lands was, by and large, sufficient to maintain their pomp and power. Occasions of war necessitated special levies from the land holders, but these levies were discontinued as soon as conditions were restored to normalcy. In Travancore, systematic taxation of land dates from 1750-51 when King Marthanda Varma ordered a survey and assessment of lands in the whole State. The principle of periodic assessment was accepted and the tax once fixed was in force only till the next settlement. The last settlement was conducted between 1886 and 1911. In the Cochin area, land tax on a limited scale was first introduced in 1762 to meet the expenditure consequent on the wars with the Zamorin of Calicut and the King of Travancore. The assessment was made on the basis of oral enquiries. The first regular survey of lands was made only by the beginning of the nineteenth century. In 1814-15, a *Kandezhuthu* settlement of *parambas* (dry and garden lands) was initiated and a few years later *nilams* (wet lands) were taken up for survey and settlement. The last settlement in Cochin was conducted between the years 1905 and 1909. This was preceded by a cadastral survey throughout the State and classification of soils in different localities according to fertility. The history of land tax in Malabar begins from the invasion of Hyder Ali, i.e., by about 1760. Sardar Khan, who governed Malabar as the representative of Hyder Ali, introduced a '*huzzur niguthi*' on paddy lands, ranging from one-tenth to one-third of the *pattom*. Following the fall of Tipu Sultan, Malabar became a part of the British territories. The British levied land revenue on the basis of certain ad-hoc principles. It was during 1900-04 that a proper survey and settlement of lands was conducted in Malabar, and the tax for the various types of lands—wet, garden and dry—fixed. The last revenue settlement in Malabar including Kasaragod was started in 1926 and completed in 1934.

4.8 The survey and settlement of lands is a time-consuming process requiring the employment of trained staff on a large scale. The processes involved in assessment are:

- (i) classification of soils into classes and grades;
- (ii) determination of the grain out-turn of each class and grade of soil;
- (iii) determination of cultivation expenses;
- (iv) fixation of commutation rates and conversion of grain out-turn into money;
- (v) determination of the cultivator's share and the proprietor's share.

The rates determined on the basis of such elaborate cadastral surveys remain static over decades. They cannot automatically reflect the benefits accruing on lands through measures of rural development. Proportionality of the rates makes the system inherently regressive.

4.9 In Travancore and Cochin the principle followed in assessment was to estimate first the gross produce from the land. Deductions were made for cultivation expenses etc., and the net produce was then commuted into money. From the commuted out-turn the cultivator's and Government's shares were fixed in the prescribed proportion. In Malabar area, the out-turn for each sort of soil was fixed and the same was converted into money. From this deductions were made for cartage, merchant's profits and cultivation expenses. The remainder of the commuted out-turn was divided between the cultivator and the Government at fixed proportions.

4.10 In the last settlement, lands were broadly classified into wet, dry and garden; each category was further divided into various '*tarams*' based on fertility of the soil, productivity and other relevant factors. Wet lands were again classified into single crop lands and double crop lands. The number of *tarams* adopted for wet lands was 13 in Travancore, 9 in Cochin excluding Chittur, 7 in Chittur taluk, 8 in the plain taluks of Malabar and 9 in Wynad. The rates of tax varied from ten annas to thirteen rupees per acre in Travancore, from one rupee to nine rupees per acre in Cochin, and from fourteen annas to seven rupees and fourteen annas in Malabar. The above rates were for single crop wet lands. Double crop wet lands were assessed at one and a half times the above rates in Travancore and Cochin and at one and a quarter times in Malabar.

4.11 In Travancore and Cochin lands other than wet lands were subjected to two types of assessment. Lands having assessable yielding trees (cocoanut, arecanut and jack trees) were assessed on the basis of the number of such trees. Separate rates of tax were fixed for these trees. Cocoanut trees were divided into classes based on potential yield and each class was taxed at a different rate. Dry lands, i.e., lands where there were no taxable trees, were charged with ground tax, the rates varying with the '*taram*' of the land. The number of *tarams* fixed for dry lands was 6 in Travancore and 7 in Cochin, and the rates of tax ranged from 2 annas to about 2 rupees.

4.12 In Malabar, dry lands and garden lands were separately assessed. In the plain taluks of Malabar 8 *tarams* were adopted for dry lands, the rates varying from six annas to two rupees and four annas. Garden lands were converted into standard acres based on the number of trees (10 bearing cocoanut trees or 120 arecanut trees or 5 jack trees were equivalent to one standard acre); they were divided into 7 *tarams* with the rates ranging from one rupee and three annas to eight rupees and five annas. In Wynad dry lands and garden lands were divided into developed and undeveloped lands or estates, and different rates fixed for the various *tarams*.

4.13 The land revenue demand is closely interlinked with the tenures under which the lands were held. There were numerous land tenures in Travancore like *pandaravaka*, *devaswom*, *kandukrishni*, *sreepandaravaka* and *sreepadom* under which there were several sub-tenures such as *kuthagapattom*, *otti*, *inam*, etc. Of the several tenures, it was only *pandaravakaa pattom* which discharged the full State demand. The other tenures were all either favourably assessed ones or tax-free. In Cochin the numerous land tenures that had existed were reduced considerably at the last settlement. The major land tenures which continued were *pandaravaka verumpattom*, *pandaravaka kanam* and *puravaka*. *Pandaravaka verumpattom* formed the normal tenure which discharged the full State demand. In Malabar till the last resettlement, lands were classified into private *jennom* lands and Government *jennom* lands. In the last resettlement, this classification was changed as "old holdings" and "new holdings", the latter being assessed at a higher rate.

4.14 Since 1930 land revenue settlements have not been attempted in any part of India. The conditions of depression of the early thirties which had affected agriculturists were not favourable for revision of assessments. Then came the Second World War; the pre-occupations of the war left very little time or resources with the Provinces or States in India to go ahead with the leisurely, cumbersome and expensive procedures of a survey and settlement. In 1933 the then Travancore Government had actually drawn up a scheme for resettlement, but this was postponed and later on given up following a rethinking on the policies relating to land revenue assessment. In 1946, the Government of Travancore issued the Land Tax Proclamation ushering in a new chapter in the history of land tax in the State. According to this Proclamation, all lands in the State—whether wet or dry or garden, or under whatever tenure held—were subjected to the levy of tax at a flat rate. The rate adopted in the Proclamation was 4 *cash* per cent of land (about 14 annas or 88 paise per acre) the minimum tax payable by a land holder in a village being 4 *chuckrams* (about 14 paise) per annum irrespective of the extent of land held by him in the village. Lands belonging to the *Sreepadmanabha* temple (*sreepandaravaka* lands),

the private lands of the Maharaja of Travancore (*sreepadom* and *kandukrishi* lands) and free holdings belonging to the Edavagais of Edappilly, Kilimanoor, Vanjipuzha and Poonjar were not brought under the new scheme. Three years earlier Government had introduced agricultural income-tax as a first step towards simplification and modernisation of taxation of agriculture. The rates of agricultural income-tax were raised with a view to compensating the fall in the yield under land revenue by the introduction of the basic tax.

4.15 In 1950 the rate of basic tax was revised to 3 pies per cent, i.e., Re. 1 and annas 9 per acre. Even though the States of Travancore and Cochin were integrated in 1949, the land revenue system was unified only in 1956. Till then land revenue continued to be collected in the Cochin area according to the old settlement rates. The Travancore-Cochin Land Tax Act passed in 1955 was made applicable throughout Travancore-Cochin State from April, 1956. The *kandukrishi* lands which by that time had been transferred to Government under the *Kandukrishi* Proclamation of 1949 and the edavagai lands over which Government acquired rights under the *Edavagai* Rights Acquisition Act 1955, were also brought under the scheme of basic tax. Only *Sreepandaravaka* lands and *Sreepadom* lands continue to be assessed at the old settlement rates.

4.16 After the formation of the Kerala State on 1st November, 1956, the question of unifying the systems of land revenue assessment in Travancore-Cochin and Malabar was taken up and it was decided that the basic tax system should be extended to Malabar. The Travancore-Cochin Land Tax Act was, therefore, amended in 1957 making it applicable to Malabar area also. Thus, from 1st September, 1957, the basic tax system came into force throughout the State, and simultaneously the rate of tax was raised from one rupee and nine annas to two rupees per acre.

4.17 Though basic tax was meant as a nominal impost, there were vast undeveloped areas in Malabar where the productivity was so low that payment of the tax was felt as a heavy burden. The legality of the Land Tax Act was therefore challenged. In December 1960, the Supreme Court declared the Land Tax Act *ultra vires* the Constitution on the ground that there was lack of provision in the Act for reasonable classification of land for purposes of assessment. Following this, the Kerala Land Tax Ordinance, 1961 was promulgated. By this Ordinance lands were classified into two groups, viz., lands yielding a gross income of Rs. 10 or more per acre per annum, and those yielding a gross income of less than Rs. 10. In the case of lands coming under the first category the rate of tax was fixed at a flat rate of Rs. 2 per acre per annum. On lands yielding a gross income of less than Rs. 10 per acre, the tax was limited to one-fifth of the actual or potential gross income. This

Ordinance was later on replaced by the Kerala Land Tax Act of 1961. This Act was also struck down by the High Court of Kerala in 1962 on the ground that it was violative of Articles 14, 19, and 31 of the Constitution.

4.18 With the striking down of the Land Tax Act, the State had legally reverted to the land tax systems that were in existence prior to the introduction of the basic tax system in the various areas. But as the revenue settlements were made several years back, the assessments had become long out of date. The settlement registers were not maintained up-to-date. Partitions and transfers of lands had taken place in the meanwhile and the land tenures, too, had undergone changes. In these circumstances, it was impossible to switch back to the old settlement system without a comprehensive survey of the lands and a *de-novo* assessment. A redeeming aspect of the basic tax system was the abolition of the subtle distinctions in regard to assessment based on a complex system of land tenures. The Land Tax Act was, therefore, more a land reform measure than a fiscal enactment, and so it was decided to protect the Act from attacks in courts of law. The Kerala Land Tax Act was accordingly included in the Ninth Schedule to the Constitution of India along with several land reforms legislations by amending the Constitution. The Act was also given retrospective operation from 1st April, 1956 in the Travancore-Cochin area and from 1st September, 1957 in the Malabar area.

4.19 In 1961 an additional tax on land was imposed with a view to raise resources for the Third Plan. The rate of the additional tax was Rs. 2 per acre where the gross income was not less than Rs. 20 per acre per annum subject to the further condition that the total of the land taxes should not exceed one-fifth of the gross income. Holdings below two acres were exempted from this new levy. The additional land tax had, however, only a short period of existence. In 1962 when the Kerala High Court struck down the Land Tax Act, 1961, the Additional Land Tax Act became inoperative. The Act, however, remained in the statute book till 1967 when it was formally repealed.

4.20 From April 1960, a tax on plantations is being levied under the Kerala Plantations (Additional Tax) Act, 1960. Lands where one or more of the following are grown are treated as plantations for the purpose of assessment of plantation tax.

- (i) Coconut trees;
- (ii) Arecanut trees;
- (iii) Rubber plants;
- (iv) Coffee plants;
- (v) Tea plants;

- (vi) Cardamom plants; and
- (vii) Pepper vine.

The rate of tax originally fixed was Rs. 8 per acre. Holdings of less than 5 acres as well as the first two acres of holdings above 5 acres were exempt from this levy. The plantation tax is payable by the assessee in addition to basic tax. The Act was amended in 1967 with the object of raising the tax from Rs. 8 to Rs. 20 per acre. The revised rates expressed in terms of hectare are given below:—

- (i) Where the aggregate extent of plantations held by a person is below two hectares. Nil
- (ii) Where the aggregate extent of plantations held by a person is 2 hectares or more;
 - (a) on the first one hectare Nil
 - (b) on the remaining extent Rs. 50 per hectare.

The new rates took effect from 1st April 1968. For purposes of assessment the area is converted into standard hectares. One standard hectare is equivalent to the area containing 200 bearing cocoanut trees, or 1500 bearing arecanut trees or 450 yielding rubber plants or 1500 yielding coffee plants or 100 yielding pepper vines. But if the area of land held by a person is less than the extent determined on the above basis, the actual area alone will be taken as the basis for assessment. In the case of tea and cardamom, however, there is no provision for conversion into standard hectares; the actual extent on which there are yielding crops is taken as the basis for the purpose of assessment. The normal demand under plantation tax on the basis of the revised rates is estimated to be Rs. 60 lakhs a year.

4.21 To give relief to the small land holders, the Government have exempted lands not exceeding two acres in extent from the levy of basic land tax with effect from 1st April, 1968. The loss of revenue consequent on this concession is of the order of Rs. 40 lakhs a year. With this exemption, the basic tax demand stands reduced to Rs. 80 lakhs a year.

4.22 Basic tax and plantation tax together mostly constitute the land revenue of the State at present. Normally the collections from both these taxes will be about Rs. 1.4 crores. Besides there are certain miscellaneous items of receipts which account for about Rs. 50 lakhs a year. Thus the contribution from land revenue to the State exchequer will be around Rs. 2 crores, i.e. 3 per cent of the State taxes and duties. The fall in the relative importance of land revenue during the last decade will be clear from the fact that in 1957-58 it had accounted for 9 per cent of State taxes and duties.

Future Pattern of Land Taxes

4.23 The land revenue system is on trial all over the country. It has been criticised for its lack of progressivity and equity. There is an in-built rigidity in the system which has become more pronounced since the days of the Second World War owing to the non-revision of the assessments at prescribed intervals. Some States have attempted to introduce flexibility into the system by imposing surcharges, additional surcharges and local cesses on land revenue. In certain cases the surcharges have been as high as one and a half times of the tax. The inevitable drawback of the system of surcharges is that the inequities and imbalances that have crept into the original assessment are accentuated by these additional imposts. While the increases in the prices of agricultural produce have boosted up farm incomes, the contribution from land revenue has been dwindling in relative terms over the years. The Taxation Enquiry Commission (1953-54) has pointed out that the all-India receipts from land revenue as a proportion of total revenue has come down from 69 per cent in 1793-94 to 8.6 per cent in 1953-54. As an instrument for siphoning off the savings of the agriculturists, land revenue has proved itself ineffective. Critics are also not wanting who question the very ethics of this levy. According to them, the land revenue system is a relic of the old feudal order and kingly rule when it was a symbol of the overlordship of the feudal chief or the king; it is an anachronism which should be shoved back into the dust-bin of history. Thus the future pattern of land taxes has become the object of lively discussions throughout the country.

4.24 In the last two years steps were taken by several State Governments towards a partial or a total abolition of land revenue. Punjab and Haryana have exempted holdings below 5 acres from land tax; the exemption limit in Kerala is 2 acres, while Madhya Pradesh has exempted holdings upto $7\frac{1}{2}$ acres as a first step towards complete abolition. Orissa and Bihar have gone ahead with programmes of abolishing land revenue. In Uttar Pradesh relief has been given by discontinuing the surcharges. The question of abolishing land revenue was taken up by the Governments of Madras and Mysore also, though it was not pursued to its conclusion. In a scheme of progressive taxation, it is usual to give exemptions to the weaker sections and it is obviously with a view to introduce an element of progressivity into the land tax system that exemptions to small holders have been given by some of the States. But a system of exemptions of tax based on area suffers from certain drawbacks. For example a person owning an acre of fertile garden land or wet land another owning an acre of uncultivable waste land get the same monetary relief. Further, such exemptions may encourage sub-division of holdings and fictitious

transfers of land with a view to escape tax liability, resulting in loss of revenue to the Government.

4.25 Before entering into a discussion on the future pattern of land taxation in the State, the question whether the agricultural sector in Kerala is adequately taxed has to be examined. It is a matter of common knowledge that the contribution of the rural sector by way of taxes has been much lower than that of the urban sector. A rough estimation of the contributions of both these sectors is attempted in the following table:—

<i>Taxes</i>	<i>Rural</i>	<i>Urban</i>	<i>(1968-69 Budget Estimate)</i>	
			<i>Rural</i>	<i>Urban</i>
			<i>(Rs. in lakhs)</i>	
(a) Land Revenue	100%	..	180.0	..
(b) Agricultural Income Tax	100%	..	280.0	..
(c) Stamps & Registration	20%	80%	108.8	435.2
(d) Excise Duty	60%	40%	561.0	374.0
(e) Vehicle Tax	35%	65%	194.3	360.7
(f) Sales Tax	24%	76%	660.2	2090.8
(g) Other Taxes and Duties	65%	35%	230.1	123.9
			2214.4	3384.6
Direct Taxes			568.8	435.2
Indirect Taxes			1645.6	2949.4

Note: (i) The allocation of tax revenue between the urban and rural sectors is based on an empirical study by Dr. Ved P. Gandhi. The method of allocation may have certain limitation and drawbacks but these would not affect the validity of the conclusions drawn.

(ii) The relative tax burden of the two sectors is worked out only with reference to State taxes and duties. If the Central taxes are also added, the disparity would be much wider.

The ratio of rural to urban population in Kerala according to 1961 census is 85 : 15. The per capita incidence of the taxes on the rural and urban population can be worked out as follows:—

	1968-69 (Estimate)					
	Rural			Urban		
	Tax revenue Rs. in lakhs	Population in lakhs	Per capita Rs.	Tax revenue Rs. in lakhs	Population in lakhs	Per capita Rs.
Direct Taxes	568.8	171.37	3.32	435.2	30.24	14.39
Indirect Taxes	1645.6		9.60	2949.4		97.53
Total	2214.4		12.92	3384.6		111.92

The entire rural population is not, however, solely dependent on agriculture; a sizeable number is engaged in commercial activities, services etc. Hence the disparity in per capita tax of the agricultural and non-agricultural sectors may not be so wide as that between the rural and urban sectors shown in the above table. But this will not affect the validity of the finding that the agricultural sector is considerably under-taxed when compared with the non-agricultural sector. The average tax incidence in the agricultural and non-agricultural sectors can also be worked out with reference to the State income. For the year 1964-65 the incidence of the State taxes (direct and indirect) on agricultural income at current prices works out to 4 per cent, while that on non-agricultural incomes works out to 6.7 per cent, as shown below:

	Direct taxes	Indirect taxes	Total
1. Agricultural Sector			
(a) Tax revenue (Rs. lakhs)	525.4	962.7	1488.1
(b) Agricultural income of the State	Rupees 37216.2 lakhs		
(c) Incidence (Rs.)	0.014 (1.4%)	0.026 (2.6%)	0.040 (4%)
2. Non-agricultural Sector			
(a) Tax revenue (Rs. lakhs)	301.6	1742.3	2043.9
(b) Non-agricultural in- come of the State	Rupees 30409.8 lakhs		
(c) Incidence (Rs.)	0.010 (1.0%)	0.057 (5.7%)	0.067 (6.7%)

4.26 As explained in the opening paragraphs of this chapter, the contribution of the agricultural sector to the pool of resources has not been commensurate with the benefits derived by it under the Five Year Plans. From the point of view of mopping up internal resources, this sector has to play a vital role in the years to come. Even within the sector, the growing disparities in strata-wise incomes have to be reduced progressively. Any scheme of taxation of agriculture has therefore to be formulated with reference to these realities.

4.27 Several persons who gave evidence before the Committee have expressed themselves in favour of the continuance of land tax in some form or other. Some of them have stated that the tax receipt constitutes a proof of ownership of the land. Again land tax is an old tax which, as the dictum goes, is no tax at all. In other words, the tax is often paid ungrudgingly and there is lesser tax resistance than in the case of other taxes developed in more recent times. In a State where per capita availability of land is very low, the possession of land is stated to be a privilege for which a tax could justifiably be imposed. The separate levy of a plantation tax has, however, come in for criticism. It is stated that the procedures for assessment of this tax are needlessly cumbersome and that in the interest of convenience and simplicity all taxes on land should be integrated into a single levy. The departmental officers have also averred that plantation tax is not being satisfactorily administered and the staff at the cutting edge level have yet to develop the expertise in assessment procedures.

4.28 The various alternatives that may be considered while designing a tax pattern for land are:

- (i) the continuance of the present system with exemptions of small holdings;
- (ii) the abolition of land taxes and complete reliance on agricultural income-tax for taxing the agricultural sector;
- (iii) the revival of the settlement system; and
- (iv) the levy of land tax with reference to capital value.

4.29 Continuation of the present system with or without exemption of small holdings will not result in sizeable revenue. Though simple the basic tax is neither equitable nor progressive. It is being protected by its inclusion in the Ninth Schedule to the Constitution. As such it is not amenable to amendments incorporating dynamism and progressivity. Nor is it possible to mount a few cesses on the basic tax. The yield from the plantation tax as administered today is not attractive. In the context of extra-ordinary pressure of population on available land exclusive reliance on agricultural income tax will leave all but a few thousands from the tax net. As such its revenue potential will be relatively small.

4.30 Land revenue based on its rental value determined on the basis of the properties of land (quality of the soil, topography of the field and location as related to climate), source of irrigation, distance from the market and other relevant information gathered through cadastral surveys is still in vogue in a truncated form in many of the States. The land registers and large-scale maps developed in this process could be used in the administration of land-based credit and other farm improvement programmes as well as for planning and execution of land reforms. Cesses of various kinds and surcharges are also conveniently hooked to land revenue. But as mentioned earlier cadastral surveys are cumbersome, time consuming and expensive. Proportionality of the rates makes the system inherently regressive. Cesses tagged to land revenue cannot change its regressive character. Unless made highly graduated, even the surcharges on land revenue cannot make it progressive. But the basic defect of the system is that since surveys are repeated only at very long intervals the basic rates remain static over decades; and, in the interregnum, the rates do not reflect the benefits accruing to land through dynamic measures of rural development. As such it is not advisable to go back to the system of survey and settlement.

4.31 After a thorough examination of the implications of the various alternatives available, the Committee would recommend the adoption of capital value, which quickly reflects all the dynamic changes in the environment, as the most flexible and progressive basis of land taxation provided a machinery could be created for a periodic revision of the capital value of land. In the long run such a basis would prove to be highly productive. It can replace some of the minor taxes such as the plantation tax and betterment levy. The base might lend itself to graduation in the rates. If need be, cesses and surcharges could be mounted on it without losing its basic progressivity. It would also provide a frame work of reference to deal with the problem of tax evasion in registration and stamp duties arising from transactions in landed property.

4.32 The question then arises whether the State is legally competent to levy a tax based on the capital value of lands under the provisions of the Constitution. There is a view that taxation of capital value is within the exclusive province of the Union Government and hence this question merits some discussion here. The following are the entries in the Seventh Schedule to the Constitution, which are relevant to this issue:

- (i) Entry 86 of List I (Union List)—Taxes on the capital value of assets, exclusive of agricultural land, of individuals, and companies; taxes on the capital of companies.
- (ii) Entry 49 of List II (State List)—Taxes on lands and buildings.

It is sometimes argued that, since under Entry 86 of List I, the Union Government has been given the power to tax the capital value of assets including non-agricultural lands and buildings, the State Government is not competent to impose a tax on lands and buildings based on capital value. The question was specifically considered by the High Court of Madras while disposing of a batch of writ petitions on the Madras Urban Land Tax Act 1966 (Writ Petition No. 2835 of 1967 etc.). It may be mentioned here that this Act provided for the levy of a recurring annual tax on urban lands at 0.4 per cent of their market value. The Act was challenged on the grounds that it was outside the competence of the State Government to levy such a tax and that there was excessive delegation leading to arbitrary exercise of powers by departmental officers in the determination of market value. It was unanimously held by the full bench consisting of five judges who heard the case that it was within the legislative competence of the State to impose a tax on lands and buildings based on their capital value and that such a tax would be conceptually and basically different from the tax on the capital value of assets contemplated in Entry 86 of List I. (Section 6 of the Act was, however, struck down on the ground of excessive delegation). The following extracts from the judgments (all the judges pronounced separate judgments) are relevant:—

“.....the theory that the constellation of Entries in List I precludes the State Legislature from taxing the capital value of lands and buildings cannot be accepted.....”

* * * *

“There is really no conflict between Entry 86 of List I and Entry 49 of List II; the differentia are sharp and the bases are totally different. The fact that taxation under Entry 49 of List II may have very similar incidence on the subject of the tax as a fiscal enactment under Entry 86 of List I is quite beside the point”.

* * * *

“.....on a proper interpretation the Entry 49 of List II clothes the State Legislature with the power to tax the capital value of lands and buildings”.

* * * *

“Entry 49 of the State List does not say whether the tax thereunder should be on the market value or on the annual value. All that it says is “Taxes on Lands and Buildings”. We do not see why as a matter of construction of the actual words used, they should be confined to a tax on the annual value and why the tax should not be on the market value so long as it is in essence and fact a tax on lands and buildings *per se*. The words employed do not expressly

or by implication forge any limitation upon their scope as to the kind of measure of tax to be adopted”.

4.33 Elaborating the distinction between the nature of the levies contemplated in Entry 86 of List I and Entry 49 of List II the Chief Justice concludes thus:—

“Entry 49 has nothing to do with the individual or his wealth; the tax runs with the land, as in this case, and the encumbrance on the land is irrelevant. Even if the Union Legislature segregates for taxation a portion of assets, such as land and its building under Entry 86, that would be a different base of fiscal power and a wholly different tax. Again, the tax under Entry 49 could even fall on the occupier of the land, and not merely on the owner. Next, I would unhesitatingly interpret Entry 49 as including a legislative competence to tax the capital value of the subject for this reason.”

4.34 Shri Seervai in his book “Constitutional Law of India” explains the distinction as follows:—

“Again, a tax on land and buildings based on their capital value as a measure of taxation would not be a tax on the capital value of assets because such a tax must ascertain the value of “asset”, and if lands or buildings were mortgaged, the tax would be on the equity of redemption, whereas the encumbrances would be irrelevant for the purposes of a tax on lands and buildings.”

4.35 The issue also came before the Supreme Court in Sudhir Chandra Nawn Vs. Wealth Tax Officer, Calcutta and Others (Writ petition Nos. 153 to 155 of 1967) . The relevant portion of the judgment is reproduced below:

“The tax which is imposed by Entry 86 List I of the Seventh Schedule is not directly a tax on lands and buildings. It is a tax imposed on the capital value of the assets of individuals and companies, on the valuation date. The tax is not imposed on the components of the assets of the assessee; it is imposed on the total assets which the assessee owns, In certain exceptional cases, where a person owes no debt and is under no enforceable obligation to discharge any liability out of his assets, it may be possible to break up the tax which is leviable on the total assets into components and attribute a component to lands and buildings owned by an assessee. In such a case, the component out of the total tax attributable to lands and buildings may in the matter of computation bear similarity to a tax on lands and buildings levied on the capital or annual value under Entry 49 List II. But the legislative authority of Parliament is not determined by visualising the possibility of exceptional cases of taxes under two different heads operating similarly on tax payers. Again, Entry 49 List II of the Seventh Schedule contemplates the levy of tax on lands and buildings or both as

units. Tax on lands and buildings is directly imposed on lands and buildings, and bears a definite relation to it. Tax on the capital value of assets bears no definable relation to lands and buildings which may form a component of the total assets of the assessee. For the purpose of levying tax under Entry 49 List II the State Legislature may adopt for determining the incidence of tax the annual or the capital value of the lands and buildings. But the adoption of the annual or capital value of lands and buildings for determining tax liability will not, in our judgment, make the fields of legislation under the two entries overlapping."

4.36 Thus the position has been made unambiguously clear that the State can levy a tax on land based on the capital or market value and that this tax is a different type of levy from the tax on capital value of assets which falls within the domain of the Union Government.

4.37 Local bodies in the State are levying a property tax on lands and buildings situated in their jurisdiction based generally on annual letting value or sometimes on capital value. Recently, the levy of property tax by Mattancherry Municipality on the basis of capital value was challenged before the High Court of Kerala on the ground that such a levy was not covered by Entry 49 of List II. Relying on the judgment of the Supreme Court in *Sudhin Chandra Nawn Vs. Wealth Tax Officer, Calcutta and others*, the Kerala High Court held that the above contention has no force whatsoever and that the levy cannot be impugned on the ground that the basis of the tax is the capital value of land.

4.38 In view of the preponderance of judicial opinion, there is no need for any apprehensions about the feasibility of levying a tax on land with reference to the capital value. We now proceed to outline broadly the scheme of the proposed taxation.

(i) The tax may be levied on all lands irrespective of whether they are put to productive use or not, and irrespective of the purpose to which they are put to use. The differences in their production-potential will be duly reflected in their values on which the tax is to be based.

(ii) The tax may be collected from those who are in possession of the land.

(iii) As local bodies are also levying property tax which is in some cases at least based on capital value, it is necessary to demarcate the fields of taxation of the State Government and the local bodies. The taxing power of the local bodies may be confined to buildings and building sites. The building site may be defined as the plinth area of the building. The provisions of the enactments relating to the taxing powers of the local bodies may be suitably amended.

(iv) The rate of tax may be expressed as a percentage of the Capital value as determined from time to time. A ceiling of one per cent of the value may be prescribed within which the Government may vary the rates from time to time depending upon the order of the resources to be raised. The tax will thus have the needed flexibility.

(v) There should be a valuation machinery to determine the value of the lands throughout the State. The values once fixed may be in force, normally for a period of five years. There should be arrangements for quinquennial revision. It should also be provided in the legislation that, in the event of a substantial alteration in the capital value of any land brought about within this five year period by unforeseen circumstances (such as large scale destruction of yielding trees), the assessee concerned can apply for a revision of the capital value of the land and get his tax liability appropriately refixed.

(vi) The valuation should be done on the basis of the market value, that is to say, the price which it would reasonably fetch if sold in the open market, having regard to its situation, present condition, utility and so on. In determining the market value, the price paid for the land or for similar lands in the recent years may be taken as an important guide-line. The valuation staff may collect the required data from the Sub-Registry Office, or from the Department of Survey and Land Records, by site inspections and through local enquiries, and determine the value of each property. A certain percentage of the valuations should be checked up by the superior officers. Before the value is determined the land holder should be given an opportunity to file objections regarding the monetary amount of the value. There should also be provision for hearing appeals.

(vii) As an incentive for development of lands by self-efforts a rebate on increases in value due to private investment may be given, while assessing the tax liability.

4.39 The land tax and plantation tax which are now being levied by the State Government and the property tax (except on buildings) levied by the local bodies may be discontinued on the implementation of our proposal for levy of land tax based on capital value. In 1967 the Government had introduced a Bill for the levy of a tax on non-agricultural lands with the object of realising a part of the increments in values that have accrued in urban areas consequent on public investments and other factors of urbanisation. The Bill has not yet reached the final stage. Under the scheme of taxation of land proposed by us such increments in land values will be duly taken into account while making the assessment and there will be no need for a separate tax on non-agricultural lands in urban areas. For the same reason, the betterment levy in areas having irrigation

facilities, which, however, has remained on paper owing to problems of assessment of incremental values, may also be discontinued. Thus there will be only a single rational levy on land. The tax may be assessed and collected by the State Government, but the proceeds may be made over to the local bodies whose resources have to be built up when the scheme of democratic decentralisation popularly known as the Panchayati Raj is implemented. We shall revert to this aspect in greater detail while dealing with local finances.

4.40 The administration of the new tax would necessitate the strengthening of the departmental machinery. The special staff employed in the assessment of plantation tax and the staff now engaged in the assessment and collection of land tax, betterment levy etc., can be diverted for the work relating to the new tax. It may still be necessary to appoint additional staff for the work of initial valuation of the lands throughout the State and for subsequent quinquennial revisions. Considering the higher productivity of the new tax and other incidental advantages, it will, however, be worthwhile to incur such additional expenditure as may be found necessary for this purpose. For instance a proper valuation of lands may lead to increase of revenue in other directions e.g., under stamps and registration fee by reducing the scope for understating the monetary consideration in documents.

Irrigation cess and betterment levy.

4.41 Irrigation cess, or water rates as it is called, represents the cost for the service of providing water from irrigation projects constructed at the expense of the State. Betterment levy is a charge or tax meant to tap the unearned increment in land values consequent on the provision of irrigation facilities; it is a capital levy representing a portion of such unearned increment, though it is realised and collected in annual instalments over a period of time. There is no uniform legislation for the assessment and collection of irrigation cess or betterment levy in the State. Separate enactments are now in force in the Travancore-Cochin and Malabar areas. They are:—

- (i) The Travancore-Cochin Irrigation Act 1956;
- (ii) The Malabar Irrigation Works (Construction and Levy of Cess) Act, 1947;
- (iii) The Madras Irrigation Cess Act, 1865; and
- (iv) The Madras Irrigation (Levy of Betterment Contribution) Act, 1955.

(a) *Irrigation Cess.*

4.42 Under the Travancore-Cochin Irrigation Act, 1956, irrigation works are classified into major and minor for the purpose of the levy of water cess. Major irrigation works comprise all works

(including lift irrigation works) irrigating or useful for the drainage or protection of an extent of over 200 acres. For the purpose of levy of irrigation cess, major irrigation works fall under two categories—those undertaken before 1-1-1943 and those undertaken on or after that date. The cess leviable on land benefited by the works of the first category is fixed on an acreage basis so as to ensure a return not exceeding 3 per cent on the capital outlay. On lands benefited by major irrigation projects constructed after 1-1-1943, waters cess at rates ranging from Rs. 5 to Rs. 10 per acre is levied. Lands made fit for cultivation on which more than one paddy crop could be raised are subjected to the ceiling rate of Rs. 10 per acre. On lands benefited by minor irrigation works (i.e., those with an ayacut of over 5 acres but not exceeding 200 acres) the rate of cess is fixed to ensure a three per cent return on capital subject to a maximum of Rs. 3.50 per acre. Works with an ayacut of 5 acres and below are treated as petty irrigation works and are the responsibility of the Panchayats who are empowered to levy irrigation cess subject to a ceiling of Rs. 3.50 per acre. With effect from 1st April, 1967, Government have suspended the collection of irrigation cess including the outstanding arrears in respect of minor and petty irrigation works.

4.43 On lands benefited by lift irrigation schemes undertaken by the Government, the following rates are charged:—

First crop	Rs. 5 per acre
Second crop	Rs. 10 per acre
Third crop	Rs. 15 per acre

If water is supplied for all the three crops, a consolidated rate of Rs. 25 per acre is levied.

4.44 The Malabar Irrigation Works (Construction and Levy of Cess) Act, 1947 is applicable to the Malabar area excluding Kasargod and Hosdurg Taluks where the Madras Irrigation Cess Act, 1865 is in force. Irrigation sources are divided into classes and different rates are prescribed in respect of each class. Even under the same class, the rates vary for the first crop and for the second crop and also depend upon whether the land is systematically irrigated or only occasionally irrigated. Higher rates have, however, been prescribed in respect of major irrigation projects like Malampuzha, Mangalam and Walayar.

4.45 The question of introducing a unified law for the levy of irrigation cess has been under consideration since 1958; the unified bill has not yet reached the final stage. The collection of irrigation cess has been far from satisfactory. Though the demand raised is of the order of Rs. 40 lakhs, collections have seldom exceeded Rs. 20 lakhs. There have been numerous complaints

that demands have been raised on lands not benefited by the irrigation works. On complaints made by the affected parties, the collection of cess has had to be stayed in a large number of cases. From our discussions with the concerned officers, we understand that there have been anomalies in fixing the ayacut of the irrigation works particularly in the Cochin area and that special staff has been appointed to investigate into all such cases. In 1966, Government had issued orders excluding house-sites, rocky and other uncultivable lands and lands situated at very high levels from the ayacut lists. We hope that the special efforts now made in investigating all doubtful cases and eliminating demands wrongly made will be followed up.

4.46 The Nijalingappa Committee set up by the Government of India to suggest ways and means of improving financial returns from irrigation projects has made the following recommendation:—

“Water rates should be on the basis of a suitable percentage of the additional net benefit to the farmer from an irrigated crop where, with the available data, this can be worked out. These rates may be fixed at 25% to 40% of the additional net benefit keeping in view factors like rainfall, water requirement, yield and value of crop etc. Where it is not feasible to work out the additional net benefit, water rates may be fixed, to start with, as a suitable percentage of gross income to the farmer from the irrigated crop. Rates in this case may be 5 to 12% of the gross income and should be worked up to.”

Water rates should be reviewed every 5 years. Required data regarding additional net benefit should be continuously collected for this purpose”.

4.47 The above recommendation underlines the need for revising the rates of irrigation cess in our State. The present rates were fixed long ago; the principle should be that water rates should ordinarily cover working expenses and at least a portion of debt charges. Irrigation cess is not really a tax, but is only the cost for a service rendered. In this respect it is analogous to the charges for the supply of power or drinking water. Unlike other welfare measures irrigation facilities which are financed from the general revenues of the State are available only to the people in the areas commanded by the irrigation system. It is therefore only proper that those who avail themselves of this facility pay for it and do not impose a burden on the rest of the community. We, therefore, recommend that early steps should be taken to unify the laws relating to the levy of irrigation cess and that the rates may be suitably revised in keeping with the above objectives. Care should however be taken, while actually imposing the

cess, to ensure that the burden falls only on those who are actually benefited by the scheme. For this purpose it is necessary, as early as possible after completion of each project, to have a detailed survey of the lands benefited, before the Government starts collection of water rates.

(b) *Betterment levy.*

4.48 The Travancore-Cochin Irrigation Act, 1956 provides for the levy of betterment contribution from the land holders whose lands are benefited by major irrigation works, the construction, expansion or alteration of which has been undertaken by the Government on or after 1-1-1943, the contribution being levied only after the expiry of two years from the date of provision of the irrigation facility. The Madras Irrigation (Levy of Betterment Contribution) Act, 1955 also contains a similar provision which empowers Government to levy betterment contribution from land owners benefited by the major irrigation works undertaken on or after 1-1-1947. Under the Travancore-Cochin Irrigation Act, lands are to be divided into suitable classes with reference to their *tarams* and commandability and the annual increase in their gross produce consequent on the provision of irrigation facilities is to be estimated with reference to the average of the prices prevailing during the preceding five years. Twenty times the annual increase in gross produce is deemed as the increase in the capital value of each class of land. The amount of the betterment levy is fixed as one-fourth of the difference between the increase in the capital value of each class of land and the cost of making such land fit for advantageous cultivation. More or less the same procedure is laid down in the Madras Act applicable to the Malabar area except for the difference that ten times of the annual increase will be the increase in the capital value of land and the rate of contribution will be one-half of the difference between the increase in capital value and the cost of making the lands fit for advantageous irrigation.

4.49 Betterment levy has fallen due for collection in respect of four irrigation projects in the Travancore-Cochin area and four projects in the Malabar area. The assessment of betterment levy could not, however, be finalised in respect of any of the completed irrigation projects in the State owing to the procedural and legal difficulties involved. The classification of lands into '*tarams*' is a difficult proposition and the procedure enunciated for estimating the gross produce is cumbersome. The revenue settlement in the State was conducted decades ago and settlement records are not maintained up-to-date especially after the introduction of basic tax, with the result that these records cannot be relied upon for classification of lands. Further, there are no reliable statistics to work out the annual increase in the gross produce of each class of land. Again the increase in the capital value of

land does not solely depend upon the annual increase in the gross produce; it is dependent on several other factors also. This makes it difficult to estimate the appreciation of land values consequent on the provision of irrigation facilities alone. In these circumstances it has not been possible so far to assess betterment levy in respect of any of the completed projects. Knowledgeable persons who met the Committee were pessimistic about the final outcome of any of the measures taken or proposed to be taken for the assessment and collection of betterment levy.

4.50 When the scheme of taxation of land based on capital value recommended earlier is introduced, betterment levy can be discontinued. The increase in the capital value due to irrigation facilities will be duly taken care of by the levy of the new land tax.

B. Tax on Buildings.

4.51 In 1961 the Kerala Buildings Tax Act was passed with a view to levy a non-recurring tax on buildings based on their floor area or plinth area. The rates of the tax were as follows:—

<i>Floorage</i>	<i>Rate</i>
1. Where the total floorage of a building is less than 1000 sq. ft.	NIL
2. Where the total floorage of a building is 1000 sq. ft. and more but does not exceed 2000 sq. ft.	10 paise per sq. ft.
3. Where the total floorage of a building exceeds 2000 sq. ft. but does not exceed 4000 sq. ft.	20 do.
4. Where the total floorage of a building exceeds 4000 sq. ft. but does not exceed 8000 sq. ft.	30 do.
5. Where the total floorage of a building exceeds 8000 sq. ft. but does not exceed 12000 sq. ft.	40 do.
6. Where the total floorage of a building exceeds 12000 sq. ft.	50 do.

The above Act came into force from 2nd March 1961 and all buildings the construction of which was completed on or after that date came under the purview of the Act. Buildings used for religious or charitable or educational purposes and for factories are exempted from the tax. The Act was challenged before the High Court which held that it was violative of article 14 of the Constitution. The following extract from the judgment of the High Court will throw light on the defects of the scheme of taxation contemplated by the Act.

"The base of the tax is either the capital value of the land and the buildings or the annual letting value of the land and buildings. And the theory of taxation appears to be that in order that there may be an equitable distribution of the burden of taxation, it is necessary to resort to some such method. The procedure is often, though not always, to tax the rich and let off the poor. The value of the property therefore always loomed large, and in fact, it appears to me, has been the only guiding principle on the basis of which the impost is to be made. The value of the property in a sense may be gauged with reference to the value of the income that may be earned from the property. If disregarding this basis, which seems to have been uniformly accepted in almost all the civilized countries in the world, an impost is made, it becomes an arbitrary impost which cannot satisfy the requirements of reasonableness, or equality. Only a glance at the statute and the averments in the affidavits in support of these petitions is sufficient to satisfy any one that the Act purports to impose an arbitrary levy. The floorage has been defined in the statute. This has reference only to the basement excepting when there is a first or second floor. The basement has nothing to do with the quality of the buildings, its location, its usefulness and much less its value or for that matter, the income that can be derived from that building. A building may be located in a busy town or city. Its value will be much higher than its counterpart elsewhere due to various reasons (the cost of construction, the cost of land in which it is built etc.) and the letting value will also be different from that of a similar building situated in the country. Both have been taxed in the same manner. This has resulted in inequality. The inequality arises from lack of classification".

The Division Bench of the High Court and the Supreme Court before which appeals were filed also held that the Act was not sustainable.

4.52 The local bodies in the State are levying a tax on buildings called 'building tax' or 'property tax', based on the annual rental value of the buildings. We consider that it is necessary to impose a tax on buildings with reference to their capital cost. The question whether the State has the legal competence to levy a tax on lands and buildings with reference to their capital value has already been discussed by us in the earlier paragraphs dealing with land tax. From the extract of the judgment of the High Court striking down the Kerala Building Tax Act, 1961 given above, it will be clear that it is within the powers of the State to levy a tax based on capital value of buildings. We, therefore recommend that a non-recurring tax may be imposed on buildings constructed hereafter

or in respect of which major repairs and improvements are undertaken hereafter. The rates of tax may be fixed on a progressive scale as follows:—

<i>Value of building</i>	<i>Tax rate as percentage of the value of the building</i>
Below Rs. 10,000	Nil
Rs. 10,000 and above but below Rs. 20,000	$\frac{1}{2}$
Rs. 20,000 and above but below Rs. 30,000	1
Rs. 30,000 and above but below Rs. 50,000	2
Rs. 50,000 and above but below Rs. 1,00,000	3
Rs. 1,00,000 and above but below Rs. 1,50,000	5
Rs. 1,50,000 and above	8

4.53 The tax may be levied as soon as the construction is completed and may be collected in lump or in four quarterly instalments. A rebate of 1 per cent of the tax may be given if the tax is paid in lump within the time fixed in the demand notice. In the case of buildings constructed in various stages, the tax may initially be imposed at the time it is first put to use and then revised in every successive stage. For this purpose, a fresh valuation may be made on each occasion and the assessment determined on the basis of the aggregate capital value at that time with provision for necessary deduction for the amount of tax paid previously.

4.54 The valuation of buildings may be done applying the principles followed by the P.W.D. in the matter. The work can be entrusted to the same machinery that would be set up for the valuation of lands for the purpose of assessment of land tax. Keeping this in view, it may be ensured that, while creating a valuation machinery in the Land Revenue Department, necessary staff who have the expertise in valuation of buildings is also drafted.

4.55 The levy of a non-recurring tax on new buildings as suggested by us will incidentally serve the purpose of checking extravagant private expenditure on construction of residential buildings. Under a scheme of progressive rate structure, the burden will fall only on those who are able to pay and that too in proportion to their ability.

Summary of conclusions and recommendations.

1. All the recent studies made in sector-wise tax incidence show that the agricultural sector is undertaxed and that there is need for stepping up efforts at mobilising resources from this sector. The bulk of the benefits that have

accrued to agriculture under the Five Year Plans has, however, gone to a small section of well-to-do farmers. Taxation of agriculture has to take into account these realities.

(Paragraphs 4.1 to 4.4)

2. The agricultural sector in Kerala is undertaxed when compared with the non-agricultural sector.
(Paragraph 4.25)
3. Continuation of the present system of land tax, with or without exemption of small holdings, will not be desirable in view of the limited revenue potential.
(Paragraph 4.29)
4. The system of land revenue based on rental value determined on the basis of the properties of land necessitates cumbersome, time-consuming, expensive cadastral surveys. Since the surveys are repeated only at long intervals, the basic rates remain static over decades and in the interregnum the rates do not reflect the benefits accruing to land through dynamic measures of rural development. Hence it is not advisable to revert to the system of survey and settlement.
(Paragraph 4.30)
5. Capital value which quickly reflects all the dynamic changes in the environment is the most flexible and progressive basis of land taxation. In the long run such a system would prove to be highly productive.
(Paragraph 4.31)
6. It is within the legal competence of the State to levy tax on lands and buildings with reference to their capital value under Entry 49 of List II.
(Paragraphs 4.32 to 4.37)
7. The rate of land tax may be expressed as a percentage of the capital value determined from time to time subject to a ceiling of one per cent.
(Paragraph 4.38)
8. There should be a valuation machinery to determine the value of lands throughout the State. The values as once fixed may be in force normally for a period of five years. There should be arrangements for quinquennial revision. There should also be provision to revalue lands even during this five year period on the application of the assessee in exceptional cases where a substantial alteration in the value has been brought about by unforeseen circumstances
(Paragraph 4.38)

9. The procedure for valuation may be generally on the lines indicated in (vi) of paragraph 4.38.
(Paragraph 4.38)
10. As an incentive for development of lands by self-efforts, a rebate on increases in value due to private investment may be given.
(Paragraph 4.38)
11. The basic land tax and the plantation tax that are now levied by the State Government and the property tax except on buildings that is levied by the local bodies may be discontinued. Also the proposal for the levy of a tax on non-agricultural lands need not be pursued.
(Paragraph 4.39)
12. Early action should be taken to unify the laws relating to the levy or irrigation cess. The rates of irrigation cess may also be suitably revised keeping in view the objectives indicated in paragraph 4.47. Care should however be taken, while actually imposing the cess, to ensure that the burden falls only on those who are actually benefited by the scheme. For this purpose it is necessary, as early as possible after completion of each project, to have a detailed survey of the lands benefited, before the Government starts collection of water rates.
(Paragraph 4.47)
13. Betterment levy on lands benefited by irrigation schemes may be discontinued as the increase in capital value consequent on the advent of irrigation will be duly taken care of by the taxation of land based on capital value.
(Paragraph 4.50)
14. A non-recurring tax on buildings may be levied based on their capital value. Buildings newly constructed and existing buildings in respect of which major repairs and extensions are undertaken hereafter may be brought within the scope of this tax. The rates of tax may be as suggested in paragraph 4.52.
(Paragraphs 4.52 and 4.53)

CHAPTER 5

AGRICULTURAL INCOME-TAX

Historical background.

5.1 Taxation of agricultural income in India is comparatively of recent origin. Though income-tax was in existence in India since 1860, agricultural income was exempt from taxation till the passing of the Government of India Act, 1935, except for two short periods of nine years in all. By the Government of India Act 1935, the Provinces were empowered to levy tax on agricultural incomes. Pursuant to this, Bihar levied the tax in 1938 followed by Assam in 1939. Bengal introduced agricultural income-tax in 1944. Not all the States are levying this tax even now.

5.2 The princely States of Travancore and Cochin had full autonomy in the field of taxation. Income-tax was introduced in Travancore in 1097 M.E. (1921-22 A.D.) and agricultural income-tax was levied for the first time in 1119 M.E. (1943-44 A.D.). Two years later the Travancore Land Tax Proclamation of 1121 was promulgated by which basic tax at a low and uniform rate was introduced in replacement of the system of land revenue based on settlement. In view of the loss of revenue consequent on the introduction of basic tax, the Government decided to tap agricultural income further. A unified income-tax law (Travancore Income Tax Act, 1121) was introduced providing for the levy of tax on agricultural incomes on the same lines as business incomes. The minimum taxable income was fixed as Rs 2,000. The Act also contained provision for the levy of supertax on that portion of assessed income which exceeded Rs 20,000. In the State of Cochin, agricultural income-tax was introduced in the year 1122 M.E. by amending the Cochin Income Tax Act, 1117 to provide for taxation of agricultural incomes. Thus, at the time of integration of Travancore and Cochin States on 1-7-1949, agricultural income-tax was in existence in both the States as part of the general income-tax.

5.3 With the adoption of the Indian Constitution taxes on income other than agricultural income vested with the Central Government and the States were left with the power to levy taxes on agricultural income alone. These provisions of the Constitution came into effect from 1-4-1950 by the scheme of Federal Financial Integration. Under the Finance Act, 1950, the Central Government took over assessment of all incomes except agricultural income. The

State Government on whom fell the right of levying and collecting agricultural income-tax enacted the Travancore-Cochin Income Tax Act, 1950. The Act was modelled mainly on the lines of the Indian Income Tax Act, 1922. Provision was made to exclude cultivation expenses, amount paid as land tax or rent, interest on mortgage etc., while calculating the total agricultural income. This Act came into force from 1-4-1951. During the interim period (i.e., 1-4-1950 to 31-3-1951) agricultural income-tax was levied and collected in the Cochin and Travancore areas under the Income Tax Acts in force in the respective territories.

5.4 On the eve of the reorganisation of States the rate structure of agricultural income-tax was:

	<i>Rate</i>
(a) On the first Rs 1,500 of the total agricultural income	Nil
(b) On the next Rs 3,500 of the total agricultural income	Nine pies in the rupee.
(c) On the next Rs 5,000 of the total agricultural income	One anna and nine pies in the rupee.
(d) On the next Rs 5,000 of the total agricultural income	Two annas and ten pies in the rupee.
(e) On the balance of total agricultural income	Four annas in the rupee.

Incomes below Rs 3,000 in the case of individuals and Rs 6,000 in the case of Hindu undivided families, etc., were exempt from the tax. In the case of companies, tax was charged at the maximum rate of four annas in the rupee on the whole of the total agricultural income. Besides a basic tax on agricultural income at slab rates as given above there was also a super tax ranging from two annas to six and a half annas in the rupee on individuals, Hindu undivided families, etc., having a total agricultural income exceeding Rs 25,000. In the case of companies supertax was levied at a flat rate of 2 annas in the rupee. Agricultural Income Tax was also being levied in the Malabar area under the Madras Plantations Agricultural Income Tax Act, 1955. This was restricted in application to incomes from plantations. There was no supertax as in Travancore-Cochin. The Agricultural Income Tax Act which was in force in Travancore-Cochin was extended to Malabar area consequent on the reorganisation of States. Certain changes were also made in the structure of the tax. In respect of supertax on companies, a slab rate was introduced ranging from 12 paise to 37 paise as against the existing flat of 12 paise (2 annas) per rupee. The rate for the highest slab in the case of individuals etc., was fixed as 41 paise in the rupee.

5.5 With effect from 1st April, 1960, the minimum taxable limit was raised from Rs. 3,000 to Rs. 3,600. Provision was made for compounding the tax payable by assessees falling in the income slab of Rs. 3,600-5,000, at a lump sum of Rs. 75. From April 1961 the highest rate of supertax was reduced from 37 paise to 31 paise in the case of companies and from 41 paise to 34 paise in the case of individuals, Hindu undivided families etc.

5.6 Certain important amendments to the Agricultural Income Tax Act were made in 1964 by Act 12 of 1964. The definition of agricultural income was amended to be in conformity with the provisions in the Indian Income Tax Act. This was made in view of the provision in Article 366(1) of the Constitution that agricultural income means agricultural income as defined for the purposes of the enactments relating to Indian income-tax. The concession of composition of tax rates was extended to incomes not exceeding Rs. 7,000.

5.7 The Agricultural Income Tax Act was further amended with effect from 1st September, 1967. According to this amendment the highest rate of supertax on agricultural income in the case of companies was increased from 31 paise to 37 paise in the rupee and in the case of individuals, Hindu undivided families etc., from 34 paise to 41 paise.

Existing System.

5.8 The above resume of the evolution of the agricultural income-tax shows that the State has been comparatively active in taxing agricultural incomes. The revenue from this source which was Rs. 183 lakhs in 1957-58 has gone up to Rs. 332 lakhs in 1967-68. Only Assam gets a higher revenue from this source. And, as in Assam, the bulk of the revenue in Kerala comes from plantation companies.

5.9 The tax structure comprises a basic agricultural income-tax and a supertax. Different rates are adopted: (a) for individuals, Hindu undivided families etc., and (b) for companies. No tax is leviable if the total agricultural income of an individual is less than Rs. 3,600. In the case of a Hindu undivided family the exemption limit is Rs. 6,000. Also, the first Rs. 1,500 of the income of an assessee (other than a company) is exempt from agricultural income-tax; similarly the first Rs. 25,000 is exempt from supertax. For companies there are no such exemptions. Agricultural income at a uniform rate of 25 paise in the rupee is payable by companies on their entire agricultural income. The rates of supertax applicable to companies vary from 12 paise in the rupee to 37 paise. In the case of assessees other than companies a progressive rate structure is in force for both agricultural income-tax and supertax; the rate ranges from 5 paise to 25 paise for agricultural

income-tax and from 12 paise to 41 paise for supertax. Under the Kerala Surcharge on Taxes Act 1957, a surcharge at 5% of the tax assessed is also levied.

5.10 There are certain basic differences in the schemes of taxation of non-agricultural incomes and of agricultural incomes. The Central Income Tax Act provides for personal allowance and family allowance as well as deductions on account of contributions to provident funds and life insurance policies. Again, the exemption limit under the Central Income Tax Act is Rs. 4,000 in the case of individuals and Rs. 7,000 in the case of Hindu undivided family etc., while under the State Agricultural Income Tax Act the limits are Rs. 3,600 and Rs. 6,000 respectively. On account of these differences, the incidence of Central Income-tax is lower on incomes of individuals etc., up to Rs. 30,000. But on incomes above this level the Central income-tax is higher.

5.11 In regard to companies, the Central Act makes a distinction between foreign companies and domestic companies. Again, under the latter category, companies in which the public have substantial interest are taxed at slightly lower rates. A further distinction exists even among private enterprises, i.e. between industrial companies and others. Under the Agricultural Income Tax Act, all companies are treated alike irrespective of whether they are foreign or domestic, public or private.

5.12 Agricultural income-tax is generally conceived of as a supplement to land revenue, and probably this accounts for the halfhearted manner in which most of the State Governments in India have been taxing agricultural incomes. The States which raise substantial resources from land revenue are not generally keen on imposing agricultural income-tax. In Kerala land tax is being realised only at a low uniform rate without due consideration to the productivity of the land and this probably explains the comparatively greater importance attached to agricultural income-tax in the State. We are not in agreement with this approach to the question of agricultural income-tax. In our view this tax should be conceived of as a supplement to the general income-tax. Elsewhere in this report we are recommending measures for augmenting land revenue. Even if by the adoption of these measures a sizeable revenue is raised from the agricultural sector there is still need and justification to levy agricultural income-tax. Land revenue and agricultural income tax are fundamentally different types of imposts. When non-agricultural incomes are being taxed in a systematic manner by the Central Government, there is no valid reason to exempt agricultural incomes from taxation. Agricultural income-tax is a progressive tax and is related to the ability of the tax-payer. It would thus make up for any possible deficiencies in the system of land taxes and bring greater equity into the system of taxation. It has also to be remembered that the taxes

allotted to the States under the Constitution are inadequate when compared to the functions devolving on them and hence, even on strict revenue considerations, it will not be advisable to give up agricultural income-tax.

Rationalisation of the Rates of Agricultural Income Tax.

5.13 Conflicting views have been expressed before the Committee in the course of the evidence given by individuals and associations in regard to the taxation of agricultural incomes. It has been pointed out that agriculture is a very sensitive sector and that in the context of the heavy food deficit facing the State, the incidence of the tax should be kept as low as possible as an incentive to greater production. A plea has been made for a general lowering of the rates of agricultural income tax on these grounds. As against this, it has been argued from the other side that the agricultural sector has been enjoying considerable benefits by way of subsidies, direct and indirect, when compared to the other sectors of the economy. The agriculturists have also immensely benefited by the higher prices of agricultural commodities and by conditions of scarcity.

5.14 We have carefully examined all these views. As mentioned in an earlier chapter,* the fact that agricultural sector taken as a whole is undertaxed cannot be disputed. This is a sector which has benefited considerably after independence at the expense of the general tax-payer. The available information on size-wise distribution of income indicates that the higher income strata, consisting of landlords and rich peasants, have shared the major part of the benefits arising from the developmental process ever since independence. We, therefore, consider that there is no justification in taxing agricultural incomes on a lower scale than non-agricultural incomes. Keeping in view the need for mopping up additional resources from the rural sector, consistent with the ability to pay of the different income groups we suggest a new rate-structure for agricultural income-tax applicable to individuals etc., and to companies.

(a) *Individuals, Hindu undivided families etc.*

5.15 The salient features of the new rate structure suggested for individuals, Hindu undivided families etc., are given below:—

- (i) The exemption limit applicable to individuals is proposed to be raised from Rs. 3,600 to Rs. 4,000; the limit in the case of Hindu undivided families may be raised from Rs. 6,000 to Rs. 7,000.
- (ii) The upper limit of the zero-tax slab may be raised from Rs. 1,500 to Rs. 2,000.

* Paragraph 4.25 of Chapter 4, and Table XIX at the end of the Report.

- (iii) The facility for compounding of agricultural income-tax at a fixed amount which is now allowed in respect of incomes not exceeding Rs 7,000 is proposed to be extended to incomes not exceeding Rs. 10,000; the compounded rates for the first two slabs of income are proposed to be slightly reduced.
- (iv) Supertax which is now levied separately is proposed to be integrated with the agricultural income-tax; the rates of agricultural income-tax are proposed to be fixed taking into account the element of super-tax also.
- (v) Surcharge is now a nominal levy at 5 per cent of the tax. A progressive surcharge ranging from 5 per cent to 25 per cent is proposed instead.

5.16 The schedule of rates suggested for individuals, Hindu undivided families, etc., (all assesseees other than companies) is given below:—

A. *Compounded rates of tax.*

If the total income does not exceed Rs. 5,000	Rs. 50
If the total income exceeds Rs 5,000 but does not exceed Rs. 6,000	Rs. 125
If the total income exceeds Rs. 6,000 but does not exceed Rs. 7,000	Rs. 250
If the total income exceeds Rs. 7,000 but does not exceed Rs. 8,000	Rs. 325
If the total income exceeds Rs. 8,000 but does not exceed Rs. 9,000	Rs. 400
If the total income exceeds Rs. 9,000 but does not exceed Rs. 10,000	Rs. 475

Note: Surcharge at the rate of 5 per cent of the tax is leviable in addition.

B. *In other cases.*

On the first Rs. 2,000 of the total income	Nil
On the next Rs. 8,000	do. 7 ps. in the rupee.
Do. Rs. 5,000	do. 16 "
Do. Rs. 5,000	do. 22 "
Do. Rs. 5,000	do. 30 "
Do. Rs. 5,000	do. 40 "
Do. Rs. 20,000	do. 50 "
Do. Rs. 20,000	do. 60 "
On the balance of the income	65 "

Note: Surcharge at the following rates is also leviable.

On the first Rs. 30,000 of the total income			5 per cent of the tax leviable.
On the next Rs. 70,000	do.		10 "
Do. Rs. 1,00,000	do.		15 "
Do. Rs. 1,00,000	do.		20 "
On the balance of the income			25 "

5.17. In revising the rate-schedule as above we have tried to rationalise the structure of agricultural income-tax, to lessen the burden of those in the lower income groups and to achieve a greater degree of progressivity than there is at present. We have also considered the divergence between the agricultural and non-agricultural income-tax rate. As the cost of living in urban conditions is obviously higher than in the rural areas it can be argued that there is a case for greater relief to those subjected to non-agricultural income-tax. At the same time, it has been urged by some that, since the assessment of agricultural income is based on physically verifiable facts, there is less scope for hiding income in that sector than in the non-agricultural sector. We are not, therefore, attempting to bring about absolute parity in the incidence of agricultural and non-agricultural income-taxes. All the same, we have made a study of the incidence of Central income-tax and agricultural income-tax at different income levels. This study has revealed that the incidence of agricultural income-tax is appreciably higher in the case of incomes below Rs. 30,000 and that, in the upper income levels, the incidence of Central income-tax is higher. After considering the various aspects of the question, we feel that it is necessary to give some relief to those having incomes below Rs. 7,000; our proposals have been formulated accordingly. We have also provided for some relief; but, our proposals involve an increase in the tax incidence in the higher income brackets. The following table indicates the incidence of agricultural income tax under the existing and proposed rate-schedules at selected income levels:—

Income	Incidence of agricultural income-tax	
	at the existing rates	at the proposed rates
(1)	(2)	(3)
Rs.	%	%
5,000	1.57	1.05
6,000	2.62	2.19
7,000	3.75	3.75
8,000	6.65	4.26
9,000	7.17	4.67
10,000	7.61	4.99

(1)	(2)	(3)
15,000	11.37	19.52
20,000	15.09	12.91
25,000	17.32	16.63
30,000	20.91	20.86
35,000	23.47	26.59
40,000	25.39	30.14
50,000	28.92	35.11
70,000	34.31	34.94
85,000	38.07	48.80
1,00,000	41.66	52.21
2,00,000	55.48	64.66
3,00,000	60.09	70.98
5,00,000	63.77	76.86
10,00,000	66.54	79.06

Since the vast majority of assessees are in the lower income ranges, the above revision of the tax structure will result in fall in revenue to the extent of Rs. 6 lakhs per annum, in spite of the fact that there is appreciable increase in the tax burden on those in the higher income brackets. This indicates that the proposed change will give considerable relief to agriculturists in the lower income groups, which is in keeping with the social objectives underlying the taxation policy of the Government.

(b) *Companies.*

5.18 As mentioned earlier, the Central income-tax laws make a distinction between foreign and domestic companies. This distinction, we consider, may be maintained in the case of agricultural companies also. All domestic companies may, however, be treated on the same footing. We recommend the following rates of tax:

A. *Domestic Companies.*

If the income does not exceed Rs. 25,000—45 per cent of the total income.

If the income exceeds Rs. 25,000 but does not exceed Rs. 10,00,000—55 per cent of the total income.

If the income exceeds Rs. 10,00,000—65 per cent of the total income.

Note: Provision may be made for marginal adjustments of tax between the different slabs mentioned above.

B. *Foreign Companies.*

In the case of a company other than a domestic company—70 per cent of the total income.

5.19 Based on the data for 1966-67, it is estimated that the changes in the rates recommended above will result in an increase of Rs. 36 lakhs per annum in the tax yield from companies which will, however, be offset to the extent of Rs. 6 lakhs in the tax collection from other assessees. Thus taken overall, there will be a distinct improvement in revenue.

5.20 In view of the basic differences in the rate-structure and methods of assessment of individuals etc. and of companies, it will be desirable to prescribe separate forms of return of income for these categories. The forms may be printed in different colours so as to be easily distinguishable.

Aggregation of incomes for the purpose of taxation.

5.21 Under both the Government of India Act, 1935, and the Indian Constitution, agricultural and non-agricultural incomes are treated as two distinct compartments for the purpose of taxation. This is a situation that is peculiar to India. The bifurcation of the income with reference to their origin for purpose of taxation is not in conformity with the concept of a sound taxation policy. This has led to disparities in taxation of agricultural and non-agricultural incomes. The States do not follow any uniform principles for taxing agricultural incomes. Despite the well known fact that the agricultural sector is under-taxed, the States have not generally undertaken any systematic taxation of agricultural incomes. The real solution for the inequities and disparities in taxing agricultural and non-agricultural incomes separately lies in merging the two incomes for purposes of taxation. This can be achieved only by amendments to the Constitution. On the initiative of the Planning Commission there was a discussion on this issue in the National Development Council on December 1 and 2, 1967. Many States were totally opposed even to the idea of introducing agricultural income-tax in the present context. The States levying agricultural income-tax did not generally agree to the merger of agricultural and non-agricultural incomes for the purpose of taxation; only one State supported the idea without any reservations. One State, while agreeing that both the types of income should be taken into account for determining the rate of tax, wanted taxation of agricultural incomes to be retained with the States in any case. Another State thought that the Centre might act as the agency for collecting agricultural income-tax and allocating the proceeds among the States but was opposed to its amalgamation with general income-tax.

5.22 Even now the taxing powers of States have no relation to their functions, responsibilities and obligations and as a matter of principle the States can ill-afford to permit the Centre to make further inroads into the domain of the States. Secondly, the experience of States like Kerala in the matter of substituting sales tax on commodities like textiles, sugar and tobacco by an additional excise duty has

not been encouraging. Most of the States are unhappy about the working of this scheme which was evolved on the basis of sound principles of public finance. There is a feeling among the States that the Union Government has not been very keen in raising the additional excise duties. The manner of distribution of the proceeds of this levy has not been to the satisfaction of all the States. Moreover at a time when the States, particularly the financially weaker ones among them, are finding it difficult to match their resources and their functions, any proposal to diminish their taxing powers will not cut much ice with them. The time is not, therefore, opportune for considering the question of outright centralisation of taxation of agricultural incomes.

5.23 We consider that the anomalies arising out of the present situation of treating agricultural and non-agricultural incomes as different units for taxation should be rectified to the extent possible. The Indian Taxation Enquiry Committee, 1925, had observed as follows:—

“There is ample justification for the proposal that incomes from agriculture should be taken into account for the purpose of determining the rate on which the tax on other incomes of the same person should be assessed, if it proves administratively feasible and practically worthwhile. Possession of agricultural incomes increases a person's capacity to pay and unless agricultural incomes are taken into account for rate purposes, the principle of adjusting income-tax on the basis of ability to pay will be defeated.”

5.24 The Taxation Enquiry Commission, 1953-54, suggested the solution that the States should be allowed to levy a surcharge on agricultural income-tax reference to the non-agricultural incomes of the assessee. But this suggestion does not appear to have been pursued earnestly. Possibly in the processing stage it might have met with legal tangles from which it could not extricate itself.

5.25 We propose an alternative scheme for imposing an additional tax on agricultural income-tax assessee with reference to their non-agricultural incomes. Assessments of agricultural income-tax and general income-tax may continue to be made as at present, under the respective laws. The Agricultural Income Tax Officer (or such other authority competent to make assessments of agricultural income) may collect details of assessments of non-agricultural incomes made by the Central Income Tax Department in the case of persons who have both agricultural and non-agricultural incomes. Their agricultural and non-agricultural incomes may be aggregated and their tax liability on the aggregated income determined under both the Agricultural Income Tax Act and the General Income Tax Act; and the lower of these may be fixed as their tax liability in respect of the combined income. The difference between this amount representing the tax on the combined income and the total of the

taxes paid separately under the State Agricultural Income Tax Act and the Central Income Tax Act may be made payable by the assessee as an additional tax. This additional tax may be levied and collected by the State Government. It appears to us that this scheme can be implemented within the frame-work of the existing provisions in the Constitution. It will suffice if Parliament by virtue of the residuary powers under Entry 97 of the Union List passes suitable legislation empowering the States to levy the additional tax.

5.26. While aggregating agricultural and non-agricultural incomes and determining the total tax liability in the aforesaid manner, there may arise certain exceptional cases, where the tax liability on the aggregated income calculated under the Central Income Tax Act, is lower than the tax paid on the agricultural portion of the income alone. For example, if non-agricultural incomes well below the exemption limit of Rs. 4,000 are added on to taxable agricultural incomes not exceeding Rs. 10,000, the tax liability on the aggregated income under the Central Income Tax Act would, in certain situations, be lower than the tax payable and paid under the Agricultural Income Tax Act on the agricultural income. Such cases arise because family allowance and certain deductions on account of provident fund etc. are allowed under the Central Income Tax Act but not under the State Agricultural Income Tax Act. The object of aggregating the two income is to ensure that persons having both types of incomes do not escape with a lower tax burden, and so there is no question of refunding any part of the tax paid in respect of one type of the income alone. If refund is allowed in such cases, it will lead to inequity in that a person having agricultural income may have to pay a higher tax than another having the same agricultural income and a small non-agricultural income in addition. The proposed legislation may therefore, specifically provide that, in such situations, no refund will be admissible.

5.27. There are cases of persons getting agricultural incomes and non-agricultural incomes, both of which are below the taxable limits. But when these incomes are aggregated they would be liable to tax. Such persons may be made liable to tax in the manner indicated above.

5.28. The aggregation of agricultural and non-agricultural incomes and the determination of additional tax liability will go a long way towards removing the anomalies inherent in the present system. In the absence of data regarding the number of persons in the State who have both the types of incomes we have not been able to estimate the additional revenue that can be realised under this scheme. It is, however, a matter of common knowledge that there are several individuals etc., who have both agricultural and non-agricultural incomes. Therefore, we hope that our proposal, if implemented, would result in

significant increase in revenue to the Government. The scheme can be administered by the State Agricultural Income Tax machinery without much increase in costs. Of course additional staff based on the actual workload may have to be sanctioned in due course; even so the increase in administrative costs will be marginal and will be fully justified by the additional revenue.

5.29 We accordingly recommend that the Government of India may be moved to pass necessary legislation in the matter, enabling the States to levy, collect and utilise the additional tax based on the non-agricultural incomes. As this is a matter of common interest, we hope that the scheme will get the support of other State Governments as well.

5.30 The question will arise whether the additional revenue resulting from the aggregation of incomes from agricultural and non-agricultural sources in the manner suggested by us should not legitimately be shared between the Centre and States. It is a widely accepted fact that the States are in need of more resources to discharge their functions satisfactorily, and we hope that the Centre would not grudge the States appropriating the entire collections from the above source.

5.31 Our attention has been drawn to the divergent provisions in the general income-tax and State agricultural income-tax laws in regard to the time allowed for finalising assessments. For completing an assessment, the Income Tax Act (Section 153) allows four years' time from the end of the assessment year in which the income becomes first assessable, while the Agricultural Income Tax Act (Section 35) allows only three years. This has created certain problems in the matter of finalising the assessments relating to tea plantations. In the case of tea plantations the assessment to agricultural income tax can be taken up only after completing the income tax assessment, because statutorily agricultural income is reckoned as sixty per cent of the total income computed for the purpose of the general income-tax. Thus, where the general income-tax assessment of a tea plantation is delayed beyond three years the assessment to agricultural income tax will get time-barred. This difficulty can be got over by reducing the time-limit for finalising assessments to general income-tax. Again, our proposal for aggregating agricultural and non-agricultural incomes for the purpose of imposing an additional tax would also necessitate such a course. In this context we may refer to the finding of the Administrative Reforms Commission's Working Group on Central Direct Taxes Administration. According to them the long period of limitation provided for in the Income Tax Act has not only tended to increase arrears but has also occasionally become an instrument of harassment to the assessee. In their view, the income tax officer, should not, in the present situation, require more than two years to complete the assessment and have accordingly recommended, that the time-limit might first be reduced to three years and later on to two years. We would urge that the Government of India might

be moved to implement the above recommendation by amending the Income Tax Act as early as possible.

Administration.

5.32 A single department administers both agricultural income-tax and sales-tax though there is not much common ground in the administration of the two taxes. One is a tax on incomes while the other is a tax on commodities. The problems involved in the administration of these two taxes are entirely different. Not only is the tax base different but the methods of assessment and collection are also dissimilar. A Sales Tax Officer who has not had previous experience in the agricultural income-tax wing will find himself in deep waters if suddenly called upon to work as an Agricultural Income Tax Officer. It was only by historical coincidence that these two taxes happened to be administered by a single department. When the general income tax was taken over by the Centre under the provisions of the Constitution, the administration of the agricultural income tax was entrusted to the Sales Tax Department which was a comparatively young department then just getting into stride.

5.33 There is an impression, which is not unfounded, that the administration of agricultural income-tax does not get as much attention as that of sales tax. From the revenue point of view, 'sales-tax' easily overshadows 'agriculture income-tax' and hence when the same department is in charge of both the taxes, it is natural that the problems relating to agricultural income-tax do not get equal attention in view of its limited tax potential. Moreover, the Agricultural Income Tax Officers have to depend on the land revenue department to get the basic data required for assessment. Very close liaison with the village staff is essential for successful administration of agricultural income-tax laws. In the course of inspection of plots, the Agricultural Income Tax Officer has often to seek the assistance of the Village Officer to have the plots properly identified. The administration of plantation tax is another area, where co-ordination with the Agricultural Income Tax personnel on assessment matters is essential. There is, therefore, greater inter-dependence between the Land Revenue Department and the agricultural income-tax wing.

5.34 *Prima facie*, therefore, it would appear that there is a case for complete integration of the administration of agricultural income-tax with the machinery for the collection of land revenue. Such integration would, however, result in mobility of personnel from the agricultural income-tax branch to the land revenue branch. We are afraid that, in that process, the specialisation and expertise acquired by the staff administering the agricultural income-tax law might get diluted, whereas what is really required is greater specialisation and expertise. Furthermore, integration of staff of any two departments will create "cadre" problems—the problem of fixing the relative rank

of the personnel who previously belonged to separate services. Considering the various implications of the question, we are inclined to recommend that the agricultural income-tax wing may be separated from the sales-tax administration and retained as a separate department and put under the control of the Member in charge of land revenue in the Board of Revenue. There will then be no mobility between the personnel belonging to the agricultural income-tax and sales-tax services and the specialisation and expertise acquired by the former will remain with them. At the same time, there will be greater liaison between the staff of the land revenue and agricultural income-tax departments, because both these establishments will come under the same Member. Executive instructions will, of course, have to be issued by the Board of Revenue to ensure the maximum co-operation between the two separate branches of staff.

5.35 The strength required under the different cadres forming the new Agricultural Income Tax Department may be fixed and then the posts may be filled up after ascertaining the willingness of the personnel belonging to the existing Agricultural Income Tax and Sales Tax Department. If sufficient number of persons are not opting for the new service the remaining posts may be filled up by following the usual recruitment procedures.

5.36 The Agricultural Income Tax Wing is at present organised as follows:—

There are two Inspecting Assistant Commissioners—one at Kozhikode and the other at Kottayam. The former has jurisdiction over the three districts of Cannanore, Kozhikode and Palghat while the latter has jurisdiction over the remaining six districts. These Inspecting Assistant Commissioners are the assessing authorities for agricultural incomes exceeding rupees one lakh. Assessments of incomes below this limit are made by the Agricultural Income Tax Officers and Junior Agricultural Income Tax Officers in the following manner:

Junior Agricultural Income Tax Officer—Incomes not exceeding Rs. 5,000.

Agricultural Income Tax Officer—Incomes exceeding Rs. 5,000 but not exceeding rupees one lakh.

Under the Inspecting Assistant Commissioner, Kottayam, there are 14 Agricultural Income Tax Officers and 13 Junior Agricultural Income Tax Officers. Under the Inspecting Assistant Commissioner, Kozhikode, there are 14 Agricultural Income Tax Officers and 15 Junior Agricultural Income Tax Officers. The Junior Officers do not have separate offices but are attached to the offices of the Agricultural Income Tax Officers and have jurisdiction over the same area as the latter. There are no separate Deputy Commissioners for the agricultural income tax branch; nor is there any separate appellate

machinery. The appeals are heard by the Appellate Assistant Commissioners and the Tribunal which are common to both sales-tax and agricultural income-tax.

5.37 When the administration of agricultural income-tax is separated from the sales-tax Department as suggested by us, certain organisational changes may be necessary. The ideal pattern will be to have a separate district organisation for each district under a whole-time Assistant Commissioner. But such a pattern will lead to needless proliferation of staff and push up administrative costs appreciably. For example in Trivandrum district there is only one Agricultural Income-tax Office manned by one officer and one Junior officer and it is not necessary to have a whole-time Assistant Commissioner to be in charge of the district organisation. Hence the present field organisation upto and including the level of Assistant Commissioner may continue for the present. At the State headquarters a post of Deputy Commissioner may be sanctioned in the office of the Board of Revenue with powers of supervision over the agricultural income-tax organisation throughout the State. He may also function as ex-officio Additional Secretary to the Board of Revenue to enable him to function in the Board's Office. The Member in charge of Land Revenue may be designated as Commissioner for Agricultural Income Tax also.

5.38 The Deputy Commissioner may hear appeals on the assessments of the Assistant Commissioners. For hearing appeals against the orders of the Agricultural Income Tax Officers and Junior Agricultural Income Tax Officers, two posts of Appellate Assistant Commissioners with headquarters at Trivandrum and Calicut may be sanctioned. The Sales Tax Appellate Tribunal may continue to deal with second appeals as at present.

5.39 While considering the constitution of a separate department the question of promotion prospects for the staff assumes some importance. Our proposals involve the creation of two additional posts of Assistant Commissioners and one new post of Deputy Commissioner with the necessary complement of office staff. Elsewhere we are recommending a systematic survey of agricultural holdings throughout the State with the main object of expanding the coverage of the tax net. That would obviously necessitate some strengthening of the administrative machinery. In other words, some expansion of the organisation in general and strengthening of the establishment at senior levels are inherent in our proposals, and we think that, considering the size of the department, the staff will have adequate chances of promotion.

Assessment of agricultural incomes.

5.40 Criticisms were made before us by some members of the public regarding the manner in which agricultural income-tax assessments were made. Briefly stated, they are:

- (i) Assessments are made in an arbitrary manner by assuming trend increases in yield from year to year.
- (ii) Agricultural plots are not properly inspected.
- (iii) Production varies from season to season and from year to year. Due allowance is not made for fall in production due to drought and other unfavourable conditions.
- (iv) Cultivation expenses allowed are meagre and inadequate.
- (v) Many legitimate items of expenditure are disallowed in computing the taxable income.

5.41 We have examined these matters carefully, and have held discussions on the subject with the Member, Board of Revenue, in charge of agricultural income-tax, and with other senior officers of the department. We also had a few assessment files examined for the purpose of getting a first-hand knowledge of the procedures followed in assessments. We find that there is scope for improving the quality and efficiency of inspections. It is true, targets have been set for the officers at various levels in the matter of inspections; if these targets are fulfilled and the inspections conducted in the proper manner, there can be no legitimate ground for complaints on this score. The mere fulfilment of the schedule of inspections laid down will not serve much purpose; the collection of basic data regarding yield and prices of crops, cultivation expenses etc., relating to the various localities should be the aim of such inspections. It is the failure to take into account the variations regarding yield, cultivation expenses etc., depending on the nature of the soil, locality and other relevant factors that gives room for public criticisms. It should be ensured that every plot is inspected thoroughly before it is assessed to tax for the first time. Also, when an assessee specially asks for an inspection of his holding his request should be complied with. One difficulty in completing the schedule of inspections is the lack of transport facilities. Provision of departmental vehicles will greatly facilitate the work of the assessing officers.

5.42 The complaint that the cultivation expenses allowed are not adequate seems to have some basis. The assessing officers are given guidelines in regard to the ceilings of cultivation expenses to be allowed for various types of crops. These ceilings are often fixed conservatively. At the same time, income-estimation also errs very much on the conservative side. The assessees naturally make much of the inadequacy of the cultivation expenses, but really they stand to gain by the underestimation of incomes. In this bargain the Department loses both revenue and the good will of the public. It is our considered view that underestimation of expenses is equally unjustified as underassessment of incomes and that, while income should be assessed strictly, cultivation expenses should also be allowed on a more realistic basis.

5.43 It seems to us that the major handicap facing the assessing authorities is the difficulty in getting necessary data from the Land Revenue Department. They should be able to function in close liaison with the personnel of the Revenue Department and share the knowledge of local conditions which the latter have. There have been cases where inspections by Agricultural Income Tax Officers have been challenged in appeal, on the ground that the plots have not been properly identified. This situation has been brought about by lack of co-ordination between the personnel of the Agricultural Income Tax and Land Revenue Departments. Our earlier suggestion to constitute a separate department for the administration of agricultural income-tax and to place it under the control of the Member in charge of land revenue in the Board of Revenue would go a long way in removing the existing handicaps.

5.44 Coming to the workload, we find that, though there may be individual cases of officers burdened with too heavy a workload, the department as whole has sufficient number of officers to cope with the total work. During the year 1966-67 there were 19570 assessees in the books of the department as follows —

<i>Grade of income</i>	<i>No. of assessees including companies</i>	<i>Assessing authority</i>
Up to Rs. 5,000	8,147	Junior Agricultural Income Tax Officer
From Rs. 5,001 to Rs. 7,000	5,280	Agricultural Income Tax Officer.
„ Rs. 7,001 to Rs. 10,000	3,076	do.
„ Rs. 10,001 to Rs. 1,00,000	2,991	do.
Above Rs. 1,00,000	76	Inspecting Assistant Commissioner.
	<u>19,570</u>	

5.45 The average number of assessees an officer of each category has to deal with is given below:

Junior Agricultural Income Tax Officer	290
Agricultural Income Tax Officer	405
Inspecting Assistant Commissioner	38

According to the existing orders on the subject a norm of 450 assessments has been fixed as the workload of agricultural income tax officers and 500 assessments as the workload of junior agricultural income tax officers. Since all the cases to be dealt with by the junior officers could be compounded, it would not be difficult for them to attend to 500 assessments. But the position is different in the case of assessments to be dealt with by the agricultural income

tax officers. A large proportion of the cases to be attended to by them requires careful scrutiny. There is therefore, a case for reducing their workload; in our opinion no agricultural income tax officer should be given more than 300 assessments to be attended to. One way of reducing his workload is by enhancing the power of junior agricultural income tax officers. Several departmental officers have suggested that the junior officer might be invested with powers of assessment of incomes not exceeding Rs 7,000. We are inclined to agree with this suggestion, and accordingly recommend that the Junior Agricultural Income Tax Officers may be given powers to assess incomes not exceeding Rs 7,000. The Junior Agricultural Income Tax Officer will then have to deal with 500-550 assessees on an average; and the Agricultural Income Tax Officer with 200-250 assessees. This will give considerable relief to the latter, who can devote proper attention to the really important cases.

5.46 In the ultimate analysis, the quality of assessment depends on the efficiency, sense of fairness and justice of the assessing officer. It is not enough if justice is done; it is also necessary to create such an impression in the public mind. The feelings of the assessee have to be taken into account and the officers should look into all their legitimate grievances, apart from the statutory appeals, with a sense of understanding and an attitude of helpfulness.

Exemptions from Taxation.

(a) *Incomes derived from lands not assessed to land revenue.*

5.47 Agricultural income has been defined in the Act as any rent or revenue derived from land which is used for agricultural purposes and is either assessed to land revenue in the State or subject to a local rate assessed and collected by officers of Government as such; or any income derived from such land by agriculture etc. It follows from this definition that only if the land is assessed to land revenue or any local rate will the income accruing therefrom be taxable under the State Agricultural Income Tax Act. We understand that some revenue is being lost owing to the above restriction in the levy of agricultural income-tax. For example the incomes from unsurveyed private forests and unsurveyed estates in Malabar area, from cardamom plantations in encroached lands in the High Ranges, and from temporary cultivations in forest areas under taungya leases, escape taxation. Such incomes are also of the nature of agricultural income as they are derived from agricultural operations. Whether the land from which income is derived is assessable to land tax or not is a wholly irrelevant consideration, for agricultural income tax is not a tax on land but a tax on income. We feel that it is anomalous to exclude incomes from such lands from the scope of agricultural income-tax.

5.48 We are informed that the above position has been brought about by the recent amendment of the definition of agricultural income in conformity with the provisions of the Indian Income Tax Act. Under Article 366(1) of the Constitution it is mandatory that the State has to accept the definition of agricultural income given in enactments relating to general income-tax.

5.49 The anomaly can therefore be rectified only by amending the definition of agricultural income in the Indian Income Tax Act. The circumstances under which incomes from lands not assessed to land revenue are not treated as agricultural income are not known. Even if, at the time of the original enactment relating to income-tax there was any valid ground for this distinction, the times have changed and so too the circumstances. We, therefore, recommend that the Government of India may be moved to amend the definition of agricultural income in the Indian Income Tax Act with a view to removing the constraint that the land should be assessed to land revenue in the State or subject to a local rate. This will enable the State Government to lay their hands on certain types of income which now escape taxation.

(b) *Incomes from lands held under trust or other legal obligation.*

5.50 Under Section 4(b) of the Agricultural Income Tax Act any agricultural income derived from property held under trust or under other legal obligation for religious or charitable purposes is not taxable. It has been represented before us that the benefit of the above exemption is not extended to all wakf properties and that a specific provision may be incorporated in the Act to enable all wakfs to enjoy this exemption. On an examination of the position with reference to the provisions in the Act, we find that Muslim Wakfs come under the scope of trust or other legal obligation mentioned in Section 4(b) of the Act. If, therefore, any Wakf property satisfies the conditions given therein for exemption from income taxation, the Department allows the exemption. But in cases where the Wakfs do not satisfy these conditions, tax is levied. To get the benefit of exemption the Wakf should be one created for religious or charitable purposes. Wakfs are sometimes constituted for purposes which are not religious or charitable and exemption is not allowed in such cases. There is no case for a general exemption of all wakf properties.

5.51 We find that the provisions in the State Agricultural Income Tax Act regarding the exemption of incomes from property held under trust or other legal obligation have a wider scope than the corresponding provisions in the Indian Income Tax Act. There are certain salutary restrictions in the latter Act. For example, if the income from a trust ensures directly or indirectly for the benefit of the author of the trust or any relative of the author, the income

does not qualify for exemption. We suggest that Government may examine whether suitable restrictions may not be imposed to prevent abuse of the existing provisions regarding exemption. In this context, we would urge that a complete review may be undertaken on the question of exempting incomes from lands held under trust for religious or charitable purposes.

Evasion of agricultural income-tax.

5.52 Our preliminary study of the working of the Department has shown that the vulnerable point in the administration is inspection. It needs no emphasis that an important safeguard against evasion of tax is systematic inspection. The increase in farm incomes brought about both by higher production and by higher prices has not resulted in a corresponding increase in tax revenue. The obvious explanation can only be that there is under-assessment of incomes as well as complete or partial escapement from tax. A survey of agriculture holdings in a few selected villages was therefore conducted by our staff to find out the extent of evasion of tax. Eleven villages were covered by the survey. Considering the limitations of time and persons at our disposal, a comprehensive enquiry into the yield and incomes of all the holdings in the villages selected was not possible. Only a survey of a percentage of the plots in different area-wise groupings could, therefore, be attempted. The plots were selected on the basis of purposive sampling so as to have the maximum coverage of holdings having an extent of more than five acres. A report on the survey is given as Appendix IX to this Report. The results of the survey are summarised in the following table:—

TABLE

Sl. No.	Village	District	According to the existing rates of agricultural income-tax				According to the proposed rates of agricultural income-tax			
			No. of holdings that can be assessed			Estimated additional revenue	No. of holdings that can be assessed			Estimated additional Revenue
			10 acres and above	5 acres and above but below 10 acres	below 5 acres		10 acres and above	5 acres and above but below 10 acres	below 5 acres	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Vembayam	Trivandrum	25	57	..	19,600	22	21	..	12,500
2	Vettikalava	Quilon	22	8	..	4,800	18	4	..	2,900
3	Paravoor	"	..	..	..	..	..	..	..	..
4	Chethakkal	"	36	90	300	94,000	34	82	90	56,000
5	Anickad	Kottayam	19	30	..	6,200	13	6	..	2,900
6	Manimala	"	31	45	..	13,000	30	34	..	9,700
7	Mazhuvannur	Ernakulam	32	26	..	6,210	20	9	..	3,000
8	Udumbannur	"	20	55	..	14,000	20	50	..	11,900
9	Pananchery	Trichur	43	55	..	25,000	43	36	..	18,700
10	Pazhanji	"	2	28	36	14,000	2	28	35	11,700
11	Manathala	"	3	6	..	2,200	3	63	..	2,000
						1,99,000				1,31,300

5.53 Besides the survey, we inspected some agricultural holdings in various parts of the State along with the assessing officers to get an idea regarding the manner in which the assessments are actually done. The impression we have gained is that there is some degree of under-assessment in the matter of both yield and expenses, and that, if the assessments are done more correctly, there will be a general increase in revenue.

5.54 We are, therefore, convinced that the collections from agricultural income-tax could be considerably improved by gearing up the departmental machinery. Since, however, our survey has been extremely limited in scale and is not based on sound statistical methods, it is not possible to project the results of the survey to the entire State. To make a realistic assessment of the extent to which agricultural incomes escape the tax net it is advisable to arrange for an initial survey of agricultural holdings throughout the State. It might also involve some strengthening of the regular departmental machinery. We, therefore, recommend that a systematic survey of agricultural holdings throughout the State may be undertaken. It is hoped that a more accurate determination of incomes in this manner will lead to a substantial increase in revenue. A phased programme for the survey and de novo assessment of agricultural incomes may be drawn up and implemented as early as possible. The target should be to complete the work within a period of two years.

Summary of conclusions and recommendations.

- (1) The exemption limit for the purpose of agricultural income-tax may be raised from Rs 3,600 to Rs 4,000 in the case of individuals and from Rs 6,000 to Rs 7,000 in the case of Hindu undivided families and others mentioned in Part I of the Schedule to the Agricultural Income Tax Act.
(paragraph 5.15)
- (2) The upper limit of the zero-tax slab may be raised from Rs 1,500 to Rs 2,000.
(paragraph 5.15)
- (3) The facility for compounding may be extended to incomes not exceeding Rs 10,000.
(paragraph 5.15)
- (4) Supertax may be integrated with the basic agricultural income-tax.
(paragraph 5.15)
- (5) The schedule of rates of agricultural income-tax in respect of assesseees other than companies may be revised as suggested in paragraph 5.16, which would lessen the tax burden.

of those in the lower income ranges and ensure a greater degree of progressivity.

(paragraph 5.16)

- (6) Foreign and domestic companies may be taxed at different rates, the tax-rate being higher in the case of foreign companies. The rate-structure may be as suggested in paragraph 5.18.

(paragraph 5.18)

- (7) It will be desirable to prescribe separate forms of return of income for companies and for other assessees.

(paragraph 5.20)

- (8) To enable State Governments to collect an additional tax by aggregating agricultural and non-agricultural incomes in the manner indicated in paragraph 5.25 the Government of India may be moved for getting suitable legislation passed by Parliament exercising the residuary powers under Entry 97 of the Union List

(paragraph 5.25)

- (9) The Government of India may be moved to amend the Indian Income Tax Act with a view to reducing the time-limit for completing assessment to general income-tax from four years to three years.

(paragraph 5.31)

- (10) The agricultural income-tax wing may be separated from the sales-tax administration and retained as a separate department and put under the control of the Member in charge of land revenue in the Board of Revenue. Suitable instructions may also be issued by the Board of Revenue to ensure maximum co-operation between the personnel of the Land Revenue and Agricultural Income-tax Departments.

(paragraph 5.34)

- (11) The strength required under the different cadres forming the new agricultural income tax department may be fixed and then the posts may be filled up after ascertaining the willingness of the personnel belonging to the existing agricultural income-tax and sales-tax department. If sufficient number of persons are not opting for the new service the remaining posts may be filled up by following the usual recruitment procedures.

(paragraph 5.35)

- (12) In the new set-up two additional posts of Appellate Assistant Commissioners and one post of Deputy Commissioner at the State headquarters, who may also function as ex-officio Additional Secretary to the Board of Revenue, may be created. The Sales Tax Appellate Tribunal may continue to deal with second appeals as at present.

(paragraphs 5.37 and 5.38)

- (13) It should be ensured that every plot is inspected thoroughly before it is assessed to agricultural income tax for the first time. Also, when an assessee specifically asks for an inspection of his holdings his request should be complied with.

(paragraph 5.41)

- (14) Provision of departmental vehicles will greatly facilitate the work of the assessing officers.

(paragraph 5.41)

- (15) Under-estimation of expenses is equally unjustified as under-assessment of incomes; while incomes should be assessed strictly, cultivation expenses should also be allowed on a more realistic basis.

(paragraph 5.42)

- (16) The work-load of the agricultural income-tax officers may be reduced from the existing norm of 450 assessments to 300.

(paragraph 5.45)

- (17) Junior agricultural income-tax officers may be invested with powers of assessment of incomes not exceeding Rs. 7,000 as against the existing limit of Rs. 5,000.

(paragraph 5.45)

- (18) The Government of India may be moved to amend the definition of agricultural income in the Indian Income Tax Act for removing the constraint that only lands assessed to land revenue or a local rate could be subjected to the levy of agricultural income tax.

(paragraph 5.49)

- (19) Wakf properties satisfying certain conditions are already entitled to exemption from agricultural income-tax. There is no case for a general exemption of wakf properties.

(paragraph 5.50)

- (20) Government may examine whether suitable restrictions on the lines provided in the Indian Income Tax Act may not be imposed to prevent the abuse of the existing provisions regarding exemption of incomes from properties held under trust or other legal obligations. A complete review may be undertaken on the question of exempting incomes from lands held under trust for religious or charitable purposes.
(paragraph 5.51)
- (21) A systematic survey of agricultural holdings throughout the State may be undertaken with the object of bringing under the tax net all those who have so far escaped taxation.
(paragraph 5.54)

CHAPTER 6

SALES TAX

Historical Background

6.1 Sales tax was in existence in the constituent units of the Kerala State from different dates—in the Malabar area from 1939, in the Cochin area from 1946 and in the Travancore area from 1949. The sales tax systems prevalent in the Travancore and Cochin areas were unified soon after the integration of the States of Travancore and Cochin in 1949. The scheme of taxation contemplated under the Travancore-Cochin General Sales Tax Act was in general a multi-point one at the rate of three pies for every rupee on the total turnover with additional tax at rates ranging from 3 pies to 9 pies per rupee at specified single points in respect of certain classes of goods and exemption in respect of some others. At the same time, in respect of a few items of goods the scheme of taxation was a single-point one. The assessable minimum limit was a net turnover of Rs. 10,000.

6.2 The first amendment to the Travancore-Cochin General Sales Tax Act was made by Act 28 of 1950 which introduced an additional tax at four annas per rupee on the first sale of tobacco. This was done to compensate the loss in customs duty on tobacco consequent on the federal financial integration.

6.3 An important land mark in the evolution of sales tax law in the State is the amendment made by Act 12 of 1951 consequent on the passing of the Constitution. Before the passing of the Constitution, each State or Province exercising either its sovereign legislative powers or powers under the Government of India Act 1935 enacted sales tax laws disregarding their incidence and impact on inter-State trade or commerce. This led to multiple taxation in inter-State trade or commerce resulting in cumulation of burden falling ultimately on the consumers. This situation influenced the framers of our Constitution to incorporate Articles 286, 301 and 304 in the Constitution with a view to provide reasonable restrictions on the power of the States to tax sales or purchases involving inter-State movements of goods. After the Constitution came into force, most of the States amended the definition of "sale" in their Acts to bring it in line with the provisions of Article 286. This Article lays down certain restrictions on the imposition of tax on the sale or purchase of goods. Accordingly, no tax is leviable on the sale or purchase of goods if the sale or purchase takes place outside the

State or in the course of import into or export out of the territory of India. But, under the provisions of the Travancore-Cochin General Sales Tax Act,* 1125, tax was leviable on the sale or purchase of the goods, wherever the contract of sale or purchase might have been made, if the goods were actually in the State at the time when the contract was concluded. It therefore became necessary to amend the Act in order to make its provisions conform to the provisions of Article 286 of the Constitution. Accordingly, a new Section which restates the restriction laid down in Article 286 was introduced in the Travancore-Cochin General Sales Tax Act.

6.4 In 1952 the additional tax on petrol was substantially enhanced from 9 pies to one anna 9 pies per rupee by Act 13 of 1952.

6.5 The next important development was the levy of tax on certain categories of inter-State sales, commonly known as "explanation sales", on the basis of the judicial pronouncement by the Supreme Court of India in the case of "The State of Bombay and Another versus the United Motors (India) Ltd., and others". In that case, the Supreme Court held that the explanation to Article 286(i) of the Constitution provided by means of a legal fiction that the State, in which the goods sold or purchased were actually delivered for consumption was the State in which the sale or purchase was to be considered to have taken place notwithstanding the fact that the property in such goods passed in another State and that State had the power to tax the sales or purchases. Relying on this interpretation, several State Governments began to serve notices on dealers in other States, demanding sales tax and calling for their accounts in respect of such inter-State transactions. The dealers protested strongly. A conference of Finance Ministers was convened by the Government of India to consider the situation. This conference set up an official committee which evolved a scheme for the levy of tax on inter-State sales to be followed uniformly by all State Governments. The Government of Travancore-Cochin decided to levy tax on inter-State sales from 1st April, 1953, in conformity with this scheme. Accordingly the tax was payable by non-resident dealers selling goods for delivery and consumption in the State.

6.6 In 1955, in the light of experience gained till then, a number of major modifications were made in the provisions of the Act by Act 18 of 1955 which came into force on 1st October, 1955. The most important of them were the following:—

- (i) Provision was made for the appointment of an independent Judicial Tribunal to hear appeals against the orders of the Appellate Assistant Commissioners and suo motu orders of the Deputy Commissioner.

* Malayalam Era.

- (ii) The officers of the Sales Tax Department were empowered to seize account books and documents in certain circumstances.
- (iii) The list of items under single-point system of taxation was enlarged.
- (iv) Handloom cloth was exempted from the levy of sales tax.
- (v) An additional tax on fine and super-fine mill-made textiles was introduced to compensate the loss due to exemption of handloom cloth from tax.

Another change brought about in 1955 was that petrol and motor spirit other than petrol were brought under the single-point scheme of taxation by Act 25 of 1955 at the rates of 2 annas 3 pies and 9 pies respectively.

6.7 During the year 1955, the State had to face a serious situation regarding the levy of tax on inter-State sales owing to the decision of the Supreme Court in Bengal Immunity Company Vs State of Bihar. Overruling its own earlier decision in another case, the Supreme Court gave its authoritative interpretation of Article 286 of the Constitution and laid down that the States had no powers to tax inter-State sales. This decision caused much confusion regarding the levy of tax. Several States including Travancore-Cochin had by that time collected tax from non-resident dealers; steps for collection were also in progress in respect of several others. In this situation the Government of India had to step in by promulgating the Sales Tax Laws Validation Ordinance 1956 (which was later on replaced by an Act of Parliament) to validate the levy of tax on inter-State sales or purchases for the period 1-4-1951 to 6-9-1955.

6.8 The difficulties caused by the conflicting judicial decisions on the scope of article 286 of the Constitution had to be resolved. The Taxation Enquiry Commission (1953-54) had recommended the amendment of the Constitution empowering the Central Government to levy tax on inter-State sales and purchases of goods other than newspapers. Accordingly, the Constitution was amended by the Constitution (Sixth Amendment) Act, 1956 enabling Parliament to make laws to formulate principles for determining when a sale or purchase of goods took place outside a State and in the course of import of the goods into, or export of the goods out of, the territory of India. A new entry was also introduced in the Union List empowering the Central Government to levy taxes on the sale or purchase of goods other than newspapers where such sale or purchase took place in the course of inter-State trade or commerce. Pursuant to the afore-said changes, the Government of India introduced a Bill in Parliament on 21st November, 1956 which was passed as the Central Sales Tax Act 1956 (Act 74 of 1956). This Act came into

force on 5th January 1957. It enabled the State Government to impose on behalf of the Central Government a tax on the sale or purchase of goods in the course of inter-State trade or commerce. The levy of tax under the Central Sales Tax Act 1956 began from 1st July, 1957.

6.9 It was in 1957 that the "Travancore-Cochin General Sales Tax Act 1125*" renamed as "General Sales Tax Act 1125*" was extended to the Malabar area by Act 12 of 1957. This Act also brought under the single-point scheme of taxation a large number of commodities by the insertion, for the first time, of a schedule of 40 items of goods in the Act. This was a substantial change in the scheme of taxation which originally was almost a multi-point one.

6.10 On 1st September 1957, the Kerala Surcharge on Taxes Act 1957 (Act 11 of 1957) came into force. By this Act, surcharge on sales tax was levied at the rate of 2½%, in case the turnover exceeded Rs. 30,000. (The rate of surcharge was enhanced to 5% with effect from 1st April 1960).

6.11 Another important change took place in the structure of sales tax in the State in 1957. From 14th December 1957 the Central Government, after consulting the States, began levying an additional excise duty on mill-made textiles (other than pure silk), sugar and tobacco and the State gave up the tax on the sale or purchase of these commodities. The State was, however, compensated for the loss in revenue consequent on the abandonment of the sales-tax on the above items. The amount of compensation has been re-determined from time to time by the Finance Commissions. A minimum amount was also guaranteed to the State by the Central Government at the time of the above change.

6.12 In 1958 changes were made in the rates of tax on luxury goods. The rates of sales tax on luxury goods varied from State to State and this led to diversion of trade and evasion of tax. The National Development Council, therefore, agreed to a system of uniform levy of sales tax on luxury goods. The Conference of the Finance Ministers considered the subject further, and unanimously agreed that a uniform rate of tax at 7 per cent on single-point system should be levied on certain items of luxury goods in all States. Those States which were levying taxes at higher rates till then were allowed to continue the higher rates. Schedule I of the General Sales Tax Act was amended suitably. A few more items were also added on to the Schedule.

6.13 In 1961 further major changes were made in the provisions of the Act. Food grains which were exempted from tax were

* Malayalam Era.

made taxable under the single-point scheme, the point of levy being the first sale in the State. Rice sold through fair-price shops was, however, exempted from the levy. Provision for payment of tax at compounded rates in respect of dealers with a turnover of not more than Rs. 25,000 was made for the first time as a measure of relief to small dealers. And the rate of tax on foreign liquor was enhanced from 25 per cent to 40 per cent.

6.14 In 1962 the single-point system of taxation was made more broad-based by the substitution of a new Schedule consisting of as many as 80 items for the existing Schedule I to the Act. This was done taking into consideration the recommendations of the High Level Sales Tax Committee.

6.15 The High Level Sales Tax Committee headed by Shri P. S. Nataraja Pillai, Ex-Finance Minister, was set up in November 1960 to study the entire sales tax system and make a comprehensive report on all aspects of sales tax law and administration. There had been a persistent demand for simplifying the sales tax system. At the same time the Government also felt the need for tightening up the administration and plugging up loop-holes in law leading to evasion. The Committee, after a detailed study of the question and after taking evidence from representatives of trade, plantations and local bodies, members of the Legislature and other public men, officers, etc., submitted its report in March 1961. It also submitted the draft of a new sales tax bill. After a careful study of the report and the draft bill, the Government introduced a new bill which was passed and came into force from 1st April, 1963. The Kerala General Sales Tax Act 1963 (Act 15 of 1963) is, thus, the prevailing law on sales-tax. An amendment was soon made to this Act raising the general rate of sales tax from 2 per cent to 3 per cent and the rate of tax on luxury items in Schedule I from 7 per cent to 10 per cent. These changes were also given effect to from 1st April, 1963. A further amendment to the Kerala Sales Tax Act was made in 1967 by which the tax on luxury items was raised to 12 per cent and a few items were omitted from Schedule I and brought under the multi-point scheme.

6.16 In view of the importance of the sales tax in State finances, the working of the tax system has been subjected to searching studies from time to time. Two Committees—one set up by the former Travancore-Cochin Government and the other by the Kerala Government—had studied the question and made recommendations to improve its working. Unlike other categories of tax payers, traders and businessmen form an organised sector of the community and they are able to put across their views effectively. These factors combined with the growing revenue needs of the State Government account for the series of changes brought about in the sales tax system from time to time.

Existing system

6.17 The sales tax system as now existing has been evolved by adaptations made from time to time to the changing shifts in trade and commerce, to the increasing ramifications of inter-state sales and to the growing fiscal needs of the State Government. The tax-structure has also undergone changes on the basis of judicial verdicts and the restrictive provisions of the Constitution. From the revenue point of view, sales tax is the most efficient weapon in the fiscal armoury of the State. It is the most buoyant and flexible source of State revenue. The yield from sales tax has gone up by over five times during the last decade, i.e., from Rs. 4.9 crores in 1957-58 to Rs. 26.3 crores in 1967-68. According to the budget estimates for 1968-69, sales tax accounts for nearly 49 per cent of State Taxes and duties.

6.18 The State's sales tax system is a combination of single-point and multipoint levies. Under the First Schedule to the Kerala General Sales Tax Act, as many as 66 items of goods are taxed at single point at rates ranging from 1 per cent to 50 per cent. These goods fall under the following categories:

- (i) Luxury goods which are generally used by people in the higher income groups and which can, therefore, be taxed at higher rates. †
- (ii) Goods which generally pass through not more than one or two intermediate points between the producer or manufacturer and the consumer.
- (iii) Goods which are necessities of life and which can bear only a nominal tax.

Single point tax is also levied on a few items of goods declared as goods of special importance under the Central Sales Tax Act. These are generally raw materials which figure largely in inter-State transactions. The maximum rate of tax that can be levied on these articles has been fixed at 3 per cent by the Government of India. Schedule II to the Sales Tax Act enumerates the goods and the rates of tax applicable to them. All goods not coming under Schedules I and II are subject to multipoint tax at the rate of 3 per cent, unless they are specifically exempted either under the statute or by notification. The incidence of tax on the generality of goods is on sales; on a few items which are mainly agricultural products the tax is levied at the purchase point.

6.19 The systems of sales tax in other States also follow more or less the same pattern. In some States like Maharashtra and Gujarat tax on certain commodities is levied at two points. Under the scheme of double point levy, the tax is split up and imposed at the first point and at the last point in the chain of transactions.

Though generally speaking a mixed pattern of single-cum-multipoint taxation is in force in all the States, there are subtle differences which can be explained by the condition of the economy in which the tax system operates. For example, industrialised States follow a predominantly single point or double point system of taxation, while States with a rural economy depend on multipoint tax combined with single point tax on selected commodities.

Suggestions for tax reform

6.20 Various suggestions have been put forward by individuals and associations representing trade and commerce for making drastic and fundamental changes in the sales tax system. We have given our careful consideration to all these points of view.

6.21 One suggestion is that all commodities may be taxed at a low uniform rate of, say 1 per cent on multipoint basis. It is argued that the existing differences in the rates and points of levy make accounting difficult. A trader dealing in goods taxable at various rates on different points has to maintain separate accounts for each type of goods. Exemptions of certain goods add to the complication. It is claimed that the suggested change will minimise evasion and will lead to increase in revenue besides giving considerable relief to both trade and administration. The substitution of a low multipoint tax, while no doubt simplifying the system, will not be in keeping with the social and economic objectives of taxation policy. Though apparently the incidence of the tax on all commodities is sought to be equalised, in actual working of the system there will be cumulation of the tax burden on necessities of life and commodities of common consumption which pass through several stages before they reach the consumer, while luxury goods which do not generally pass through more than one or two points need consequently bear only a lower tax. This is highly inequitable because it will impose a heavier burden on the poorer sections of the community. Obviously the proposal has been made purely from the limited point of view of the trader forgetting that the real taxpayer is the consumer. It is clear to us that the adoption of a low rate of uniform sales tax at all points will certainly result in shrinkage of the Government's revenue in spite of the simplification of the system that could be claimed in favour of such a measure.

6.22 A second suggestion is that multipoint system may be given up and a single point levy at a high rate either at a suitable sale point or at a purchase point introduced. The advantage claimed is that tax can be collected from a limited number of dealers; the vast bulk of retailers will be relieved of the responsibility of collecting and paying sales tax. The administration, too, will have an easier job as they have to deal with a comparatively fewer number of assesseees. Such a system would, however, be eminently suitable.

only if all commodities pass through easily identifiable trade channels and could be subjected to taxation. In an industrialised State with a high degree of urbanisation, single point taxation may perhaps work quite successfully. But the economy of Kerala has not yet reached the stage where an exclusive reliance on the system of single point sales tax would bring in beneficial results. Agricultural produce as well as manufactures coming out of small scale industrial units often reach the retailer directly and there may be no taxable point at all in the case of a large number of commodities. The high rate of tax under the single point system may be an inducement to evasion and once the goods slip through the point at which tax is levied, the Government loses the tax on them once for all.

6.23 It has also been represented that Sales tax on selected commodities may be replaced by additional excise duty as in the case of sugar, tobacco and textiles. This suggestion has been made only in respect of certain commodities like coffee and tea. The advantages of substitution of sales tax by additional excise duty to trade and industry are obvious. It is easier to collect additional excise duty at the point of manufacture and theoretically there is little scope for evasion. This system is, however, limited in its application. Only commodities subject to central excise can be brought under its purview. So far as the generality of traders is concerned the proposed system will not give them any relief as, along with a few such items, they will be dealing in other taxable commodities also.

6.24 Even apart from all these considerations, the proposal involves larger issues concerning the State's powers of taxation. As mentioned earlier, it is not expedient for the States to vacate any field of taxation especially in view of the wide gap between their resources and obligations. Moreover this is not the first time when the question of substituting additional excise duty for sales tax has been brought up for consideration. We already have the experience of such a measure in a limited area, and as observed earlier, (Chapter 5 paragraph 22) the experience of handing over tobacco, sugar, and textiles for the levy of additional excise in lieu of sales tax has not been satisfactory. The current trend of thinking in many of the States seems to be in favour of bringing these commodities back to the ambit of State taxation. In this context the suggestion to replace the sales tax on commodities like coffee and tea by additional excise duties is not advisable. On the other hand, the commodities already handed over may be brought back to the ambit of State sales taxation for which the State Government may move the Government of India.

6.25 On a careful examination of the various views expressed before us, we feel that the present sales tax system which is really

a blend of both multipoint and single point systems is by and large suited to the conditions in the State. The existing rate-structure is the result of a series of revisions from time to time. Though it has contributed substantial revenues to the State exchequer, it has not so far ensured the desired degree of equity and progressivity. We are accordingly putting forward certain proposals for rationalising the rates.

Rationalisation of the rates of sales tax

6.26 While attempting such a rationalisation the following general considerations have been kept in view:

- (i) bringing about a greater degree of progressivity with a view to ensuring equity as among the different income groups;
- (ii) augmentation of revenue;
- (iii) simplification of the tax-structure consistent with the needs of the State;
- (iv) administrative convenience;
- (v) tax-exemption in the case of articles of mass consumption mainly with a view to reducing the cost of living of people in the lower income ranges.

6.27 The multi-point rate of tax is three per cent and we do not recommend any change in this rate. In the case of "scheduled" goods which are subject to single point levy we recommend increases in rates in certain cases and reductions in some others. We also consider that a few commodities can be brought under the multi-point system. Care has been taken to ensure that the incidence of the tax on the vulnerable sections of the people is kept within reasonable limits. Our proposals are explained below:—

- (i) The rate of sales tax on the following goods may be raised from 12 per cent to 15 per cent.
 - (a) Refrigerators and air conditioning plants and component parts thereof.
 - (b) Gramophones and component parts thereof and records.
 - (c) Wireless reception instruments and apparatus, radios excluding radios and transistors costing not more than Rs. 150, radio gramophones, electrical valves, accumulators, amplifiers and loud speakers and spare parts and accessories thereof.
 - (d) Sound transmitting equipments including telephones, loud speakers and spare parts thereof.

- (e) Cinematographic equipments including cameras, projectors and sound recording and reproducing equipments, lenses, films and parts and accessories required for use therewith.
- (f) Photographic and other cameras and enlargers, lenses, films and plates, paper and cloth and other parts and accessories required for use therewith.
- (g) Binoculars, telescopes and opera glasses.
- (h) All arms including rifles, revolvers, pistols and ammunitions for the same.
- (i) Cigarette cases and lighters.
- (j) Diotaphone and similar apparatus for recording sound and spare parts thereof.

In order to encourage the poorer sections also to enjoy the facilities of mass media of communication sales tax on radios and transistors costing not more than Rs. 150 may be reduced from 12 per cent to 5 per cent at the first point of sale inside the State. We are aware that under the present system of sales tax the rate is not varied with reference to price and that our proposal introduces a new complication into the system. But we consider that as this procedure is confined to radios and transistors which are sold through a limited number of dealers in the State, it will not give rise to any major problem or difficulty for the administration.

- (ii) The rate of tax on mosaic tiles and marble chips may be enhanced from 7 per cent to 15 per cent;
- (iii) The rate of tax on bullion and specie may be raised from one per cent to 15 per cent. Similarly the rate of tax on precious stones, namely diamond, emeralds, rubies, real pearls and sapphires, synthetic or artificial precious stones, pearls artificial or cultured, may be enhanced from 5 per cent to 15 per cent.
- (iv) Ornaments made of gold and silver are now taxed on multipoint basis at 3 per cent. Not more than one stage of transaction takes place in respect of such ornaments. Thus the tax incidence is very low. We suggest that a single point at 15 per cent at the first sale point may be imposed on ornaments made of gold and silver.
- (v) The rate of tax on fire works including coloured matches, foamed rubber sheets, cushions, pillows and other articles of foamed rubber may be enhanced from 7 per cent to 12 per cent.
- (vi) The tax on the following goods may be raised from 5 per cent to 7 per cent.

Upholstered furniture, sofa sets, dressing tables and furnitures of all types made of timber. Stainless steel products.

- (vii) Aviation turbine fuel is the only item that is taxed at six per cent and the rate may be enhanced to 7 per cent.
- (viii) Only two commodities are taxed at the rate of 4 per cent and they are kerosene and cashewnut and its kernel. The tax on cashewnut and its kernel may be increased from 4 per cent to 5 per cent. As regards kerosene oil we are suggesting that it may be brought under the multipoint system of taxation.
- (ix) The following goods, which are now taxed at single point under the first schedule, may be brought under the multipoint system of taxation.

Present rate
(Single point)

(a) Folding umbrellas	5%
(b) Kerosene oil	4%
(c) Soap	5%
(d) Matches	2%
(e) Chemical fertilisers	2%
(f) Nuxvomica	5%
(g) Laurel oil	5%
(h) Kacholam	5%

- (x) Rubber is now taxed at 2 per cent at the last purchase point. We recommend that this rate may be increased to 5 per cent.
- (xi) The ceiling of tax on 'declared' goods is 3 per cent. Of the seven items enumerated in Schedule II, three are taxed at the ceiling rate, three items at two per cent and one item at one per cent. We recommend that the rate of tax on all these items may be fixed uniformly at three per cent. The increase proposed for each item is as follows:

	<i>Existing rate</i>	<i>Proposed rate</i>
Cardamom	2 per cent	3 per cent
Cotton including capas and yarn	1 per cent	3 per cent
Coconut and copra	2 per cent	3 per cent
Groundnut	2 per cent	3 per cent

The existing Schedule I to the Kerala General Sales Tax Act contains 66 items taxed at ten different rates ranging from 1 per cent to 50 per cent. Of these, 8 items are proposed to be taxed on multipoint basis and 2 items exempted. Two additional items (low-priced radios and gold and silver ornaments) are to be newly entered in the Schedule. Thus under our recommendations there will be 58 items in Schedule I taxed at eight different rates. Based on the turnover for 1966-67, the net additional revenue on account of the above proposals is estimated to be Rs. 75 lakhs, after setting off the loss in revenue consequent on the exemption of food grains and fire wood from tax recommended in paragraph 6.29 and 6.30.

Tax Relief

6.28 We now propose to deal with the question of giving tax relief in respect of certain commodities about which representations have been made before us.

(i) *Food grains*

6.29 Food grains are now subject to one per cent tax at the first sale point. This is an item which was exempt from taxation till April 1, 1961. Food grains account for a large proportion of the poor man's budget. We, therefore, recommend its exemption from sales tax so as to lessen the burden on the poor. We are aware of the fact that this would involve the Government a substantial loss of revenue viz., Rs. 75 lakhs per annum as estimated on the basis of the Food Corporation's transactions in Kerala. Nevertheless, we would urge the Government to accept this recommendation.

(ii) *Fire wood*

6.30 Firewood is another item of mass consumption, and for the same reasons as stated above we recommend its exemption from sales tax.

(iii) *Marine products*

6.31 Marine products (i.e., prawns, lobsters, frogs and frog legs) which figure largely in the export trade are now taxed at the last purchasing point at the rate of 5 per cent. Till 1st September 1967 the rate of tax on these items was only 2 per cent. The Marine Products Export Promotion Council has represented before us that the export trade on these commodities is facing severe competition from other countries and that the rising cost of catching and processing the marine goods has placed the exporters in a very disadvantageous position in quoting prices in the world market. It is pointed out that in this situation, they are losing markets and that the recent enhancement of tax from 2 per cent to 5 per cent has made matters worse. It is therefore urged that marine products may be completely exempted from tax. The State Government has

also forwarded a memorandum from the above Council for our consideration.

6.32 We have carefully examined the points raised in the memorandum. Our impression is that the main difficulties faced by the exporters of marine products are in the areas of production and marketing and that a five per cent sales tax by itself does not have any perceptible effect on the business. The incidence of sales tax is limited and therefore, in this case, tax concessions may not give any appreciable competitive advantage to the exporter. The removal of their difficulties, however, requires the concerted efforts of Central and State Governments in respect of production, marketing and finances. For these reasons we are not inclined to recommend a reduction or exemption from sales tax.

(iv) *Cashewnut and kernel*

6.33 Another item in respect of which exemption from tax has been sought is cashewnut and kernel. The profitability of the cashew processing and exporting concerns is dependent on various factors like availability of raw material, wages of labour and the cost of overheads. Sales tax forms only an insignificant element in the costing of the product. We do not therefore consider that this industry needs any tax relief; on the other hand, we have, in the process of rationalising the structure of sales tax, recommended a slight increase in the tax rate from four to five per cent, and we have no doubt in our minds that this industry can bear taxation at this slightly enhanced rate.

(v) *Petrol and diesel oil*

6.34 Petrol and diesel oil are now taxed at rates higher than in Madras and hence vehicles plying between these two States meet their requirements in Madras. It has been represented to us that the disparity in tax has affected the automobile service stations in districts like Palghat adjacent to Madras State. A plea for reduction in the rates of tax on motor spirit has, therefore, been made. While we recognise that there is some marginal diversion of business in petrol or diesel oil from our State to Madras, we do not consider that a reduction in the tax is called for on this account. A lowering of the tax to the level in Madras, while no doubt stimulating sales in the automobile service stations in areas adjacent to Madras State, will lead to an overall reduction in the yield from sales tax on motor spirits in the State as a whole. A proper solution to the problem can, we hope, be arrived at by inter-State consultations. The Southern Regional Council for sales tax is the appropriate forum for coming to an agreement in this regard. One of the difficulties which has given rise to this problem is the fact that, while the rate in Kerala is ad valorem that of Madras is based on volume. Ad valorem taxation is the common mode of levying sales tax in both

Madras and Kerala. Therefore, it may not be difficult to persuade the Government of Madras to fall in line with the Kerala system in this matter; such a course would be advantageous to Madras also from the point of view of revenue.

(vi) *Coconut, copra, coconut oil and oil cake*

6.35 The oil mill industry in the State is concentrated at Alleppey and Calicut. The industry has been facing stiff competition from the millers at Bombay who, by the use of more sophisticated equipment, get a much higher percentage of oil from copra. Owing to this competitive advantage, they are able to enter the copra markets in the State in a big way. This has vitally affected the oil mills in the State and several mills have been forced to close down particularly at Alleppey for want of raw material. The representatives of this industry have made a very strong plea for relief. To have a first-hand knowledge of their difficulties, we visited a few oil mills at Alleppey and had also discussions with some millers.

6.36 Coconut and copra are 'declared goods' for which the maximum rate of tax that can be levied has been fixed at 3 per cent by the Government of India. The current rate of tax is, however, only 2 per cent at the last purchase point. Coconut oil and cake are subject to multipoint taxation at 3 per cent. To avoid cumulation of tax burden and to provide relief to the millers, the following tax concessions are already in force.

(a) Where a tax has been levied in respect of copra, the tax, if any, levied and collected in respect of the coconut from which such copra is produced is refunded.

(b) The tax on sales by millers of oil and cake produced out of copra on which purchase tax has been paid by them is reduced to one per cent.

It has been pointed out that these concessions are not adequate to enable the local millers to face the competition from the Bombay millers. The following alternative proposals were made by the millers at Alleppey:—

- (1) Export of copra from the State may be totally banned.
- (2) The purchase tax on copra may be enhanced from 2 per cent to 3 per cent. The sales—both inter-state and intra-state—of oil and cake produced by the millers in the State out of copra purchased by them may be exempted from tax completely.
- (3) The tax on the purchase turnover of copra may be raised to three per cent and sales tax may continue to be levied at one per cent on the millers' sales turnover of oil and

cake. But millers may be given refund of the tax collected to the extent of two per cent in respect of the purchase of copra which has been crushed in their mills.

- (4) The purchase tax on copra may be revised from 2 to 3 per cent. The sales tax on oil and cake sold inter-State and intra-State by the millers may also be raised from 1 per cent to 2 per cent. Relief may then be given to the millers by refunding the entire tax on the purchase turnover of copra.

6.37 A total ban on inter-State movements of copra or coconut is not feasible in the present circumstances. Therefore, the first proposal above has to be ruled out. The other proposals deserve careful examination. The purchase tax on copra is proposed to be raised from 2 per cent to 3 per cent under all these proposals. We have elsewhere recommended the above increase in the rate. With this increase in rate the Bombay millers have to pay a higher rate of tax to the State and there will be consequent increase in revenue. But the crucial point to be decided is in what form should relief be given to the oil millers. The alternatives are:

- (1) To forgo the existing one per cent tax on sale of oil and cake;
- (2) To collect tax on sales at one per cent as at present and refund the purchase tax on coconut and copra to the extent of two per cent; and
- (3) To increase the tax on sales turnover from one per cent to 2 per cent and refund the entire purchase tax on coconut and copra at 3 per cent.

In deciding between these alternatives various aspects have to be considered, for which reliable data in regard to production, internal consumption, export, etc., of coconut, copra, coconut oil and cake are required. Information regarding the channels through which trade in these commodities flows is also relevant. The possibilities of evasion and avoidance of tax have also to be looked into. For instance, if a sizeable quantity of the oil produced by the millers goes out of the State on "consignment basis", i.e., as transfers to branches, any increase in tax on the sale of oil by the miller might not lead to a corresponding rise in revenue; on the other hand, on account of the refund of purchase tax to millers, there may even be a net loss in revenue. We are, therefore, unable to come to any definite conclusion in this matter, but would nevertheless recommend that further relief may be given to the oil millers in the State by adopting the more feasible and practicable of the three alternatives mentioned above. We hope that, while giving appropriate relief to them, there will be no net reduction in revenue as the purchase tax on copra has been proposed to be increased from two to three per cent.

(vii) Surcharge

6.38 A surcharge of five per cent on the tax assessed is levied. This levy has come in for severe criticism. The representatives of trade and commerce are unanimous in their condemnation of the levy. It is pointed out that a surcharge, which unlike sales tax cannot be passed on to the consumer, is incongruous in any scheme of commodity taxation. It is also argued that the surcharge amounts to an impost on income or profit and hence the State has no power to levy it. Kerala is the only State that levies a surcharge on sales tax.

6.39 We understand that the Kerala High Court has held that the surcharge is legally sustainable. The matter is now a subject of appeal before the Supreme Court. We do not therefore enter into the legal aspects of the issue. We have, however, examined the incidence of the tax on the trade and are of the view that a five per cent surcharge on the tax will not be a heavy burden on the dealers. We, therefore, do not recommend any change.

(viii) Increase in the minimum limit of taxable turnover

6.40 The limit was fixed as Rs. 10,000 when sales tax was first introduced in the State and has not undergone any change thereafter. As commodity prices have increased many-fold since then, it is argued that there is a case for raising the minimum taxable limit suitably. While it is true that the minimum taxable turnover has not been enhanced in keeping with the rise in prices, it should be remembered that relief has been given in some other form to the small dealers. It was in 1961 that provision was made in the sales tax law for payment of tax at compounded rate in respect of dealers whose turnover was less than Rs. 25,000 in a year. As the incidence of the compounded rate is lower than that of the tax otherwise payable, this reform in the tax law has given some relief to small dealers. For this reason and in consideration of the possible impact of any increase in the minimum taxable turnover on the State's revenue, we do not suggest any enhancement of the limit.

Exemptions from Taxation

6.41 Schedule III to the Kerala General Sales Tax Act enumerates the goods that are exempt from taxation. Besides, several commodities as well as persons and institutions are also exempted by separate notifications issued from time to time. The exemptions are based on a variety of considerations. Necessaries of life, perishable goods, articles used for agricultural production, goods exempted on account of all India policies or State policies or international commitments and goods exempted on account of taxability under other Acts figure in the list of exemptions. There are also certain isolated cases where exemptions have been given on administrative considerations, i.e., revenue being insignificant and assessments being

difficult and not worth the trouble. Too many exemptions, however, result in discrimination and give room for distortion of trade and evasion. As the Taxation Enquiry Commission 1953-54 has stated, exemptions which are vague or undefined or are liable to be interpreted in more than one way are always a source of harassment to the traders and lead to corruption of officials. There is therefore need for periodic reviews of exemptions so that such of them as have outlived their utility or have led to widespread abuses could be curtailed. After a scrutiny of the connected Schedule and notifications, we recommend that the following exemptions may be withdrawn.

- (i) *Rice issued from Central or State Government Depots for sale through fair price shops.*

When food grains were first brought under the levy of sales tax—at one per cent single-point—the rice issued from Central or State Government depots for sale through fair price shops was exempted. The system of distribution of rice has since undergone a complete change; at present it is the Food Corporation of India that supplies food grains. The need for the kind of exemption referred to above has, thus, ceased to exist. We have elsewhere recommended that food grains may be completely exempted from the levy of sales tax. There is, therefore, no need for retaining the above item in the exemption list as food grains should come in the Third Schedule.

- (ii) Artificial hearing aids and other accessories.
 (iii) Asphalt or bitumen sold by Cochin Refineries Ltd., to the Indian Oil Corporation Ltd., and by the Indian Oil Corporation Ltd., to any other oil company.

This exemption is applicable only in sales by one oil company to another. In other cases this is taxable at multipoint rate and basis. This item is similar to motor spirit and other products enumerated as items 57 A to 57 G in the First Schedule. In the case of these goods, sales from one oil company to another are exempt and tax is realised at the point of first sale. On the same analogy, 'asphalt or bitumen' may be incorporated as entry 57 H in the First Schedule so that sales other than inter-company sales will be subjected to taxation. The rate may be 3 per cent at the first sale point.

- (iv) Cooperative societies of country oil chuck owners.
 (v) Durries.
 (vi) Druggets.
 (vii) Soap manufactured in the State where the total turnover of the dealer does not exceed Rs. 15,000 a year.

As the exemption applies not to the manufacturer but to the dealer, the exemption is not justified. Further we are recommending that soap may be taken to the multipoint system of taxation.

The above exemption may therefore lead to complications in administration.

(viii) *Potatoes and Sabola*

These are generally sold through provision stores. They do not strictly come under the category of perishable goods.

Evasion and avoidance of tax

6.42 Perhaps the most baffling and formidable task that a tax administrator has to face is the problem of evasion. It has been recognised by all authorities that evasion of tax is widespread in India. The post-independence period witnessed an unprecedented spurt in taxation in keeping with the growing developmental requirements. The tax systems became more complex; the net was spread far and wide and Government entered into new areas of taxation. The widening of the tax-base led to an increase in the number of potential tax-payers who often resorted to the most ingenious devices to escape liability. The stakes of the tax-evader also rose along with the rise in the tax rates. The nation as a whole has yet to achieve that sense of financial discipline, and the citizen as an individual has yet to develop that sense of responsibility, which will create conditions in which anti-social elements like tax-evaders will be isolated and weeded out from the body politic.

6.43 Many of the members of the public who met the Committee have averred that considerable revenue is being lost on account of evasion from payment of sales tax. The departmental officers too have admitted that evasion has not been completely eliminated in spite of the earnest attempts made so far. Unlike in the case of direct taxes the incidence of sales tax falls rarely on the assessee; one would, therefore, have thought that the incentive for evasion in sales tax is comparatively less. But experience in the administration of the tax has proved that there is as much evasion in the case of sales tax, if not more than, in direct taxes. Evasion of sales tax is a greater offence because in most cases the evader would have collected the tax from the consumers and appropriated it for himself.

6.44 Allied to the problem of evasion is the avoidance of tax which is not strictly speaking illegal and hence not liable to punishment. The distinction between evasion and avoidance has been clearly explained by the Taxation Enquiry Commission (1953-54) as follows:

“Leakage in revenue may occur either through the deliberate distortion of facts relating to an assessment after the liability has been incurred or by so arranging one’s affairs before the liability is incurred as to prevent its occurrence or to reduce the incidence of tax within the frame work of the existing legislation. The former state of transaction is usually referred to as ‘evasion’ and the latter as ‘avoidance’. Avoidance ordinarily arises from drafting defects in tax legislation. Both

avoidance and evasion result in loss of revenue to Government but the former has a colour of legality about it”.

From the revenue point of view, both avoidance and evasion have the same effect.

6.45 The problem of evasion has to be tackled from two angles—prevention and detection. The first step is to identify the points of trade at which evasion takes place and find out the modus operandi of evasion. Among the measures that may be adopted to reduce the scope of evasion are simplifying the tax system, drafting the laws and rules in precise and clear terms, and enumerating the taxable and non-taxable goods without vagueness or ambiguity. A constant search may be made to find out the loopholes in the laws and system and to plug them effectively. The trends of trade and the channels of marketing may be studied from time to time, and suitable precautions taken to guard against suppression of turnovers and omission of certain types of transactions in the accounts of the assesseees. Various arrangements exist to detect evasion. There are check-posts at all major points of egress or ingress along the State borders to make sure that goods are not transported without proper records with a view to conceal transactions and escape tax. Flying squads check the movement of goods intra-State. Surprise inspections of shops and business houses are made to find out whether any part of the stock has been kept out of the accounts. There is a separate Intelligence Wing in the Department which is in overall charge of detection work.

6.46 In view of the statements made before us by knowledgeable persons about the high order of evasion existing despite the vigilance of the Department, we have made an attempt to assess the magnitude of evasion in certain selected commodities produced in the State viz., coconut, copra, coconut oil and cake, arecanut and rubber. The production figures of these commodities for a few previous years were taken as the basis of our calculations. A part of the produce (except in the case of rubber) is directly consumed either by the producer himself or by others without the item passing through any stage of transaction attracting tax. This quantity has been estimated on the basis of certain assumptions in regard to average household consumption and other relevant factors. The value of the remaining part which enters the regular market has been calculated. Under ideal conditions, the entire quantity entering the regular trade channels should have been assessed to tax at one stage or other. The

tax that would have been realised on the above basis has therefore been calculated. We find that there is a wide gap between the amount so arrived at the actual collections. Even after making generous allowances for certain minor factors that have not been taken into account or for the approximations in the assumptions and calculations made by us, there still remains a sizeable gap that cannot be explained. According to us, this gap represents the magnitude of evasion. A note explaining the basis and method of our assessment of the extent of evasion is given in Appendix IX. We recommend that estimates of production of all important agricultural commodities may be collected and, after making allowances for seed and wastage, non-monetised consumption etc., may be compared with the actual turnover assessed to tax in order to find out the extent of evasion. Such studies will be quite revealing and will enable the Department to take suitable action to tighten up the assessment and collection methods.

6.47 Different methods are adopted for evasion of tax like suppressing a part of the purchases or sales in the accounts, issuing bogus and duplicate sale-bills, not issuing sale-bills at all, maintaining duplicate account books, and booking goods through railways in bogus names. By a regular and systematic check of goods going out of, and coming into, the State and inspection of stock in shops and trading establishments, it may be possible to reduce the scope of evasion. The practice of consigning goods through railways in bogus names is widely followed. In some cases, goods are sent in self-addressed parcels. This method leads to evasion of tax at a number of points. The consignor, who is really selling the goods outside the State, escapes paying central sales tax on the inter-State sale. In the State to which the goods are transported it is not easy to trace the goods as the consignee is a bogus or non-existent person. The goods pass hands without figuring in the accounts at any stage and the transactions are easily suppressed. It should be possible for the Department with the co-operation of the Railways to devise suitable measures to put a stop to the practice of transit of goods in fake names. We understand that the Government of West Bengal has introduced an arrangement under which certain notified goods entering the State are checked at the railway stations, ports, airports and road check-posts along the State borders and the consignments are released only upon production of permits issued by the appropriate commercial tax authority or railway receipts countersigned by such authority. We recommend that similar arrangements may be made in our State also in consultation with the Railways, port authorities and the Airlines.

6.48 There are also cases where liability to pay tax is legally avoided by opening depots or branches outside the State. The transfer of goods by a dealer to his depot or branch outside the State does not attract tax. Large transfers take place in this manner resulting

in considerable loss of revenue to the State. The main motive in opening the depot or branch is to avoid payment of tax. As this is a perfectly legal arrangement, the Department is helpless and unable to take any action. This is, however, a matter of common concern to all the States. We suggest that the question of dealing with such branch or depot transfers made with the object of avoiding tax may be examined further in consultation with other States. The levy of tax on such transactions has not been possible on account of the definition of 'sale' given in the Sale of Goods Act. The Government of India may, therefore, be approached to bring about suitable amendments to the above Act with a view to plug such provisions under the guise of depot transfers or consignment sales.

6.49 Another method of avoidance of tax has come to our notice. This is resorted to particularly in the case of agricultural produce like rubber, which are taxable at the last purchase point. Some producers sell the commodities directly to persons outside the State. On the basis of certain recent judicial verdicts, it is not possible to tax inter-State sales of goods which are liable to purchase tax. Accordingly the goods taxable at the purchase point, if sold inter-State directly by the producers, cannot be taxed at any point. This leads to loss of revenue to the State. We are told that the question of amending Central Sales Tax Act suitably in order to enable taxation of such inter-state sales has been taken up with the Government of India. The matter has been hanging fire for over a year. We have therefore, considered the possibility of bringing in such sales within the orbit of taxation by making suitable amendments to the State tax laws. One suggestion that may be considered in this connection is that such commodities which are now taxed only at the last purchase point may be subjected to a double point levy, i.e., at the point of first sale as well as at the point of last purchase. The adoption of the system of double point levy will, of course, introduce a new dimension to the sales tax system obtaining in the State and will therefore tend to make it more complex. Nevertheless we would urge that the Government may bestow earnest consideration on this suggestion and examine its full implications. If it is found that the above type of evasion can be successfully tackled only under a system of double point levy we would, on practical considerations, favour its adoption. We also suggest that the following alternative rates may be considered in regard to rubber:—

- (i) 2 per cent at the first sale point and 3 per cent at the last purchase point.
- (ii) 3 per cent at the first sale point and 2 per cent at the last purchase point.

Appeals

6.50 The provision for appeal is a safeguard against capricious and vindictive exercise of power by departmental officers. The

Kerala Sales Tax Act specifies matters in respect of which appeals can be filed by the aggrieved party.

6.51 An appeal to the Appellate Assistant Commissioner must be presented within 30 days from the date on which the order was served. After the lapse of that period an appeal cannot be admitted unless the Appellate Assistant Commissioner in his discretion condones the delay, on sufficient cause being shown. Appeals relating to assessment, provisional assessment and assessment of escaped turnover will be entertained only if the tax or other amounts admitted by the appellant to be due are paid. The pendency of an appeal does not automatically stay the proceedings for the recovery of the amount due by the assessee. But there is a provision in the Act under which the Appellate Assistant Commissioner can give interim relief by granting stay or allowing payments in instalments of the disputed tax, if the appellant furnishes sufficient security. In an appeal against an order of the assessing authority, the assessing authority has also a right to be heard in person or through a representative.

6.52 The Deputy Commissioner has powers of revision suo motu and on application. He can call for fresh evidence or conduct fresh enquiries. The revisional power can be exercised both in the interest of the State as also of the assessee. An order of suo motu revision should not be passed before the expiry of the time of appeal or after the expiry of four years from the date of passing the order proposed to be revised. If the order has been made the subject of an appeal, then also he cannot take up the case for revision. An important provision is that the Deputy Commissioner cannot pass an order adversely affecting a person without giving him a reasonable opportunity of being heard. The Board of Revenue has also been vested with revisional powers both suo motu and on application subject to the same conditions as given above.

6.53 There is provision for a second appeal to the Appellate Tribunal. The right of appeal to the Tribunal is given not only to the assessee but also to the Department. An appeal to the Tribunal is allowed to an assessee against an order of the Appellate Assistant Commissioner, or an order of the Deputy Commissioner exercising his suo motu powers of revision or an order of the Inspecting Assistant Commissioner confiscating goods. As regards the Department an appeal can be preferred only against an order passed by the Appellate Assistant Commissioner. An appeal lies before the Tribunal both on facts and on law. On questions of fact the order of the Tribunal is final. On questions of law a revision lies to the High Court. The assessee or the Department can appeal against the decision of the Tribunal, before the High

Court The High Court has also jurisdiction to hear appeals against suo motu orders of revision by the Board of Revenue.

6.54 From our discussions with the members of the public and representatives of trade and commerce, we got the impression that the working of the appellate machinery is far from satisfactory. The main complaint is against the long and frustrating delays in the disposal of appeals. We are told that the Appellate Assistant Commissioners have a tendency to put off consideration of cases involving difficult and complicated issues. Again, it is alleged that the Appellate Assistant Commissioners, being drawn from the cadre of departmental officers, show a tendency to uphold the decisions of the assessing authorities and seldom take a detached view of things, that often they do not have any legal qualifications and that they lack judicial sense. The suggestion has therefore been strongly made by more than one person that judicial officers should be appointed as Appellate Assistant Commissioners. It is also suggested that the Appellate Tribunal may be reconstituted with a Judge as Single Member; in any case the Departmental Member may be dropped from it.

6.55 The departmental officers with whom we have discussed all these points have admitted that there is a certain amount of delay in the disposal of appeal petitions. This is because the work-load has been steadily increasing over the years. It has been given in evidence by one of the Appellate Assistant Commissioners that there were about 3600 pending cases in his files. There are 1000 to 1200 fresh filings in a year. The cases are normally posted for hearing according to the date of filing. In view of the heavy backlog there will be a normal delay of two to three years in disposing of cases. There are also extreme cases where appeals filed as far back as 1960 are still pending. The Board of Revenue has stated that increasing attention is being bestowed now to tune up the appellate machinery. Wherever the work of the Appellate Assistant Commissioner has become unmanageable, an Additional Appellate Assistant Commissioner is appointed. Thus there are eight Appellate Commissioners and five Additional Appellate Commissioners at present.

6.56 The work-load of the Appellate Assistant Commissioner has been fixed as 100 cases in a month and that of the Additional Appellate Commissioner as 125 cases. The work-load is reasonable in our view; what is undesirable is the practice of some officers concentrating on relatively simpler and easier cases in order to achieve the target, with the result that complicated cases pend for years. The Board of Revenue should ensure that the cases are taken up in their chronological order, whether they are simple or complex, and while reviewing the progress of disposals against the

prescribed norms some weightage should be given to the more complex cases. We would also recommend that the arrears as on a particular date may be segregated and disposed of by appointing special Appellate Assistant Commissioners. In other words a situation should not be created in which the regular Assistant Commissioners become fully pre-occupied with the disposal of arrears to the neglect of current cases which in that process slip into the waiting list to be disposed of in the strict chronological order two or three years later. When a separate machinery is created for disposing of the arrears, the current cases can be attended to as soon as they are filed. It should then be possible for the appellate machinery to dispose of all fresh cases within a period of six months from the date of filing; cases that are delayed beyond this time-limit should be separately reviewed by the Board of Revenue and suitable remedial action taken.

6.57 We do not think that it is necessary to appoint judicial officers as Appellate Assistant Commissioners. Sales tax law is a specialised field and experience as assessing authority is a valuable asset to an appellate functionary. More often than not, appeals are preferred on questions of fact and a departmental officer will be in a better position to go into such appeals than a judicial officer without any insight into the working of the tax laws. On deciding questions of law a judicial officer may perhaps be better equipped; but we find that appeals involving legal issues invariably go before the High Court or the Supreme Court. In the Central Income Tax Department as well as in the Sales Tax Departments of other States also, departmental officers function as appellate authorities. We find that there is complete separation of appellate and administrative functions at the level of the Assistant Commissioners and that a departmental authority cannot set aside the decision of an Appellate Assistant Commissioner. Thus the present system has been designed with due deference to the need for the independent functioning of the appellate machinery.

6.58 We would, however, suggest certain guidelines in regard to the selection of officers to the cadre of Appellate Assistant Commissioners. Preference should be given to persons having legal qualifications. Senior officers may be posted for appellate work so that they would not only be able to maintain high standards of detachment, impartiality and justice but inspire confidence in the public. It is also desirable to give the officers selected for appellate work adequate training in judicial procedures. The question of giving judicial training to the Appellate Assistant Commissioners of Income Tax was considered by the Law Commission (Central), who recommended "that the Appellate Assistant Commissioners should be given some training in judicial practice and procedure by being attached to a Judge of a Civil Court, i.e., District Judge, for

a period of, say, three months". The Administrative Reforms Commission's Working Group on Central Direct Taxes Administration has endorsed the above recommendation of the Law Commission. The Government of Kerala may also fall in line with this suggestion. An officer selected for placement as Appellate Assistant Commissioner of Agricultural Income Tax or Sales Tax may, accordingly, before he starts functioning as appellate authority, be given training for, say, three months by attaching him to the Presiding Officer of a Civil Court, so that he may develop a judicial frame of mind. There should also be properly equipped reference libraries in the offices of the Appellate Assistant Commissioners and the Tribunal.

6.59 We do not subscribe to the view that the presence of the departmental member in the Appellate Tribunal will not be conducive to the maintenance of the highest standards of fairness and justice. The Tribunal is presided over by a judicial officer of the cadre of a District Judge. There is also an Accounts Member. Though the Departmental Member may help the other Members to understand the Department's point of view, it does not stand to reason to hold that his presence will affect the impartiality of the Tribunal as a whole. There is also the safeguard that the Departmental Member is barred from hearing cases which he had personally dealt with earlier, either as assessing officer or in any other capacity. We do not, therefore, recommend any change in the constitution of the Tribunal.

6.60 It is not enough if appeals are disposed of quickly; it is equally, or even more, important that prompt action is taken on the basis of the decisions. Any undue delay in this matter will leave a trial of bitterness and frustration in the minds of the appellants which may permanently damage the department's image. We are told that there is a tendency to delay taking action on the decisions in appeals on the ground that there is scope for preferring a further appeal. We strongly recommend that the question whether an order in appeal should be further appealed against should be decided within fifteen days in all normal cases. In major cases involving questions of law or having other complications, legal opinion may have to be ascertained and some delay is inescapable. But even such cases should be accorded a high priority at all levels.

6.61 Arising out of the decisions of the appellate authorities, refunds may have to be given in a number of cases. We consider that the diligence shown by the department in the matter of collecting tax should be matched by promptness in allowing refunds. On this matter also, we have received complaints of delay and we would urge that this should receive serious attention. The Inspecting Assistant Commissioners and other supervisory officers should

in the course of their inspections find out whether there is any delay in refunding amounts and give appropriate instructions to the concerned officers.

6.62 Some decisions of the appellate authorities may be of general applicability; so also are most of the judgments of the High Court or the Tribunal. In such cases future assessments have to be regulated in conformity with these decisions. No time should, therefore, be lost in bringing such decisions to the notice of all assessing officers. The Board of Revenue should issue suitable clarifications and instructions based on judicial verdicts for the guidance of the assessing authorities.

Simplification of procedures

(i) *Payment of tax at compounded rates.*

6.63 To give relief to small dealers, the Act provides for compounding the tax at fixed rates as indicated below:

(a) Dealers (other than those dealing in cooked food):	
Where total turnover is Rs. 10,000 and above but below 15,000	1 % of the taxable turnover.
Where total turnover is Rs. 15,000 and above but not more than Rs. 25,000	1½% of the taxable turnover.
(b) Dealers in cooked food:	
Where total turnover is Rs. 20,000 and above but below Rs. 25,000	Rs. 360
Where total turnover is Rs. 25,000 and above but below Rs. 30,000	Rs. 480
Where total turnover is Rs. 30,000 and above but below Rs. 40,000	Rs. 540
Where total turnover is Rs. 40,000 and above but not more than Rs. 50,000	Rs. 720

The full benefit of the scheme is not enjoyed by dealers now, in view of the procedures prescribed. For example, the dealer has to apply formally to the assessing authority for permission to opt for the compounded system before a prescribed date. Such permission is not given automatically; on the other hand discretion is vested with the assessing authority in the matter and he can reject the request for "good and sufficient reasons". The assessing authority is also given the discretion to condone the delay in submitting applications for sufficient reasons. It has been represented before us that some dealers fail to apply in time owing to ignorance or oversight with the result that they are put to a great deal of difficulty. We consider that formal application need not be insisted

upon in such cases and that all dealers whose turnover is within the prescribed limits should be enabled to pay tax at compounded rates without further formalities. We recommend that necessary amendments may be made in the Act and Rules for this purpose.

6.64 The composition of tax is based on the total turnover of the dealer. This is not a scientific method. We recommend that the taxable turnover should be the basis for allowing composition of tax. In the case of dealers (other than those dealing in cooked food) the compounded rate is expressed as a percentage of the taxable turnover. We would suggest that fixed amounts of tax may be laid down for dealers in each turnover group, as in the case of dealers in cooked food. The following rates may be adopted:—

Where taxable turnover is Rs 10,000 and above but below Rs 15,000	Rs 125
Where taxable turnover is Rs 15,000 and above but below Rs 20,000	Rs 250
Where taxable turnover is Rs 20,000 and above but not more than Rs 25,000	Rs 360

(ii) *Introduction of licensing system.*

6.65 The All Kerala Hotel and Restaurant Owner's Association has represented before the Committee that, instead of assessing hotels and restaurants to sales tax, a system of licensing may be introduced. The Association claims that, under the scheme of licensing suggested by them, there will be appreciable increase in revenue. The rates of licence fee proposed are as follows:—

<i>Turnover</i>	<i>Licence fee.</i>
Below Rs 20,000	Rs 10
Between Rs 20,000 and Rs 50,000	Rs 200
Between Rs 50,000 and Rs 1,00,000	Rs 500
Between Rs 1,00,000 and Rs 2,00,000	Rs 1,000
Above Rs 2,00,000	Rs 2,000

According to the Association the revenue from licence fee will be of the order of Rs 54 lakhs, i.e., over three times the present revenue from sales tax from hotels and restaurants.

6.66 On scrutinising the calculations made by the Association we gained the impression that the estimates of revenue were inflated with a view to make the proposal acceptable. We, therefore, formally obtained the comments of the Board of Revenue on the proposal. We find that there is a very large disparity between

the figures furnished by the Association and the Board of Revenue in regard to the number of hotels and restaurants. The two sets of figures are given below:

<i>Turnover</i>	<i>No. as furnished by the Board of Revenue (During 1966-67)</i>	<i>No. as furnished by the Association</i>
Rs 20,000 to 50,000	909	13,735
Rs 50,000 to 2,00,000	140	4,240
Above Rs 2,00,000	12	47

During the year 1966-67, only 1061 dealers in cooked food were assessed to tax by the department; the total tax assessed came to Rs. 9.4 lakhs only. Even assuming that the data furnished by the Association represent the latest position, the wide disparity remains unexplained. We therefore requested the Association to furnish us with a full list of catering establishments in each turnover group. We have received no reply so far. In view of this 'meaningful silence of the Association, we cannot give any credence to the conclusions of the Association.

6.67 The system of licensing has certain inherent drawbacks. The licence fee has to be related to the service that is rendered. There have been judicial verdicts that the fee should bear a reasonable relation to the extent of work involved in the enforcement of the licensing system. Licence fee cannot therefore be a substitute for tax. The system of licensing was in force in the State till 1st April, 1963 in respect of a few goods. It was on the basis of the recommendation of High Level Sales Tax Committee, 1960, that the licensing system was abolished. A system of compounding the tax is now in force in the case of dealers in cooked food whose turnover does not exceed Rs 50,000. We consider that the bulk of the hoteliers will get relief under this provision. In these circumstances, we do not suggest any change in the present system of assessment of tax on dealers in cooked food.

6.68 The data furnished by the Hotel and Restaurant Owners' Association lead us to think that there must be considerable evasion from tax in this sector. We therefore strongly urge the Department to tighten up the machinery and pay more attention to this sector so that all those who escape tax are brought into the net.

6.69 The 'Bakery Owners' Association, Taliparamba, has also made a similar request. Their suggestion is that the bakeries may be categorised into three, based on turnover, and a licence fee at

the rates of Rs. 250, Rs. 500 and Rs. 1,000 may be introduced in lieu of sales tax. For the reasons stated above, it is not feasible to have a licensing system for bakeries also. We are, however, much concerned about the condition of the owners of small bakeries. Before September, 1967 biscuits and cakes were subject to single-point sales tax. Accordingly, all bakery owners having an annual turnover of not less than Rs. 2,500 had to register themselves and pay tax. They did not enjoy the facility to compound tax at concessional rates. With a view to giving relief to them, biscuits and cakes have been brought under the multipoint system of taxation from September, 1967. Now, therefore, the bakery owners need register themselves only if their turnover reaches Rs. 7,500 in a year, and no sales tax is payable unless the turnover reaches Rs. 10,000. Furthermore, compounding facility is now available to them, provided the turnover does not exceed Rs. 25,000 in a year. There may, however, be cases of hardship in regard to assessments made under the old system. We would recommend that such cases may be viewed with sympathy and appropriate relief given by way of partial remission of the tax due.

6.70 Government have specifically referred to us the question whether the bigger hotels and catering establishments cannot be taxed at a higher rate. At present the catering establishments are liable to tax at 3 per cent multi-point. The Board of Revenue is not in favour of the proposal to tax posh hotels at a higher rate, for two reasons:

- (a) the number of such hotels in the State is very few and, from the revenue point of view, the proposal does not merit serious consideration; and
- (b) such hotels cater to tourists and, since it is necessary to prompt tourism in the State, it is not desirable to increase the cost of food and drink served in big hotels.

The size of the additional revenue realisable from a tax measure, though an important consideration in itself, is not the only factor to be reckoned with in a rational tax policy. The customers of big hotels belong to the affluent section of the community and are able to pay higher taxes. Again, according to us an increase in sales tax will have little impact on promotion of tourism; what tourists need are more good hotels and better amenities in them. After considering all aspects of the question we feel that there is a strong case for taxing hotels with an annual turnover of not less than Rs. 2 lakhs at a higher rate of 10 per cent.

(iii) *Standardization of registers and simplification of forms.*

6.71 A few suggestions in regard to standardisation of registers, elimination of certain unnecessary ones and simplification of forms

have been made before us. On enquiry we found that, at departmental conferences, such matters are usually discussed and appropriate decisions taken. Still we feel that there is need for a fresh look on this matter. We therefore recommend that the department may constitute a committee to examine all the existing forms and registers etc., and to make recommendations to simplify them to the extent possible and to eliminate those which do not serve any useful purpose.

Public Relations.

6.72 It has been said that it is difficult to tax and to please, for seldom does the tax-payer part with his money with a smile. An element of irritation and harassment is inherent in any system of tax-collection. The need for establishing good relations with the tax-paying public cannot therefore be over-emphasised.

6.73 It is the cutting edge level of the Department that conscious and purposeful efforts should be made towards the maintenance of good public relations. All enquiries, whether personal or otherwise, should be promptly and courteously disposed of. The attitude of helpfulness and understanding which the staff of the Sales Tax Office displays in their dealings with the visitors provides the base for the development of good public relations.

6.74. The Board of Revenue should issue a set of instructions to the subordinate officers for improving the relations between the public and the sales tax department. The Board should also publicise from time to time the important decisions taken by the Government or the department which are of interest to the dealers. All other information and guidance needed by the dealers should also be promptly supplied. Senior officers in the Board should, in the course of their tours, contact representatives of trade and commerce, and devise and implement measures by which an atmosphere of co-operation could be established between the department and the dealers.

6.75 With the growth and diversification of economic activities, the area of the operation of the sales tax system has widened. The various administrative decisions and judicial verdicts have developed new dimensions in the application of the laws. For successful administration of the laws, it is essential that all dealers are sufficiently well acquainted with the provisions of the rules and with the general decisions taken by the Department. The dealers, many of whom may not know more than the rudiments of account-keeping and business techniques, may have to be educated in all these matters. We consider that it is desirable that the Department issues bulletins or starts a regular journal for the benefit of the dealers, who may be enlisted as subscribers to the journal. Authoritative interpretations of law, useful summaries of judicial verdicts and of departmental instructions may be given in the journal.

6.76 We understand that the Sales Tax Advisory Committee is not functioning at the moment. A Committee consisting of representatives of trade and commerce and of the department will have a useful role to play in cementing the relations between the department and the assesses. The difficulties of the dealers can be explained at the meetings of the Committee and suitable measures evolved for their removal. We recommend that the Advisory Committee may be revived as early as possible.

Summary of conclusions and recommendations.

- (1) The substitution of a low multi-point tax in lieu of the existing combination of single-point and multi-point taxes is not acceptable as it is opposed to the social and economic objectives of the State's tax policy and as it will certainly result in shrinkage of revenue.

(Paragraph 6.21)

- (2) The alternative suggestion to give up the multi-point system completely in favour of a single-point levy at a high rate is also unsuitable to the conditions prevailing in Kerala.

(Paragraph 6.22)

- (3) The suggestion to replace sales tax on certain commodities like coffee and tea by an additional excise duty is not acceptable in view of the experience of the State with regard to the imposition of an additional excise duty on sugar, tobacco, textiles, etc. in replacement of sales tax.

(Paragraphs 6.23 & 24)

- (4) The commodities already handed over to the Centre for levy of additional excise duty, may be brought back to the ambit of State sales taxation for which the State Government may move the Government of India.

(Paragraph 6.24)

- (5) The sales tax on luxury goods may be raised from twelve to fifteen per cent

(Paragraph 6.27)

- (6) Low-priced radios and transistors may be taken out of the list of luxury goods and the tax thereon reduced to five per cent (single point)

(Paragraph 6.27)

- (7) Bullion and specie, precious stones and ornaments made of gold and silver may be classed as luxury articles and taxed accordingly.

(Paragraph 6.27)

- (8) Food grains and firewood, being articles of mass consumption, may be exempted from sales tax.

(Paragraphs 6.29 & 30)

- (9) The tax structure and rates in respect of some other commodities may be modified on the lines suggested in paragraph 6.27.

(Paragraph 6.27)

- (10) The incidence of sales tax on marine products is limited and, therefore, in this case, tax concessions may not give any appreciable competitive advantage to the exporters of such products. The removal of their difficulties, however, requires the concerted efforts of the Central and State Governments in respect of production, marketing and finances. For these reasons a reduction or exemption from sales tax is not considered necessary.

(Paragraph 6.32)

- (11) The cashew industry does not need any tax relief, on the other hand, in the process of rationalising the structure of sales tax, a slight increase in the tax rate from four to five per cent may be made.

(Paragraph 6.33)

- (12) To find a solution to the problems arising out of the disparities in tax rates in Madras and Kerala in regard to petrol and diesel oil, efforts may be made to come to an agreement between the States through inter-State consultations.

(Paragraph 6.34)

- (13) While increasing the purchase tax on coconut and copra from two to three per cent, relief may be given to the oil millers in the State by adopting the more feasible and practicable of the following alternatives:

- (a) Forgoing the existing one per cent tax on sale of oil and cake;
- (b) Collecting tax on sales at one per cent as at present and refunding the purchase tax on coconut and copra to the extent of two per cent;
- (c) Increasing the tax on sales turnover from one per cent to two per cent and refunding the entire purchase tax at three per cent.

(Paragraph 6.37)

- (14) No change is called for in the existing five per cent surcharge on sales tax imposed on the dealers.

(Paragraph 6.38)

- (15) The minimum taxable turnover, viz. Rs. 10,000 need not be enhanced.
(Paragraph 6.40)
- (16) Some of the exemptions from payment of sales tax can be removed as suggested in paragraph 6.41.
(Paragraph 6.41)
- (17) Among the measures that may be adopted to reduce the scope of evasion are simplification of the tax system, drafting of the laws and rules in precise and clear terms and enumeration of the taxable and non-taxable goods without vagueness and ambiguity. A constant search may be made to find out the loopholes in the laws and systems and to plug them effectively.
(Paragraph 6.45)
- (18) Trends of trade and channels of marketing may be studied from time to time, and suitable precautions taken to guard against suppression of turnovers and omission of certain types of transactions in the accounts of the assesseees.
(Paragraph 6.45)
- (19) Estimates of production of all important agricultural commodities may be compiled and, after making allowances for seed and wastage, non-monetised consumption, etc. may be compared with the actual turnover assessed to tax with the object of finding out the probable extent of evasion. Such studies will be quite revealing and will enable the department to take suitable action to tighten up the assessment and collection methods.
(Paragraph 6.46)
- (20) Arrangements may be made, in consultation with the railways, port authorities and the airlines, for checking goods (that may be notified for this purpose) entering the State at the railway stations, ports, airports and road checkposts along the State borders, the consignments being released only upon production of permits issued by the appropriate sales tax authority or railway receipts countersigned by such authority.
(Paragraph 6.47)
- (21) The question of dealing with avoidance of taxes by means of branch or depot transfers inter-State may be examined in consultation with other States. It may be possible to solve this problem by suitably amending the provisions of the relevant Central Acts.
(Paragraph 6.48)

(22) The feasibility of introducing double-point taxation in the case of commodities which are now taxed only at the last purchase point, such as rubber with a view to solving the problem of avoidance of tax by the sale of goods inter-State directly by the producers, may be considered. If this is feasible, the following alternative rate-structure may be considered in regard to rubber:

(a) Two per cent at the first sale point and three per cent at the last purchase point.

(b) Three per cent at the first sale point and two per cent at the last purchase point.

(Paragraph 6.49)

(23) The Board of Revenue should issue stringent instructions to ensure that appeal cases are taken up in their chronological order, whether they are simple or complex; while reviewing the progress of disposals against the prescribed norms some weightage should be given to the more complex cases.

(Paragraph 6.56)

(24) All the appeal cases not yet posted for hearing as on a particular date may be segregated and disposed of by appointing special Appellate Assistant Commissioners.

(Paragraph 6.56)

(25) A time-limit of six months may be fixed for disposing of fresh appeal cases; cases that are delayed beyond this period should be separately reviewed by the Board of Revenue and suitable remedial action taken.

(Paragraph 6.56)

(26) It is not necessary to appoint Judicial Officers as Appellate Assistant Commissioners. But in selecting officers to the cadre of Appellate Assistant Commissioners preference should be given to persons having legal qualifications; senior officers may be posted for appellate work so that they would not only be able to maintain high standards of detachment, impartiality and justice but also inspire confidence in the public.

(Paragraphs 6.57 & 58)

(27) An officer selected for placement as Appellate Assistant Commissioner may, before he starts functioning as appellate authority, be given training for, say, three months by attaching him to the Presiding Officer of a Civil Court, so that he may develop a judicial frame of mind.

(Paragraph 6.58)

- (28) There should be properly equipped reference libraries in the offices of the Appellate Assistant Commissioners and the Tribunal.

(Paragraph 6.58)

- (29) No change in the constitution of the Appellate Tribunal is necessary.

(Paragraph 6.59)

- (30) Prompt action should be taken on the decisions in appeal cases. Whether an order in appeal should be further appealed against should be decided within fifteen days in normal cases. Even in complicated cases the matter should be accorded a high priority at all levels.

(Paragraph 6.60)

- (31) Refunds arising out of the decisions of appellate authorities should be given promptly; complaints of delay in this matter should receive serious attention.

(Paragraph 6.61)

- (32) Decisions of appellate authorities and High Court having a bearing on future assessments should be quickly brought to the notice of all assessing officers. The Board of Revenue should also issue suitable clarifications and instructions based on judicial verdicts for the guidance of the assessing authority.

(Paragraph 6.62)

- (33) Formal application for compounding tax need not be insisted upon; all dealers whose turnover is within the prescribed limits may be enabled to pay tax at compounded rates without further formalities. Necessary amendments may be made in the Act and Rules for this purpose.

(Paragraph 6.63)

- (34) The taxable turnover, and not the total turnover, may be the basis for allowing composition of tax.

(Paragraph 6.64)

- (35) As in the case of dealers in cooked food the compounded rates may be expressed in terms of fixed sums in the case of other dealers also. The rates suggested in paragraph 6.64 may be adopted for this purpose.

(Paragraph 6.64)

- (36) It is not desirable to introduce licensing system in replacement of sales tax in the case of hotels and restaurants.

(Paragraph 6.67)

- (37) As it appears that there is a good deal of evasion of tax by the proprietors of hotels and restaurants, the sales tax department may take steps to pay more attention to this sector, so that all those who have escaped tax are brought into the net.
(Paragraph 6.68)
- (38) Cases of hardship arising out of the assessments made in respect of small bakeries while biscuits and cakes were liable to single-point sales tax may be viewed with sympathy and appropriate relief given by way of partial remission of the tax due.
(Paragraph 6.69)
- (39) Food served in hotels with an annual turnover of not less than Rs. 2 lakhs may be taxed at a higher rate of 10 per cent.
(Paragraph 6.70)
- (40) A committee may be constituted in the sales tax department to examine all the existing forms and registers and to make recommendations to simplify them to the extent possible and to eliminate those which do not serve any useful purpose.
(Paragraph 6.71)
- (41) The Board of Revenue may issue a set of instructions to the subordinate officers for improving the relations between the public and the sales tax department.
(Paragraph 6.74)
- (42) Important decisions taken by the Government or the Department which are of interest to the dealers may be published from time to time.
(Paragraph 6.74)
- (43) Senior officers in the Board of Revenue should, in the course of their tours, contact representatives of trade and commerce, and devise and implement measures by which an atmosphere of co-operation could be established between the department and the dealers.
(Paragraph 6.74)
- (44) The sales tax department may issue bulletins or start a regular journal for the benefit of the dealers, who may be enlisted as subscribers to the journal. Authoritative interpretations of law, useful summaries of judicial verdicts and of departmental instructions may be given in the journal.
(Paragraph 6.75)
- (45) The Sales Tax Advisory Committee may be revived as early as possible.
(Paragraph 6.76)

CHAPTER 7

TAXES ON MOTOR VEHICLES

Historical Background.

7.1 The history of taxation of motor vehicles in India begins with the passing of the Indian Motor Vehicles Act of 1914. This Act was, however, mainly intended to regulate and control motor traffic in the country. Various kinds of fees were also prescribed in the Act for purposes of registration, permits, driving licences, etc., and these constitute the first direct impost on motor vehicles. Indirect levies like tolls and customs duties were, however, in existence even from an earlier period. The expansion of motor vehicle traffic in the years following the first World War highlighted the need for systematic development of roads for which financial resources had to be found. The Indian Road Development Committee set up by the Government of India in 1927 studied the problem and recommended the creation by the Central Government of a Central Road Fund out of the proceeds of a special tax on motor spirit, and the imposition of a special tax on motor vehicles by the Provinces. The Committee had envisaged that the motor vehicles tax would be a consolidated tax re-placing separate levies like tolls. It was based on the recommendation of the above Committee that a regular tax on motor vehicles was introduced.

7.2 The Government of India Act 1935 did not, however, make any specific mention of 'tax on motor vehicles' but the Provincial Governments legislated on this subject under the residuary powers vested in them. Under the Constitution of India, "taxes on vehicles" is in the State List (entry 57 in List II in the Seventh Schedule). There is also a new item "Taxes on goods and passengers", in the State list (entry 56 of List II). At the same time, there is an entry in the Concurrent List regarding "mechanically propelled vehicles including the principles on which taxes on such vehicles are to be levied" (entry 35 of List III). No legislation on the principles of taxation of motor vehicles has been enacted by the Centre so far.

7.3 Taxation of motor vehicles had been the subject of enquiry by various committees from time to time. The first comprehensive study of the subject since independence was made by the Motor Vehicles Taxation Enquiry Committee (1950). This Committee was appointed to enquire into the systems of taxation existing in the different states and to recommend the basis of a scientific system of taxation with the object of providing 'cheap, rapid and efficient transport', and of securing reciprocity in taxation between various

States. The Committee found that there were variations in the number and nature of levies existing in the various States. The Committee found that there were variations in the number and nature of levies existing in the various States. It recommended that there should be only two taxes on motor vehicles, viz., fuel tax and motor vehicles tax, and that all other taxes like entrance tax, tax on passengers and goods, local taxes like octroi, tolls, wheel taxes, etc., should be abolished. The Committee also suggested suitable ceilings for fuel tax (i.e., tax on motor spirit) and motor vehicles tax. The basis of motor vehicles tax was also prescribed as follows:—

Motor cycles—flat rates
 Motor Cars—unladen weight
 Goods vehicles—laden weight
 Buses—seating capacity.

7.4 There was no general agreement among the States in regard to the abolition of octroi and other local taxes or to the fixation of ceilings on motor vehicles tax. The Technical Committee of the Transport Advisory Council, considering the recommendations of the Motor Vehicles Taxation Enquiry Committee, came to the conclusion that ceilings should be prescribed and specified in the legislation to be enacted under Entry 35 of the Concurrent List. As no unanimity among the States could be reached on this matter, further action was not pursued.

7.5 The Taxation Enquiry Commission (1953-54), while endorsing the recommendations of the Motor Vehicles Taxation Enquiry Committee regarding the principles and basis of taxation of motor vehicles, adopted a more pragmatic approach in regard to the question of laying down ceilings and consolidating all taxes into a single tax on motor vehicles. The Commission held that the question of fixing maximum rates was chiefly one of co-ordination between State taxation and Union policies and was a matter to be cleared by the Transport Advisory Council or decided by an inter-State Taxation Council to be set up. As regards multiple taxation, the Commission's view was that, where the rates of motor vehicles tax were kept adequately low, a tax on passengers and goods might reasonably be levied, but, where the motor vehicles tax itself was very high, the levy of a separate tax on passengers and goods would be unjustifiable. It also pointed out that the question of abolition of octroi, terminal taxes, etc., should be decided on broader grounds and not merely on the basis of their impact on motor vehicles tax.

7.6 Since 1950, several States not only raised the rates of motor vehicles tax but introduced a new tax on passengers and goods, even though the key note of the deliberations of all Committees or study groups set at the all India level was tax-reduction and tax-simplification. The Road Transport Taxation Enquiry Committee (1965-67)

which is the latest Committee to report on this subject has pointed out that "in spite of several Committees having gone into the question and recommended a ceiling on motor vehicles tax and uniformity in taxation levels, no practical step has been taken to implement the recommendations" The Committee's finding is as follows:—

"A perusal of taxation statistics indicates that taxes on motor vehicles increased at a rate faster than all other taxes. In 1950-51 taxes on motor vehicles formed 6.15 per cent of the total revenue of the country. The percentage had increased to 8.55 in 1959-60 and in 1965-66 it had risen to 13.33 of the total tax revenue. Compared to the growth of national income or the net output from commerce, transport and communications, the revenue realised from motor vehicles taxes has registered a substantial growth during the last fifteen years."

This Committee has come to the conclusion that the tax element in the cost of operation of the motor transport system has become a definite disincentive to the healthy development of road transport. The recommendations of the Committee in regard to taxation of motor vehicles may be summarised as follows:—

- (i) The number of taxes affecting motor vehicles should be the minimum and it would be preferable for all of them to be collected by a single agency. There should be a provision for compounding goods and passenger tax.
- (ii) State Governments should base their taxation schedules for goods vehicles on registered laden weight. Uniformity in tax procedures is the first step for rationalisation of the tax structure on all-India basis.
- (iii) The Central and State Government should consider having a concessional rate of tax for all light commercial vehicles up to a payload of one tonne.
- (iv) From many points of view, fuel tax would be an ideal way of realising revenue from motor operation.
- (v) Fees are charges for specific services rendered. They are to be related to the cost on these services. Taxes should not be levied in the guise of fees.
- (vi) The principles of taxation should be embodied in an Act of Parliament.
- (vii) Some relief should be given by way of tax reductions to the transport operators. If this is not possible, atleast no further increase should be made in the existing level of taxation.

7.7 The Road Transport Development Council, which met recently at Mysore, discussed the subject of taxation of motor vehicles with

specific reference to the recommendations of the above Committee. The consensus of opinion expressed at the meeting of the Council was in favour of a tax-freeze.

7.8 Motor vehicle taxation in Kerala followed more or less the same pattern as in other States. In the former states of Travancore and Cochin, tax on motor vehicles was introduced in the year 1121 M.E. (1946 A.D.). After the integration of these two States, a unified Act (Travancore-Cochin Vehicles Taxation Act) was introduced in 1950. This Act was in force in the Travancore-Cochin area at the time of the formation of the Kerala State. In the Malabar area, the Madras enactments were in force. Madras was one of the earliest States to levy motor vehicles tax; the rates of tax were also very high compared to those in force in other States. The ceiling rates of tax suggested by the Motor Vehicles Taxation Enquiry Committee, 1950, were lower than the rates prevalent in the State of Madras. From 1953, a tax on passengers and goods was also levied by the Madras State. Thus at the time of States' reorganisation, there was a tax on passengers and goods, besides motor vehicles tax in the Malabar area. The tax systems in the constituent units of Kerala State were unified only in 1963.

7.9 The administrative arrangements were, however, unified in 1958. Till then, the administration of the tax was the responsibility of the Police Department in the Travancore-Cochin area. A traffic and taxation branch was attending to this work in that Department. In the Malabar area, there was a separate Regional Transport Officer in charge of this work. With effect from 1st July 1958, a separate motor vehicles department was formed for the administration of the Acts relating to taxation of motor vehicles and regulation of motor traffic.

7.10 The Kerala Motor Vehicles Taxation Act, 1963, and the Kerala Motor Vehicles (Taxation of Passengers and Goods) Act, 1963, were brought into force throughout the State from 1st July 1963. Along with the unification of the tax systems, the rate-structure was also revised upwards. On private motor vehicles, a vehicles tax only is levied, while on stage carriages and public carrier vehicles a tax on passengers and goods is also levied in addition to motor vehicles tax. The Kerala Motor Vehicles (Taxation of Passengers and Goods) Act 1963 was amended in 1967 providing for the levy of a tax on goods on private carrier goods vehicles, as in the case of public carrier goods vehicles. The motor vehicles tax on goods vehicles having a laden weight of 11000 kgs. and above was also enhanced. Similarly the compounded rates of tax on goods on vehicles with a registered laden weight of 9500 kgs. and above were also increased in 1967. These increases in tax led to a state-wide agitation and as a result of discussion between the representatives

of lorry owners and the Government it was decided to reduce the rate of motor vehicles tax on goods vehicles falling in the highest slab of laden weight and to restore the status quo in respect of the tax on goods applicable to them.

Existing System

7.11 The basis for taxation of motor vehicles is laden weight for goods vehicles, seating capacity for stage carriages and unladen weight for other vehicles including motor cycles. The tax is fixed for a quarter and is payable in advance. The rates of tax applicable to the most common categories of vehicles are given below:—

	Rs.
1. Private cars (more than 750 kg. but not more than 1500 kg. unladen).	40 a quarter
2. Motor vehicles plying for hire, permitted to carry:	
(a) more than 3 persons but not more than 5 persons	100 „
(b) more than 5 persons:	
(i) for every seated passenger, if the distance permitted to be covered in a day—	
— does not exceed 200 kms.	35 „
— exceeds 200 kms.	40 „
(ii) For every standing passenger	10 „
3. Goods vehicles at fixed rates based on laden weight.	
Vehicles exceeding 11000 kgs. but not exceeding 12000 kgs.	800 „
For every additional 250 kgs.	25 „

Where the registered owner of a motor vehicle is a co-operative society, the tax payable is only one-half of the normal rates. Motor vehicles used for agricultural operations are completely exempted from tax.

7.12 Tax on passengers and goods is levied at the following rates:—

Stage carriages	10 per cent on the fares and freights.	
Public carrier goods vehicles	5 per cent on the freights.	
Private carrier goods vehicles	2 paise per tonne-kilometre of the goods.	

There is provision to compound the tax in the following manner:—

Stage carriages	48 paise per seat per year per kilometre of the total distance permitted to be covered in a day or, at the option of the operator, Rs 25 per seat per quarter; for every standing passenger one third of the above fee.
Public carrier vehicles	Rs 112.50 per quarter.

Almost all the transport operators are compounding the tax on passengers and goods, as otherwise they will have to maintain elaborate accounts, submit a number of returns, and produce registers, counterfoils of tickets etc., for inspection.

7.13 In addition to these two taxes, fees are imposed for various purposes under the Indian Motor Vehicles Act. The rates in some cases are prescribed in the above Act itself; in other cases the State Government have prescribed the rates. The fee for driving license falls under the first category. Fees for learner's license, for issue of badges to driver and conductor, for registration of motor vehicles, for fitness certificates, for permits etc., are laid down in the Kerala Motor Vehicles Rules, 1961.

7.14 Taxes on motor vehicles have grown in importance in recent years. The revenue from this source rose from Rs 1.5 crores in 1957-58 to Rs 6.02 crores in 1967-68. The steady increase in the number of vehicles as well as the enhancement of the rates and the extension of the tax on passengers and goods throughout the State in 1963 have contributed to the buoyancy of these taxes. The following table indicates the order of the increase in the number of vehicles in the State:—

	1958-59	1966-67
Motor cycles	1362	6611
Motor cars including jeeps	9363	22683
Taxi cabs including autorikshaws	1045	5626
Goods vehicles	4303	9184
Stage carriages	2616	4273
Others	426	1129
	<hr/>	<hr/>
	19115	49506
	<hr/>	<hr/>

Simplification of the tax system.

7.15 The replies to our questionnaire contain inter alia the following suggestions for simplifying the tax system:—

- (i) A fuel tax may be introduced abolishing the existing taxes on motor vehicles and on passengers and goods.

- (ii) The tax on passengers and goods which is now levied separately may be combined with the tax on motor vehicles.

The levy of a special tax on motor spirit as a supplement to vehicles tax was first recommended by the Indian Road Development Committee, 1927. The Motor Vehicles Taxation Enquiry Committee 1950 suggested that, in the place of the existing multiplicity of taxes, there should only be two taxes on motor vehicles, viz., a fuel tax and a motor vehicles tax. According to the Committee the fuel tax should be in the form of a surcharge on Central excise duties. The Road Transport Taxation Enquiry Committee, 1965-67 has gone a step further and commended the levy of a fuel tax abolishing all other taxes on motor vehicles. It is claimed that such a tax would be quite convenient for the taxpayer, and easy to collect. There would be minimum scope for evasion.

7.16 Attractive as the proposal appears to be at the first blush, it is doubtful whether it will be feasible in the conditions in our country. No doubt, it has the virtue of simplicity and of apparent equity. Fuel, i.e., motor spirit, is even now subjected to central excise duties and State sales tax. The present proposal therefore amounts to increasing either the excise duties or the sales tax on motor spirit. The possibility of a special levy is also there; but it would make taxation of motor spirit more complicated. Motor spirit is now taxed at the point of production and sale, and it will be easier to increase the levy at one of these points than to design a new method of taxation. If sales tax is to be increased to the extent necessary to cover the proceeds of taxes on motor vehicles also, the quantum of increase will have to vary considerably from State to State. Motor spirit is a commodity that largely figures in inter-State transactions and the disparities in tax incidence on this commodity will place certain States in a disadvantageous position. The alternative may be to levy an additional excise duty on motor spirit. Even though, from the point of view of collection there will be no complication, difficulties will arise in the determination of the entitlement of each State out of the proceeds of the additional excise duties. Further, no State is likely to agree to a curtailment of its power of taxation. Thus the proposal to levy fuel tax is not feasible and does not take into account the economic, political and constitutional realities. Even otherwise fuel tax would not be an equitable levy as it is not related to ability to pay. The incidence of the tax falls in equal measure on the transport operator who is running a business and on the owner of a private vehicle. The proposal cannot therefore be supported, even if it were administratively feasible.

7.17 The second proposal, viz., combining motor vehicles tax and tax on passengers and goods into a single levy, is worth consideration.

Till 1963, a single motor vehicles tax was being levied in the Travancore-Cochin area. The Motor Vehicles (Taxation of Passengers and Goods) Act has thrown irksome responsibilities on the operators of stage carriages and goods vehicles. The computation of the tax under the provisions of this Act is a strain not only on the operator but on the Department also. The drill prescribed in the above Act and the Rules issued under the Act is a matter of deep resentment to operators, particularly those in the Travancore-Cochin area who were unused to the system of taxation of passengers and goods. The provision for compounding the tax is, of course, a silver lining. But even for paying the tax at compounded rates, the operator has to apply in the prescribed form seeking permission for compounding the tax. After getting authorisation from the Regional Transport Officer, he has to make remittance at the treasury. All these complications can be avoided by combining the tax on passengers and goods with the motor vehicles tax. We therefore recommend that the separate tax on passengers and goods may be abolished and that the rates of motor vehicles tax may be correspondingly enhanced.

7.18 We understand that the unilateral abolition of tax on passengers and goods and consequent enhancement of motor vehicles tax by one State may lead to disparities in the tax burden on inter-State operators of transport vehicles. A transport operator of our State permitted to operate in the neighbouring States of Madras and Mysore also will have to pay the higher rate of motor vehicles tax here under the new system and also the tax on passengers and goods in force in Madras or Mysore on the basis of the mileage operated in that State. At the same time an operator of Madras or Mysore permitted to operate in Kerala also need pay only the lower motor vehicles tax in that State and no tax at all in Kerala in the absence of any separate tax on passengers and goods here. This puts the inter-State operator of Kerala at a disadvantage as compared to his counterpart in Madras or Mysore. We suggest that suitable inter-State agreement may be made with the neighbouring States to avoid such anomalies, when the simplified system of tax recommended by us is introduced.

Tax relief.

7.19 The representatives of transport operators who met the Committee have strongly pleaded for a reduction of the tax burden. It is pointed out that transport operation has become uneconomic owing to the rising cost of operation brought about mainly by the taxation policies of the Centre and the State. The prices of vehicles, spare parts and components and motor spirit have gone up considerably during the last few years, the order of increase ranging from 12 per cent in the case of diesel oil to over 100 per cent in the case of batteries and certain spare parts. The wages of labour have also increased substantially during this period. Furthermore, it is alleged that, as compared to the State Road Transport Corporation, private

operators are in a disadvantageous position in the following matters:—

- (a) Private operators have to face stiff competition.
- (b) They are constrained to raise finances on very unfavourable terms.
- (c) Since the State Road Transport Corporation has a sort of monopoly in respect of most of the long-distance routes the private operators are mostly left with uneconomic short-distance routes.
- (d) Many of the roads along which they are operating are not generally as well maintained as the National or State Highways, and hence their vehicles are subjected to greater wear and tear.

7.20 The main demand of the operators is that fares should be enhanced in keeping with the increase in the cost of operation. In view of the persistent representations made by them, the Government appointed a committee in December 1966 to examine the fare structure and to make appropriate recommendations. This Committee submitted its report in October 1967. Since the recommendations of this Committee are before the Government we have not made a separate study of the question of fare-increase and hence are not making any specific recommendations in this matter.

7.21 Coming to tax relief, regarding which also we have received representations, we feel that the simplification of the tax system suggested by us will go a long way towards removing irksome and irritating procedures, particularly in regard to the tax on goods and passengers. We consider that a relief by way of tax reduction as such is not called for. The incidence of the taxes in Kerala cannot be held to be very high when compared to the rates in the neighbouring States; the tax burden in our State is in fact, lower than in Andhra Pradesh which simplified the tax system in 1963, abolishing the tax on passengers and goods.

Proposals for augmenting revenue.

7.22 Taxes on motor vehicles directly impinge on the road transport system which has to play a vital role in a State like Kerala where rail mileage is woefully inadequate. The operational cost of road transport is comparatively high in the State in view of the uneven terrain and the frequent damages to the road system caused by the monsoons. Taxation of motor vehicles is, therefore, an area where one has to proceed very cautiously and where the principle of 'what the traffic can bear' has to be strictly applied. The economic conditions in the State and the low per capita income act as limiting factors to increasing fares in keeping with rise in tax levels. We, therefore, consider that there is hardly any scope for raising taxes on motor vehicles.

7.23 Nevertheless, there is one area which requires attention. Rules 301 and 302 of the Kerala Motor Vehicles Rules 1961 prescribe the minimum number of seats for stage carriages according to their wheel-base. The minimum prescribed for various types of vehicles is low; it does not exceed 39 in the case of any vehicle. The modern types of vehicles have a large wheel-base and invariably have a much higher seating capacity than that provided in these rules. Of course, the rules prescribe only the minimum and the operators are at liberty to increase the number and provide for a higher seating capacity. In actual practice most of the private operators, especially in Travancore-Cochin area, provide only the minimum number of seats so that the tax liability is kept at the minimum. Depending upon the route mileage, vehicle tax ranges from Rs 35 to Rs 40 per quarter in respect of a seated passenger and Rs 10 per quarter in respect of a standing passenger. The number of standing passengers is reckoned at one-fourth of the seating capacity. The compounded rate of tax on passengers works out to Rs 25 per sitting passenger and Rs 8.33 in the case of standing passenger. By providing only the obligatory minimum number of seats, the transport operators stand to gain as they need pay tax at a lower rate only while they will in fact be getting higher returns by carrying passengers up to the full capacity.

7.24 At the discussions with the Transport Commissioner and other departmental officers the Committee was informed that there is scope for revising the table prescribing the seating capacity for vehicles of different wheel-bases. The department has already examined this question and has sent proposals to the Government for revising the table contained in Rule 302 in the following manner:—

<i>Existing</i>		<i>Proposed</i>	
<i>Wheel-base</i>	<i>Seats</i>	<i>Wheel-base</i>	<i>Seats</i>
100" to 115" (both inclusive)	16	100" to 115"	16
116" to 130"	20	116" to 120"	20
131" to 145"	23	121" to 135"	25
146" to 165"	27	136" to 160"	30
166" to 180"	34	161" to 170"	35
181" to 199"	36	171" to 195"	45
200" and above	39	196" to 210"	50
		above 210"	55

We recommend the above proposals of the Department for the acceptance of the Government.

7.25. On the basis of the details of vehicles furnished by the Department, the additional revenue per annum consequent on the conversion of the existing stage carriages into the revised seating pattern is estimated to be Rs. 65 lakhs under motor vehicles tax and Rs. 37 lakhs under tax on passengers and goods. But the conversion of the existing vehicles fitting them into the new seating pattern can only be done in stages; time may be allowed till the end of March 1970 for completing such conversion. The full financial effect of the proposal will therefore be realised only from the beginning of the financial year 1970-71. About 400 vehicles are newly registered every year; and in their case provision of seats under the revised formula can be insisted upon as a condition precedent to registration. On an average an additional revenue of Rs. 18 lakhs will be realised every year on account of new vehicles put on the road.

7.26 The Kerala Motor Vehicles Rules 1961 prescribe the rates of fees for registration of vehicles, transfer of vehicles, application for permits, issue of trade certificates, issue of fitness certificates etc. These rules have been issued in exercise of the powers conferred on the State Government under the Motor Vehicles Act 1939, (Central Act IV of 1939). The rates in many of the cases have been fixed years back. On a review of the entire rate-structure, we consider that there is justification for raising the rate in most of the cases. In one case, however, the rate should be reduced, as it has been increased disproportionately last year. Our proposals are contained in the Annexure to this chapter.

Problems of administration.

7.27 The Transport Commissioner is the head of the motor vehicles department. There is no full-time Transport Commissioner; the Second Member, Board of Revenue, is also the ex-officio Transport Commissioner. He is assisted by a Deputy Transport Commissioner and a Secretary at the headquarters. In each revenue district, there is a Regional Transport Officer assisted by a Joint Regional Transport Officer and a Motor Vehicles Inspector. The Deputy Commissioners of Agricultural Income Tax and Sales Tax Department who are functioning on a zonal basis are also given limited powers of control and supervision over the Regional Transport Officers. At the lowest level of the hierarchy are the Assistant Motor Vehicle Inspectors who are posted for field duties such as checking vehicles, testing them for issue of fitness certificates etc. No territorial jurisdiction has been prescribed for the Assistant Motor Vehicle Inspectors. The functions of the department may be classified into two—those relating to regulation of motor traffic and those relating to collection of taxes. The Motor Vehicles Act, 1939 (Central enactment), contains provisions, in so far as they are applicable to the State, are administered by the Department. The Department is also responsible for the realisation of taxes on motor vehicles.

7.28 From our discussions with members of the public and departmental officers, we got the impression that the department is on the whole not functioning at the desired level of efficiency. Norms of workload have not been prescribed for and followed by the staff, with the result that work has tended to accumulate and fall into arrears. Delay is the root cause of corruption and other malpractices; the need for ensuring prompt and timely disposal in a tax collection department saddled with regulatory functions cannot be over-emphasised. We were informed that, in 1961, the question of fixing norms of workload for the clerical staff was taken up and at a departmental conference certain yardsticks were actually evolved. But these have not been finally accepted; nor have steps been taken to strengthen the staff to the extent necessary. Quite recently, Joint Regional Transport Officers have been appointed in the districts to give relief to the Regional Transport Officers, but, so far as office staff is concerned, the position remains the same. We, therefore, recommend that early steps may be taken to fix suitable norms of workload and to strengthen the clerical and other staff to the extent found necessary on the basis of such norms.

7.29 To ensure prompt realisation of dues, it is very necessary that D.C.B. accounts are maintained properly. The accounts branch of the Regional Transport Offices should be properly equipped for this purpose. It is understood that the Government have recently decided to dispense with the system of maintenance of D.C.B. accounts in respect of all non-transport vehicles for the reason that the taxes realised from them amounted to only four per cent of the total revenue whereas the vehicles constituted about sixty per cent of the total number of motor vehicles in the State. We agree that this is a step in the right direction, but other appropriate measures should be adopted to check whether taxes are being paid without default by the owners of such vehicles. For example, checking of such vehicles en route periodically may serve the purpose. The reduction in the volume of work under our suggestion would of course, enable the staff to devote concentrated attention on transport vehicles and might minimise the need for additional clerical staff at the time of enforcement of the norms of workload. We also recommend that an accounts branch may be organised in each of the offices of the Regional Transport Officer under a Head Accountant.

7.30 At our discussions with the departmental officers, we felt the necessity for a 'planning and development wing' in the head office of the Department so as to make a systematic study of taxation and the problems relating to transport development. Transport being a very sensitive and vital sector, it is necessary to examine all proposals having an impact on it in their proper perspective. A properly organised planning and development wing will be able to collect the necessary statistics, initiate relevant studies and evolve sound policies.

7.31 Another weak point in the administrative system is the inadequate control exercised by the Deputy Commissioners of Agricultural Income Tax and Sales Tax. These Deputy Commissioners whose main work and interest lies in the administration of their department, have not been able to supervise the work of the Regional Transport Officers in a systematic way. The Deputy Transport Commissioner functioning at Trivandrum may not find time to exercise a close vigilance over the work of all officers in the Department. To minimise the opportunities for corruption and other malpractices, proper supervision is necessary. We would, therefore, urge that suitable arrangements may be made in the department to ensure proper supervision over the work done by the subordinate officers.

7.32 Our proposals for toning up the administration might involve some additional expenditure, but we consider that this will be fully justified not only by the increased tempo in collections but by the efficient level of services that will be rendered to the public.

Summary of conclusions and recommendations

1. The proposal to levy a fuel tax in lieu of the existing taxes on motor vehicles and on passengers and goods is neither feasible nor acceptable.
(paragraph 7.16)
2. The tax on passengers and goods may be abolished and the rates of motor vehicles tax correspondingly enhanced.
(paragraph 7.17)
3. The tax reform suggested above might operate to the disadvantage of owners of transport vehicles registered in Kerala and operating on inter-State routes. To avoid such a situation it is necessary to come to a suitable agreement with the neighbouring States.
(paragraph 7.18)
4. Since the recommendations of the Stage Carriages Fare Revision Committee (1966-67) are before the Government we have not made a separate study of the question of fare-increase and hence are not making any specific recommendations in the matter.
(paragraph 7.20)
5. Any relief by way of tax reduction as such in the case of transport operators is not called for.
(paragraph 7.21)
6. There is hardly any scope for raising taxes on motor vehicles.
(paragraph 7.22)

7. The proposal submitted by the Motor Vehicles Department to the Government for revision of the seating capacity of vehicles of different wheel-bases as indicated in paragraph 7.24 may be accepted.
(paragraph 7.24)
8. Time till the end of March 1970 may be allowed to the operators for completing the conversion of existing vehicles fitting them into the new seating pattern.
(paragraph 7.25)
9. In the case of transport vehicles to be newly put on the road provision of seats under the revised formula can be insisted upon as a condition precedent to registration.
(paragraph 7.25)
10. The fees prescribed under the Kerala Motor Vehicles Rules may be revised as recommended in the Annexure to this chapter.
(paragraph 7.26)
11. Early steps may be taken to fix suitable norms of workload and to strengthen the clerical and other staff to the extent found necessary on the basis of such norms.
(paragraph 7.28)
12. While agreeing that the decision to dispense with the system of maintenance of D.C.B. accounts in respect of all non-transport vehicles is a step in the right direction, it is considered necessary to adopt other appropriate measures like periodical checking of such vehicles en route, to ensure that taxes are being paid without default by their owners.
(paragraph 7.29)
13. An accounts branch may be organised in each of the Regional Transport Offices under a Head Accountant.
(paragraph 7.29)
14. It is desirable to have a properly organised Planning and Development Wing at the headquarters of the department so as to make a systematic study of taxation and the problems relating to transport development.
(paragraph 7.30)
15. Suitable arrangements may be made in the department to ensure proper supervision over the work done by the subordinate officers.
(paragraph 7.31)

ANNEXURE

(Vide paragraph 7.26)

<i>Name of Service</i>	<i>Existing rate</i>	<i>Proposed rate</i>
(1)	(2)	(3)
	Rs.	Rs.
<i>Driving licence</i>		
For learner's licence ..	2.00	5.00
For oral test for authorisation to driving transport vehicles ..	2.00	5.00
For issue of a badge ..	2.00	5.00
For test of competence for parts I and II or for part II alone	2.00	5.00
School of motoring for the grant of an initial authorisation for one year ..	25.00	50.00
For issue of a duplicate badge ..	2.00	5.00
<i>Conductor's licence</i>		
For oral test of conductor ..	1.00	2.00
For issue of a badge ..	2.00	5.00
For duplicate badge of conductor ..	2.00	5.00
<i>Transfer of ownership</i>		
Noting of transfer of ownerships:		
(i) of a motor cycle ..	2.00	5.00
(ii) of a vehicle other than motor cycle ..	100.00	25.00
<i>Registration of Motor Vehicles</i>		
(a) For a motor cycle below 3 1/2 H. P. ..	5.00	15.00
(b) For any other motor cycle or a motor cycle with side car or an invalid carriage ..	10.00	25.00
(c) For a light motor vehicle ..	20.00	50.00
(d) For a medium motor vehicle ..	30.00	60.00
(e) For a heavy motor vehicle ..	40.00	100.00
(f) For a road roller ..	25.00	40.00
(g) For a trailer ..	10.00	30.00
(h) For a temporary registration ..	2.00	5.00
For issue of a duplicate registration certificate ..	2.00	5.00
For making a note of hire purchase agreement in the registration certificate of a vehicle already registered or cancellation of the note regarding hire purchase agreement ..	2.00	5.00
<i>Trade certificate—for grant or renewal;</i>		
(a) For motor cycle not exceeding 8 cwt. unladen weight ..		
(i) for 12 months ..	6.00	10.00
(ii) for 3 months or part thereof ..	2.00	5.00

<i>Name of Service</i>	<i>Existing rate</i>	<i>Proposed rate</i>
(1)	(2)	(3)
	Rs.	Rs.
(b) In any other case;		
(i) for 12 months ..	30.00	50.00
(ii) for 3 months or part thereof ..	10.00	15.00
For duplicate trade certificate ..	2.00	5.00
For recording an alteration to a motor vehicle ..	2.00	5.00
For grant or renewal of certificate of fitness		
(a) For a contract carriage ..	15.00	25.00
(b) For any other transport vehicles ..	25.00	40.00
For issue of duplicate fitness certificate ..	2.00	5.00
For supply of copies of particulars of registration for every 5 or lesser number of vehicles ..	1.00	5.00
<i>Control of transport vehicles</i>		
For appeal under section 64 to State Transport Authority ..	10.00	25.00
For revision petition to State Transport Authority ..	25.00	50.00
For every application for permit to be published under section 57 (3) of the Act ..	15.00	25.00
For issue of duplicate permit (Part A or B or for both) or for issue of duplicate temporary permit ..	2.00	5.00
For transfer of permit on the death of holder ..	2.00	5.00
For issue of or renewal of a licence for 12 months ..	25.00	50.00

* The exemption allowed to the Kerala State Road Transport Corporation may be withdrawn.

CHAPTER 8

STATE EXCISE DUTIES

Historical background.

8.1 The term 'excise' means Government tax or duty levied on certain goods manufactured, sold or used within a country. 'Duties of excise on alcoholic liquors for human consumption' have remained a source of revenue of the State or Provinces in India since they began to be levied. Thus State excise duties have come to mean in common parlance duties on liquors. Though intoxicating drinks were consumed from the earliest periods of our history, the levy of a duty or a tax on them with a view to secure revenues for the Government is of recent origin.

8.2 In India the system of levying duty on liquors began only with the advent of the British. The excise laws and rules framed during the early British period were largely modelled on the British liquor laws. The outstill system under which large areas were farmed out to individual bidders for excise purposes was followed throughout the country. Under this system, the right of manufacture and sale was entrusted to the same farmer over an extensive area. Within that area the farmer was free to open as many shops as he chose. The farming system underwent gradual changes. The area of the farms was reduced; later on, the right to distil and sell in specified places was sold in auction. The next stage in the evolution of the excise system was the separation of the right of manufacture from that of sale. This led to the establishment of a number of private distilleries. A later development was the auctioning of the right of sale in independent shops. Thus the present system has been evolved through a series of experiments. The principles underlying the excise policy were adumbrated in the Government of India Resolution of 1905; in a nutshell these were "minimum consumption and maximum revenue". Accordingly the tax on liquor was raised with the ostensible object of checking consumption. These principles remained the bed-rock of official excise policy till the formation of Congress ministries in some of the Provinces in 1937.

8.3 In the Malabar and Cochin parts of Kerala, a tax used to be levied on the drawers of toddy and distillers of arrack from very early times. This tax known as the 'knife and still' tax was in the nature of a profession tax. By early nineteenth century the farming system had come into existence in most parts of the State. Certain changes

were introduced in Travancore in 1879-80; annual licensing of foreign liquor shops was brought into force and abkari farms were rented out on triennial leases. By the Madras Act I of 1886, fundamental reforms were made in the excise system in Malabar. The privilege of manufacture of arrack was assigned to a contractor on payment of a lump sum determined by competition. The privilege of retail sales was sold by auction for small areas except in municipal towns where each shop was auctioned separately. Similarly the privilege to open shops for sale of toddy was also auctioned. A tree tax was levied on trees selected for tapping. In Travancore and Cochin these changes were made only by stages; the new system came into force throughout Travancore by 1914-15 and throughout Cochin by 1916-17.

8.4 The resolution on fundamental rights passed by the Karachi session of the Indian National Congress laid down that intoxicating liquor and drugs should be totally prohibited except for medicinal purposes. Picketing liquor shops and toddy booths was a part of the civil disobedience movement of the early thirties. When Congress ministries were installed in office in 1937 in some of the Provinces following the inauguration of Provincial Autonomy, prohibition got official recognition and attempts were made to implement it in selected areas. The policy, however, received a setback, with the resignation of the ministries in 1939. Also, the drinking habit received a spurt under conditions of war. "Fuller employment, larger incomes, night shifts in factories near industrial projects and the presence of foreign troops; all these stimulated the drinking habit and thus brought about an enormous increase in excise revenues (all-India) which stood at Rs. 50.2 crores in 1946-47 as against Rs. 14.1 crores in 1935-36".*

8.5 Prohibition was revived when popular ministries came back into office at the end of the war. One of the earliest measures adopted by the Governments that were formed after independence was the implementation of prohibition in a phased programme. Malabar and Chittur Taluk of Cochin became dry on 1st October, 1947. In Travancore, prohibition was introduced in Neyyattinkara taluk on 17th August, 1948. After the integration of Travancore and Cochin, prohibition was extended to Trivandrum, Nedumangad, Chirayinkil and Talappilly taluks on 17th August, 1949; to Cranganore and Pathanapuram taluks on 17th August, 1950 and to Kottarakara taluk on 1st April, 1955. Thus when Kerala State was formed, about 58 per cent of the area containing about 56 per cent of the population was in the dry belt.

8.6 The financial difficulties of the State, however, stood in the way of extending prohibition to further areas. Faced with the need for resources of considerable magnitude to finance the Five Year Plans the State could not afford to forgo any part of the revenue it was getting from liquor excise. Enforcement of prohibition laws became a problem as wet and dry areas existed side by side in the State.

* Report of the Prohibition Enquiry Committee 1954-55—page 89.

Smuggling of liquors to prohibited areas became rampant. Illicit distillation with all its attendant evils entrenched itself in the dry areas and grew into the dimensions of a cottage industry. More or less similar conditions existed in other parts of the country also and people began to think seriously whether it was worthwhile to stick on to a policy which is not only difficult of implementation but is also actually 'aiding and abetting' bootleggers and other anti-social elements to operate freely and thrive at the cost of the State exchequer. Some States reacted to this situation by relaxing restrictions on the consumption of liquors having a low alcoholic content. In any case the need for a pragmatic approach in the matter got increasing recognition. In 1967 the Government of Kerala decided upon a complete reversal of the prohibition policy and from 1st May, 1967, prohibition was lifted in the dry areas of the State. The Cochin Abkari Act (I of 1077 M.E.) with suitable modifications was extended throughout the State by Act 10 of 1967.

8.7 The present excise system may be briefly described here. The right of vend of toddy, arrack and foreign liquors is sold separately. The number and location of shops is determined by the Government and the privilege of sale through specified shops is sold in auction every year to the highest bidder. The contractor who purchases the right of vend of toddy gets also the right to manufacture toddy but he has to pay a tax called 'tree-tax' on each tree tapped. The trees used for tapping are coconut, sago and choondapana and different rates of tax are prescribed for each of them. In the case of arrack the right to sell does not carry with it the right to manufacture. The arrack vendor has to purchase arrack at the specified price from the supply contractor. The right of manufacture and supply of arrack or cocobrandy of specified strength is given in tender to the distiller who quotes the lowest price at which he could supply the same to the vendors. This system is known as the contract supply system or the central distillery system. The licensed vendor gets arrack from the supply contractor on payment of still-head charges which include duty to the Government and the price to the manufacturer. Sale of foreign liquor in wholesale shops, hotels, restaurants and clubs is regulated by a licensing system under which a fee is collected as luxury tax. Foreign liquor taverns which conduct retail sales are, however, sold in auction.

8.8 In 1958-59 a new experiment was made in the system of disposing of the right of sale of toddy in some of the excise ranges of the State. Instead of auctioning the right, it was conferred on tappers' co-operative societies on a negotiated rental. The tree tax system was also modified in these areas and a fixed amount of tax was collected from each society which was given the right of tapping as many trees as they wanted. This policy was given up and auctioning system reintroduced in all the wet ranges from 1960-61 onwards.

Problems of administration.

8.9 We now proceed to deal with certain problems of administration of the abkari laws which have come to our notice during our discussions with the departmental officers and members of the public.

8.10 There is a tendency on the part of certain excise contractors to form themselves into monopolies and control the business of vending liquors in as large an area as possible. They start by bidding very high at the auctions and taking all the shops in a place; then they extend their area of operation year after year until they are able to eliminate other contractors from an extensive area. Once having entrenched themselves over a large area, they are able to hold down the bids successfully at the subsequent auctions. It is reported that such a monopolistic clique is operating over large parts of Trichur District. The results of the auctions for 1968-69 showed that, in areas where monopoly contractors were able to eliminate competitors, the rentals actually came down, while in the other parts of the State the rentals had gone up. This happened at a time when the overall results of the auctions in the State indicated a large increase in rentals as compared to the previous year. It is feared that, unless the monopoly is broken, it would cripple the growth of excise revenue. We find that the department is fully seized of this problem and hope that measures will be evolved to meet the situation. The solution lies in inducting new contractors into those areas where competition has been practically eliminated. The immediate effect of this might be a loss of revenue; but despite the initial loss, a decision has to be taken to encourage new competitors, lest a situation should be created in which a few powerful contractors control all the shops in the State and virtually hold the Government to ransom. In this connection the question of giving the right of vend to tappers' co-operative societies on suitable terms in places where such a course of action is advisable may also be carefully considered. The problem has in any case to be tackled from a long term point of view.

8.11 Another problem that has assumed serious proportions is illicit distillation and illicit drinking. The problem is perhaps as old as the excise system itself. When, in pursuance of the policy of 'minimum consumption and maximum revenue', the rates of excise duty on liquors were pushed up since the turn of the present century, the practice of illicit manufacture and sale of liquors got a foothold. Not much of capital or expertise is needed for distillation; the raw materials and ingredients required are easily available and the remote parts of the countryside or the areas adjoining the forests afford ideal conditions in which this nefarious activity can be pursued without fear of easy detection. Illicit liquors being duty-free can be sold cheap and have a ready market. The wide margin of profit in bootlegging attracted persons in search of easy money to this business. With the introduction of partial prohibition in the State, conditions

were most favourable to illicit distillers who flourish and made huge profits. Even after prohibition has been lifted illicit distillation continues unabated.

8.12 The main sources of illicit liquor are illicit distillation, illicit tapping, smuggling of foreign liquor, medicinal and toilet preparations having alcoholic content and diversion of industrial alcohol. It is obvious that the widespread use of illicit liquor has a depressing effect on excise auctions as it affects the sale and consumption of licit liquor. More than that, it is also a health hazard; it is well known that the illicit liquor is injurious to the health of the consumers as various poisonous materials are often used in the manufacturing process. Again, it breeds corruption and other malpractices and stimulates crime. We urge the Government that systematic and continuous efforts may be made to root out these malpractices and that this should be done with topmost priority. Even if any additional expenditure is found necessary by way of strengthening detection staff or providing vehicles to them, Government should not hesitate to incur such expenses. The methods of detection and prosecution may be made more efficient so that the guilty do not escape the hands of the law through any procedural lapses on the part of departmental officers.

8.13 It has been suggested by several persons that the Government should run a distillery. At present three private distilleries are operating in the State besides one for the manufacture of cocobrandy. We understand that these distilleries can meet the entire demand for arrack in the State and that even now, due to shortage of molasses, they are not able to function to their full capacity. Proposals are now under consideration to cultivate sugarcane on a large scale and, if these materialise, the availability of molasses would improve in due course. We consider that the proposal for the establishment of a Government distillery may be taken up as and when the supply position of molasses improve.

8.14 It is pointed out that the system of collecting tree tax from the contractors on the basis of the number of trees tapped leads to much administrative work besides causing inconvenience to the contractors. A suggestion has, therefore, been made that a lump sum may be realised as a fixed percentage of the rental and contractors may be allowed to tap as many trees as they want within the specified area. Under the present system, trees for tapping are marked by the departmental officers who maintain records of the trees which are authorised for tapping. The practice of marking trees is also a safeguard against illicit tapping. If the system is changed, it may be difficult to detect unauthorised tapping or bring to book the offenders. We do not consider that any change is necessary in the present system of levying tree tax.

8.15 Different systems are in vogue in the matter of authorising the sale of foreign liquors in wholesale shops and in retail taverns. Wholesale shops are required to take out licences by paying a 'luxury tax' at a fixed rate. The current rate is Rs. 7,500 a year or part thereof. Retail shops are sold in auction as in the case of toddy and arrack shops. As a result retail dealers have to face stiff competition, while the wholesale dealers need pay only a licence fee and have on the whole a lesser tax liability. We consider that this inequity should be removed and accordingly recommend that the licensing system may be discontinued and that wholesale foreign liquor shops also may be sold in auction as in the case of taverns. This change will incidentally lead to increase in revenue.

8.16. Permission to serve liquor in the restaurants/clubs to customers/members is covered by licences which are given by the Excise Department on payment of the prescribed luxury tax. The luxury tax payable by restaurants is Rs. 4,000 per annum and by clubs Rs. 250 per annum. We consider that a differential rate structure evolved on the basis of turnover or number of members, as the case may be, would be more appropriate. Accordingly we suggest the following rates a luxury tax for restaurants and for clubs:

	<i>Rate</i>
	Rs.
<i>(a) Restaurants</i>	
Where the turnover does not exceed Rs. 50,000	7,500
Where the turnover exceeds Rs. 50,000 but does not exceed Rs. 1,00,000	15,000
Where the turnover exceeds Rs. 1,00,000 but does not exceed Rs. 2,00,000	25,000
Where the turnover exceeds Rs. 2,00,000	50,000
<i>(b) Clubs.</i>	
Where the number of members does not exceed 100	1,000
Where the number of members exceeds 100 but does not exceed 300	1,500
Where the number of members exceeds 300	2,000

Summary of conclusions and recommendations.

- (1) Effective measures may be taken to counter the tendency on the part of certain excise contractors to monopolise the auctions; new contractors may be inducted into those areas where monopoly has been established. In this connection the question of giving the right of vend to tappers' co-operative societies on suitable terms, in places where such a course of action is feasible may also be carefully considered. The problem has in any case to be tackled from a long term point of view.

(Paragraph 8.10)

- (2) Systematic and continuous efforts should be made to root out illicit distillation, smuggling and misuse of medicinal and toilet preparations or industrial alcohol. The department should be geared for this purpose by strengthening the staff or providing adequate vehicles or by other suitable measures.

(Paragraph 8.12)

- (3) The proposal for the establishment of a Government distillery may be taken up when the supply position of molasses improves.

(Paragraph 8.13)

- (4) No change is considered necessary in the present system of levying tree tax.

(Paragraph 8.14)

- (5) The system of licensing wholesale foreign liquor shops may be discontinued and these shops may be sold in auction.

(Paragraph 8.15)

- (6) Differential rates of luxury tax based on the turnover in the case of restaurants and on the number of members in the case of clubs, may be adopted in the place of the existing flat rates. The rates indicated in paragraph 8.16 may be followed.

(Paragraph 8.16)

CHAPTER 9

STAMP DUTIES, COURT FEES AND REGISTRATION FEES

9.1 Stamp duties fall under two categories—judicial and non-judicial. The former represent fees payable by persons having business in law courts and public offices. These duties are popularly known as court fees. Non-judicial stamp duties are duties levied on various deeds and documents executed as proof of certain legal transactions. The term 'stamp duties' is commonly used to mean 'non-judicial stamp duties'. From the revenue point of view non-judicial stamp duties are of greater importance. We propose to deal with them first.

A. STAMP DUTIES (NON-JUDICIAL)

9.2 As a form of taxation, stamp duty has come in for criticism at the hands of economists. It is a regressive tax and is not related to one's ability to pay. The incidence of tax often falls on the more needy party in a transaction. Thus it does not ensure equity and justice. It has, however, one overriding advantage, viz., convenience of collection. Stamp duty is a self-collecting tax; it is collected through sale of stamps and no separate machinery is required for this purpose.

9.3 The basis for the levy of stamp duties in India has been the Indian Stamp Act 1899 as amended from time to time. Under the provisions of the Government of India Act 1919, 'non-judicial stamps' was transferred to the provincial list subject to central legislation in respect of certain instruments. The position remained broadly the same under the Government of India Act 1935 and continues under the present Constitution. According to entry 91 of List I of the Seventh Schedule to the Constitution the rates of stamp duty on the following instruments are to be determined by central legislation.

Bills of exchange,	Cheques,
Promissory notes,	Bills of lading,
Letters of credit,	Policies of insurance,
Transfer of shares,	Debentures,
Proxies,	Receipts.

The proceeds of the duties in all these cases are, however assigned to the State in which it is levied; all functions relating to collection

and management are also vested in the concerned State Government. Obviously the power to prescribe the rates of duty in these instruments is vested with the Union Legislature, for the sake of ensuring uniformity throughout the Union in the rates of these instruments which figure largely in commercial transactions.

9.4 Even after the transfer of stamp duties to the Provincial list, the Indian Stamp Act 1899 was followed by the Provinces, which in exercise of their powers issued their own schedules showing the rates of stamp duties. The more important of the former princely States had, however, independent Acts which too were modelled on the Indian Stamp Act.

9.5 Following the integration of the Travancore and Cochin States, a unified Act applicable to the new State was promulgated. This Act was in force in Travancore-Cochin area when the State of Kerala was formed. In the Malabar area, the Indian Stamp Act as applicable to Madras was being followed. These different Acts remained in force in the State till 1959 when the Kerala Stamp Act was enacted. This Act was amended twice in 1963 and in 1967, with the object of enhancing the rates of stamp duty on various instruments in the context of raising resources for the Plan. By the amendment of 1963 the duties were mostly enhanced by 50 per cent; in some cases the enhancement was as high as 86½%. In 1967 the rates were raised by 33½% in most of the cases. A new provision was also introduced in the Act by the amendment of 1967, to enable action being taken on cases of under-statement of the value of property in documents.

9.6 The Schedule to the Kerala Stamp Act enumerates the different kinds of instruments and the duties leviable thereon. Instruments relating to transfer of property are important from the point of view of revenue. These include conveyances, mortgages, partition deeds, gifts, settlements, sales certificates, leases, etc. Instruments relating to commercial transactions form another category. Bonds articles of association, memoranda of association, share warrants, transfers of debentures, etc., are examples of such transactions. Instruments relating to other transactions are of minor importance. They include extracts, copies, duplicates, etc.

9.7 Stamp duties are levied either on fixed or on *ad valorem* basis. Usually *ad valorem* duties are charged where the transactions denoted by the instruments are susceptible of valuations; in other cases fixed rates are prescribed. The following are some of the instruments on which fixed rates of duty are charged:—

Acknowledgment.

Affidavit.

Divorce.

Ad valorem rates are in force in a larger number of cases. The rates applicable for bonds and conveyances are followed for various other types of instruments.

Rationalisation of the Schedule of Rates.

9.8 Though stamp duties were revised twice during the last five years, no attempt was made to rationalise the rate structure. We find that both in 1963 and in 1967, the existing rates were simply enhanced by a certain percentage. This explains why the rates in certain cases are not properly rounded off and rates such as Rs. 11.85 and Rs. 3.45 exist. Similarly for certain instruments there are numerous slabs of rates. For example in regard to Bonds (Administration Bonds, Bonds and Bottomry Bonds) 12 different rates are prescribed for various slabs of values or amounts ranging from Rs. 10 to Rs. 1,000. On the whole, the schedule of rates is needlessly elaborate and complex.

9.9 There are 57 items in the Schedule to the Stamp Act. In order to work out a rational scheme of rates, items of an identical nature or items for which same or similar rates exist now have been considered together under certain broad heads. Our proposals are indicated below:—

(i) *Stamp duty for bonds and for related documents.*

9.10 The rates of stamp duty for item '2. Administration Bond', '13. Bonds' and '14. Bottomry Bonds' are proposed to be unified. The duty suggested is Rs. 2.50 for every Rs. 100 or part thereof of the amount or value secured. This rate will be applicable to other documents for which the rates as for Bottomry Bonds are now prescribed. The revised rate represents an average increase of 11 per cent on the existing rates.

(ii) *Stamp duty on conveyance and related documents.*

9.11 The Government has asked for our views on a suggestion that, in respect of transfer of immovable property, both the transferor and the transferee may be made equally liable to bear the stamp duty. The intention behind the suggestion is to increase the total incidence of stamp duty in respect of such instruments by 100 per cent. According to section 30 of the Kerala Stamp Act, the duty should, *in the absence of any agreement to the contrary*, be borne by the buyer in cases of transfer of immovable property. Even if this provision is amended so as to make both parties equally liable to meet the expenditure, in actual practice, the incidence would shift, in most cases, to one of the parties, since either there will be some sort of an informal agreement as to who should bear the duty or the sale value will be determined in the course of negotiation after taking into account the burden of stamp duty.

The reasonableness of doubling the duty in effect has to be seriously considered. It is mentioned in the note forwarded by the Government that the existing rates of stamp duty on conveyance "are sufficiently high, provided evasion by way of manipulated values is guarded against". We are giving our considered opinion on the problem of evasion elsewhere in this chapter. In any case, it will be unreasonable to raise the incidence of the duty by 100 per cent. There is, in our view, some scope for increasing the stamp duty on conveyance and other instruments for which the same duty is now prescribed, but there is no justification to make both the seller and the buyer liable to bear the duty. We recommend that the rates may be revised as under:

(a) In specified urban areas (item 21A)

For every Rs. 100 or part thereof of the amount or value of the consideration	Rs. 7.50
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(b) In other areas

For every Rs. 100 or part thereof of the amount or value of the consideration	Rs. 5.00
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The increase under (a) works out to 25% and under (b) to 11% over the existing rates.

9.12 For share warrants (item 51), the present rate is one and a half times the duty payable under item 21 or 21A. Item 21 relates to conveyances executed in mofussil areas and item 21A to conveyances in specified urban localities. The application of these disparate rates to share warrants is not appropriate, as the distinction based on the location of the property made in items 21 and 21A is not pertinent in respect of share warrants. The rates for share warrants may be fixed as follows:—

For every Rs. 100 or part thereof of the nominal amount of the shares specified in the warrant	Rs. 10
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(iii) *Other items.*

9.13 Suitable revised rates have been suggested for other items. The following points may be specially mentioned here:

(a) Acknowledgment of a debt

Against the existing uniform rate of 20 paise irrespective of the amount, the following slab rates are proposed:

Where the amount of debt exceeds Rs. 20 but does not exceed Rs. 100	20 ps.
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Where the amount of debt exceeds Rs. 100 but does not exceed Rs. 200	40 ps.
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Where the amount of debt exceeds Rs. 200 but does not exceed Rs. 1,000	60 ps.
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Where the amount of debt exceeds Rs. 1,000	Re. 1
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(b) Chitty or Kuri variola (item No. 19)

At present a flat rate of Rs. 3 is levied as stamp duty irrespective of the amount. We suggest that this may be revised as Rs. 5 for every Rs. 1,000 or part thereof.

(c) The rates for divorce, partnership, transfer of debentures and debenture stock have not been proposed to be revised. The rate for apprenticeship deed is proposed to be reduced as the incidence falls mostly on the poorer sections of the community.

9.14 A Schedule showing the existing rates and the rates suggested by us for the various instruments is given as Annexure I at the end of this chapter.

Withdrawal of exemptions.

9.15 Exemptions from stamp duty are given in a large number of cases. Some of them are incorporated in the Schedule to the Act itself. In other cases exemptions are given by separate notifications under the Act. The Taxation Enquiry Commission (1953-54) made the following observations in regard to the exemptions from stamp duties.

“There is scope for a certain degree of curtailment of the prevailing exemptions and remissions under the Indian Stamp Act. The notifications of exemption or remission issued by the different State Governments include several instruments which, whatever may have been the reason which led to their exemption in the past, can no longer justifiably figure in these lists. A few examples may be cited:—

- “(1) instruments of transfers of properties between companies limited by shares where 90 per cent of the share capital of the transferee company is in the beneficial ownership of the transferor company;
- “(ii) agreements entered into with the Forest Department for felling, collecting and transporting forest produce, firewood, timber, etc., (other than agreements for grass, grazing, etc.); and
- “(iii) instruments executed by contractors for due performance of contracts with the Defence Department, Railways, Forest and Public Works Department.

“We recommend that the list of exemptions be carefully examined by each State Government with a view to withdrawing such exemptions as are not connected with some important policy of Government (e.g. development of the co-operative movement) or some genuine hardship to the taxpayer (e.g. instruments pertaining to loans and advances to displaced persons, etc.)”.

No systematic efforts have been made to curtail the list of exemptions with the result that even those that have outlived their utility continue to be in force. The question of the withdrawal of some of the exemptions in the light of the above observations of the Taxation Enquiry Commission has been specifically referred to us by the Government.

9.16 We have accordingly scrutinised the list of exemptions and ascertained the position in a few other States. We find that States like Uttar Pradesh, Bihar, Andhra Pradesh and Madhya Pradesh have withdrawn some of the exemptions in pursuance to the recommendations of the Taxation Enquiry Commission. Most of the existing exemptions are in the nature of hidden subsidy. For example, agriculturists are exempted from stamp duty for securing repayment of loans. Co-operative societies are given a blanket exemption from all kinds of stamp duty. This exemption was justified in the early days of the co-operative movement. Now that co-operative societies have established themselves the exemption can be withdrawn. Where, however, there is real need for special consideration, a direct subsidy can be given. Contracts for the collection of forest produce, etc., stand exempted; we are unable to find any justification for this exemption. Government Officers enjoy exemption from stamp duty on mortgage deeds or agreements executed for securing repayment of certain advances and loans. This is a concession which is denied to the other sections of the community. We feel that all these exemptions should be withdrawn. A list of exemptions which in our opinion should be continued is given as Annexure II at the end of this chapter. We recommend that all other exemptions whether statutory or notified, should be discontinued.

Evasion of stamp duty.

9.17 Many persons who gave evidence before the Committee have stated that there is considerable evasion from stamp duty. The most common method of evasion is under-valuing the transaction and showing a much lower monetary consideration in the document presented for registration. This tendency is particularly noticed in the case of conveyances. It has been said that the high level of stamp duty provides the temptation for evasion. The enhancement of the rates in 1963 by about 50 per cent has aggravated the tendency. Another method is to refrain from executing the instrument. In cases where the parties have absolute confidence in each other, the transaction may not be followed by the execution of the instrument. But such cases are very rare and do not present a serious problem, as there is the risk that, in the absence of a properly stamped and registered instrument, there is no legal proof of the transaction. Still, in very minor matters, this practice is

followed. For example, many chit funds do not issue stamped receipts for amounts in excess of Rs. 20.

9.18 With a view to check the tendency of evading stamp duty by under-stating the value of property in documents, a new provision (Section 45A) was introduced in the Kerala Stamp Act in 1967 authorising the Registering Officer in cases of doubt about the monetary consideration of a document, to refer the matter to the Collector for "determination of the value or consideration and the proper duty payable thereon." The deficient sum of duty so determined is payable by the person liable to pay the duty. But we find that detailed rules have not been issued prescribing the manner in which the Collector may hold enquiries, as contemplated in the new section. It is also understood that no case of undervaluation has so far been proceeded with in the manner prescribed in Section 45A of the Act. It is given in evidence before the Committee that the question of creating a separate machinery for detecting cases of undervaluation in a systematic manner is under consideration.

9.19 According to items 21 and 21A of the Schedule to the Kerala Stamp Act, the duty on conveyance is related to the amount or value of the consideration as set forth in the instrument. It is provided in section 28 of the Act that the consideration should be "fully and truly set forth" in the document. Failure to do so is punishable under section 63, which reads: "Any person who with intent to defraud the Government of duty, practices or is concerned in any act, contrivance or device not specially punishable under this Act or any other law for the time being in force shall be punishable with fine which may extend to one thousand rupees". Though the new provision introduced in the Act (section 45A) will help check evasion to some extent, there will be practical difficulties in achieving fully the results aimed at by the Government so long as the duty is related to the consideration as set forth in the instrument. We have applied our mind to this problem in great detail and, after considering all implications of the question, we feel that the most effective method of dealing with evasion will be to relate the stamp duty on conveyance of immovable properties to their capital value. Even though a person may have the right of transferring property for a lower consideration than the market value, the stamp duty should be made payable with reference to the value of the property; the more so because in such cases the transferee gets the property for a lower consideration and should not grudge the payment of at least the proper duty based on its real value. But the difficulty in adopting this method is that the values of the various types of properties in the State are not determined in any scientific manner and are not readily available. The Registering Officer will be unable to enforce such a provision, unless he is furnished with

enough data regarding values of various types of land. It will make matters worse, if the Registering Officer is given the power to determine values; such a provision will result in arbitrary and capricious exercise of power and will not stand before a court of law. In an earlier chapter, we have recommended the levy of a tax on land with reference to its value, for which all landed properties in the State have to be properly valued by employing a suitable valuation machinery. When such a valuation is done, there can be no difficulty in imposing stamp duty on the basis of the capital value of land. We feel that, until it is made possible to levy stamp duty on the value of the property instead of on the consideration as set forth in the instrument, we will have to live with the fact of evasion.

B. COURT FEES

9.20 The existing system of levying court fees originated from the Bengal Regulation No. 38 of 1795. The immediate occasion was the considerable increase that had taken place in the work of courts on account of the many groundless and litigious suits which contestants filed before the judicial authorities. Shortly after the Regulation was passed, the fees under it were made leviable in the form of stamp duties and this practice has come to stay.

9.21 The rates of court fees levied vary from State to State but it can broadly be said the scheme of the Court Fees Act 1870 has either been adopted in toto or followed with minor variations by all the States. The former Travancore and Cochin States had promulgated independent Acts to regulate the levy of Court fees. These Acts were unified after the integration of these States. The next important change was made in 1959, when following the formation of the Kerala State, the Kerala Court Fees and Suits Valuation Act was passed repealing the Travancore-Cochin Court Fees Act 1125*, the Travancore-Cochin Suits Valuation Act 1125* and the Madras Court Fees and Suits Valuation Act 1955 in so far as it applied to the Malabar area.

9.22 In 1966, an amendment was made to the Kerala Court Fees and Suits Valuation Act, with a view "to enhance the rates of court fees in cases where such enhancement could be made without hardship to the litigants".

9.23 The revenue under this head consists of receipts from the value of stamps used for payment of duties on suits, petitions, applications etc., filed in courts and public offices. The incidence of the duty falls on persons who approach the law courts and Government offices for redressal of grievances, establishment of rights, enjoyment of concessions and so on. The object of the levy is not only

* Malayalam Era.

to raise funds for meeting the expenses on account of the administration of justice, but also to provide a certain wholesome restriction on the filing of suits, petitions and complaints; reasonable fee may act as a deterrent against submission of frivolous petitions which only waste the time of the courts and public offices. At the same time it has to be ensured that the levy does not impose a burden on bona fide petitioners and appellants many of whom come from the lower income groups. For, it is a widely accepted principle that justice should be administered as cheaply as possible and it should be within the means of everyone to seek a judicial remedy. The Taxation Enquiry Commission (1953-54) has expressed the view that court fees should be determined only on the basis of covering the expenses of the administration of justice. Going by this norm, we find that the rates of court fees in Kerala are not high. The receipts from court fees according to the budget estimates for 1968-69 are Rs. 94 lakhs, whereas the expenditure on the administration of justice amounts to Rs. 163 lakhs.

9.24 As in the case of non-judicial stamp duties both fixed rates and ad valorem rates are prescribed for the various types of instruments under the Act. Schedule I to the Act specifies the instruments on which ad valorem fees are chargeable. Plaints, probates of will and succession certificates fall under this category. The instruments on which duties at fixed rates are chargeable are enumerated in Schedule II. These include petitions, applications for copies and translations of judgments, orders and documents, Wakalatnama, etc. We have examined the Schedules and would suggest the following changes mainly with a view to round off the rate conveniently or to remove the anomaly.

Schedule I.

Article 1 *Plaint etc.*—The rates of 37 paise and 75 paise given for certain slabs may be revised to 40 paise and 80 paise respectively. For a few other articles (serial numbers 2, 3 and 4) in the schedule the rate is expressed as one-half of the scale prescribed for *plaint*. The rates in these cases work out to fractions of a paise. It is just to avoid such a situation that the above change in the rate for *plaint* is suggested.

Schedule II.

Article 10(i). Under the existing schedule, an application or a petition presented to the Government which does not involve the exercise or non-exercise of power conferred by law or rule having the force of law should bear stamp for fifty paise, while, under Article 10(j), the fee for such applications presented to the Board of Revenue or Chief

Executive Authority is one rupee and fifty paise. To remove this anomaly, we suggest that the rate of fee against Article 10(i) (ii) may be raised to Rs. 1.50.

9.25 We have also reviewed the exemptions enumerated in the consolidated notification issued in 1964. These mainly relate to applications and petitions filed for various purposes. We feel that the withdrawal of these concessions will cause inconvenience to the public. Even apart from the burden imposed by the duty, which, however, is not much, the trouble involved in finding out the appropriate duty and purchasing stamps of the correct denomination will amount to harassment of the petitioners seeking justice or some minor concession. We do not therefore suggest any change in the exemptions.

9.26 There is a certain amount of evasion of court fees, the method adopted is to undervalue the properties which form the subject of suits in law courts. The Act prescribes the manner in which the market value of the land is to be determined. We find that the relevant provisions of the Act are not effective enough in ensuring correct valuation. For instance the market value is to be deemed to be ten times the annual profits of land or ten times the rental value of a building. There is every possibility of under estimation of the profits or rental value, which in turn leads to the under assessment of the market value. We have elsewhere recommended the levy of a tax on land based on capital value. The values of properties determined under this scheme can be adopted for the purpose of this Act. This will certainly plug the loopholes mentioned above.

C. REGISTRATION FEES

9.27 The revenue from registration fees which was Rs. 35 lakhs in 1957-58 is expected to be of the order of Rs. 91 lakhs during 1968-69. Under the Indian Registration Act 1908 which contains the law concerning the registration of documents, certain kinds of documents have necessarily to be registered. They are not admissible as evidence in law courts unless so registered. All documents affecting immovable property, unless exempted, and authorities to adopt (not conferred by a will) require registration. Registration of documents confers the following benefits:—

- (a) Reasonable guarantee about the genuineness of the documents.
- (b) Maintenance of permanent record in the Registration Department.
- (c) Security of title deeds and facility of proof to the title.

The fee for registration of documents constitutes the bulk of the revenue under 'Registration Fees'. These are several other minor items

like fee for copies of registered documents, for search certificates, filing, safe custody of documents etc. The revenue from these sources is, however, insignificant. Besides chitties have also to be registered under the provisions of the Travancore Chitties Act and the Cochin Kuries Regulation.

9.28 The Indian Registration Act confers powers on the State Government to prescribe the rates of the fee payable for registration of documents, searching registers, making or granting copies of documents etc. We have examined the table of fees prescribed by the State Government under Section 78 of the Indian Registration Act and we would make the following recommendations.

Item 1. Registration of documents in books 1 and 4 (Sl. Nos. 1 to 13).

9.29 The rates prescribed for registration of documents in books 1 and 4 work out to slightly higher than 1 per cent in cases where the value does not exceed Rs. 1,000 and lower than 1 per cent where the value exceeds Rs. 1,000. There are as many as 13 slabs. We consider that a flat rate of one per cent of the value may be prescribed as the fee. This will simplify the calculation of the fee. As the fee is to be paid in cash at the time of registering the document, no particular difficulty will arise if the rate is worked out on percentage basis.

9.30 The exemptions given in notes (iii), (iv) and (v) [viz., documents relating to transfer of property otherwise than by public auction under the Displaced Persons (Compensation and Rehabilitation) Rules 1955, instruments relating to transfer of immovable properties belonging to foreign missions in India in favour of Indian churches and transfer deed executed by the Madras Co-operative Central Land Mortgage Bank transferring certain mortgages in Malabar area in favour of the Kerala Co-operative Central Land Mortgage Bank] may be discontinued.

Item IV. Memorandum under sections 64, 65, 66 and 67 for each copy required.

9.31 The existing rate of Rs. 1.50 may be enhanced to Rs. 2.

Item XI (2).

9.32 The fee for general search is now Rs. 4 in respect of the first year in the books of which search is made and Rs. 1.50 in respect of every other year. We suggest that the rate of Rs. 1.50 in the latter case may be enhanced to Rs. 2.

9.33 Exemption from the payment of fee in respect of encumbrance certificate has been given in a number of cases—vide provisos (iii) and (iv) under this item. The benefit of the exemption is enjoyed by agriculturists, industrialists, co-operative societies and panchayats who apply for loans from the Government under various schemes.

We consider that the exemption is in the nature of a subsidy and that the beneficiaries of the loans need not be given such a subsidy. We therefore recommend that all these exemptions may be withdrawn except in the case of panchayats.

Item XIV.

9.34 The fixed fee of Re. 1 specified under this item may be enhanced to Rs. 2. Application for revocation of a power of attorney, petition presented to a Registering Officer protesting against the registration of a document, or for withdrawing a demand from registration or for enforcing the appearance of executants and witnesses fall under this category.

Item XVI.

9.35 The fixed fee of 50 paise prescribed for items (a) to (c) (filing a translation of power of attorney, filing a special power of attorney petition objecting to return of a document to a person in whose favour the receipt has been drawn up) may be enhanced to Re.1. For items (d) and (e), viz., for keeping a document pending appearance of parties executing it and for complete refusal to register a document, the fee may be raised to Rs. 2 as in Madras.

9.36 The Registering Officers have the responsibility of not only collecting the fee prescribed for registering documents, etc.; but also of ensuring that the documents presented for registration bear the appropriate stamp duty. It is likely that, to evade stamp duty partly, certain documents which, considering the actual facts of the transaction have to bear a stamp duty at higher rates, are written out in the form of certain other types of documents for which a lower duty is prescribed. The Registering Officer has to be vigilant enough to detect such ingenious devices of evasion. As several documents are presented for registration every day, the verification of the stamp duty is often done in haste. There is therefore the need for a systematic check of the documents after registration. We find that an internal audit wing has been created in the Registration Department recently and that this wing will be able to attend to this work.

9.37 It is seen that there is no law in force in Malabar area to regulate the conduct of chitties and kuries as in the Travancore and Cochin areas. Chitties in that area are therefore conducted according to the provisions of the law of contract. As observed by the Special Officer in his report on the starting of chitties under State auspices, the promulgation of a unified law applicable to the whole State will, besides safeguarding the interests of the subscribers by exercising wholesome control on the conduct of chitties, increase the receipts of the Government by way of registration fee, filing fee, etc. We hope that this will receive the earnest attention of Government.

*Summary of conclusions and recommendations***A. Stamp duties—(non-Judicial)**

1. Stamp duties may be rationalised and simplified on the lines indicated in the Schedule to this chapter. The main features of the scheme are:—
 - (a) For bonds and related instruments the duty may be fixed at Rs. 2.50 for every Rs. 100 or part thereof of the amount or value secured;
 - (b) There is no justification for making both the seller and the buyer liable to bear stamp duty in cases of transfer of immovable property;
 - (c) The duty on conveyance may be fixed as Rs. 7.50 in specified urban area and Rs. 5.00 in other areas for every Rs. 100 or part thereof of the amount or value of the consideration.
 - (d) For share warrants the duty may be Rs. 10 for every Rs. 100 or part thereof of the nominal amount of the shares specified in the warrant;
 - (e) An element of progressivity may be introduced in the case of stamp duty for acknowledgment of debt;
 - (f) For chitty or kuri varyola the duty may be Rs. 5 for every Rs. 1,000 or part thereof;
 - (g) No revision of duty is necessary in the case of divorce, partnership and transfer of debentures and debenture stock;
 - (h) The duty on apprenticeship deed may be slightly reduced.
(Paragraphs 9.10 to 9.14)
2. Most of the existing exemptions from stamp duty are in the nature of hidden subsidy, and can therefore be withdrawn. Only those exemptions which are listed at the end of this Chapter need be continued. Where, however, there is real need for special consideration a direct subsidy can be given.
(Paragraph 9.16)
3. Though Section 45A, newly introduced in the Stamp Act will to some extent help check evasion of stamp duty payable for transfer of immovable property, there will be practical difficulties in achieving fully the results aimed at by the Government so long as the duty is related to the consideration as set forth in the instrument.
(Paragraph 9.19)

4. The most effective method of dealing with evasion will be to relate the stamp duty on conveyance of immovable properties to their capital value.

(Paragraph 9.19)

B. Court fees.

5. In the case of complaints, etc., the rates of thirty-seven paise and seventy-five paise for certain slabs may be revised to forty paise and eighty paise respectively.

(Paragraph 9.24)

6. The fee for applications or petitions presented to the Government, which do not involve the exercise or non-exercise of power conferred by law or rule having the force of law, may be raised from fifty paise to Rs. 1.50.

(Paragraph 9.24)

7. No change is suggested in the exemptions from Court fees.

(Paragraph 9.25)

8. The value of properties to be determined under the new scheme proposed for levying land tax based on capital value can be prescribed as the basis for determining court fees.

(Paragraph 9.26)

C. Registration fees.

9. For registration of documents in Books 1 and 4 a flat rate of one per cent of the value may be prescribed as the fee.

(Paragraph 9.29)

10. The exemptions indicated in paragraph 9.30 may be discontinued.

(Paragraph 9.30)

11. The fee for each copy of a memorandum under section 64, 65, 66 and 67 of the Indian Registration Act may be raised from Rs. 1.50 to Rs. 2.

(Paragraph 9.31)

12. The fee for general search is now Rs. 4 in respect of the first year in the Books of which search is made and Rs. 1.50 in respect of every other year. The rate of Rs. 1.50 in the latter case may be enhanced to Rs. 2.

(Paragraph 9.32)

13. The exemptions given in respect of encumbrance certificates may be withdrawn except in the case of panchayats.

(Paragraph 9.33)

14. The fee for application for revocation of a power of attorney, etc., may be raised from Re. 1 to Rs. 2.
(Paragraph 9.34)
15. The fee for filing a translation of a power of attorney, filing a special power of attorney, petition objecting to the return of a document to a person in whose favour the receipt has been drawn up, may be raised from fifty paise to rupee one.
(Paragraph 9.35)
16. The fee for keeping a document pending appearance of parties executing it and for complete refusal to register a document may be raised to Rs. 2.
(Paragraph 9.35)
17. For detecting evasion of stamp duty there is need for a systematic check of the documents after registration; this can be done by the internal audit wing recently created in the Registration Department.
(Paragraph 9.36)
18. The promulgation of a unified law to regulate the conduct of chitties and kuries will, besides safeguarding the interests of the subscribers by exercising a wholesome control on the conduct of chitties, increase the receipts of the Government by way of registration fee, filing fee, etc.
(Paragraph 9.37)

ANNEXURE I

Schedule of existing and proposed rates of Stamp Duties

<i>Sl. No.</i>	<i>Description of Instrument</i>	<i>Existing rate Rs.</i>	<i>Proposed rate Rs.</i>
(1)	(2)	(3)	
1	Acknowledgement of a debt exceeding twenty rupees in amount or value written or signed by, or on behalf of a debtor in order to supply evidence of such debt in any book (other than a banker's pass book) or on a separate piece of paper when such book or paper is left in the creditor's possession: Provided that such acknowledgement does not contain any promise to pay the debt or any stipulation to pay interest or to deliver any goods or other property	0.20	<p>Where the amount exceeds Rs. 20 but does not exceed Rs. 100 0.20</p> <p>Where it exceeds Rs. 100 but does not exceed Rs. 500 0.40</p> <p>Where it exceeds Rs. 500 but does not exceed Rs. 1000 0.60</p> <p>Where it exceeds Rs. 1000 1.00</p>
2	Administration Bond including a bond given under Sec. 291 or Sec. 375 of the Indian Succession Act, 1925 (Central Act XXXIX of 1925) or Sec. 6 of the Government Savings Banks Act 1873—		
	(a) Where the amount or value secured does not exceed Rs. 10	0.30	
	Where it exceeds Rs. 10 and does not exceed Rs. 50	0.75	
	Where it exceeds Rs. 50 and does not exceed Rs. 100	1.50	
	Where it exceeds Rs. 100 and does not exceed Rs. 200	3.00	<p>For every Rs. 100 or part thereof of the amount or value secured 2.50</p>

	(1)	(2)	(3)
	Where it exceeds Rs. 200 and does not exceed Rs. 300	4.50	
	Where it exceeds Rs. 300 and does not exceed Rs. 400	6.00	
	Where it exceeds Rs. 400 and does not exceed Rs. 500	7.50	
	Where it exceeds Rs. 500 and does not exceed Rs. 600	10.10	
	Where it exceeds Rs. 600 and does not exceed Rs. 700	11.85	
	Where it exceeds Rs. 700 and does not exceed Rs. 800	13.50	
	Where it exceeds Rs. 800 and does not exceed Rs. 900	15.25	
	Where it exceeds Rs. 900 and does not exceed Rs. 1000	16.85	
2	(b) in any other case	22.50	
3	Adoption Deed, that is to say any instrument (other than a Will), recording an adoption or conferring or purporting to confer an authority to adopt	33.80	50.00
4	Affidavit, including an affirmation or declaration in the case of persons by law allowed to affirm or declare instead of swearing	4.50	5.00
5	Agreement or Memorandum of Agreement—		
	(a) If relating to the sale of a bill of exchange	0.60	1.00—
	(b) If relating to the sale of Government security or share in an incorporated company or other body corporate;	Subject to a maximum of Rs. 45; 0.30 ps for every Rs. 10,000 or part thereof of the value of the security or share	Re. 1 for every Rs. 10,000 or part thereof of the value of the security or share (NOTE: No need to fix a maximum rate)
	(c) If not otherwise provided for	2.30	3.00

(1)

(2)

(3)

- 6 Agreement relating to deposit of Title Deeds, Pawn or pledge that is to say, any instrument evidencing any agreement relating to—
- (1) the deposit of title deeds or instruments constituting or being evidence of the title to any property whatever. (other than marketable security) Or
 - (2) the pawn or pledge of movable property where such deposit, pawn or pledge has been made by way of security for the repayment of money advanced or to be advanced by way of loan or an existing or future debt—
 - (a) if such loan or debt is repayable on demand or more than three months from the date of the instrument evidencing the agreement—
-

	(1)	(2)	(3)		(1)	(2)	(3)
	<i>If drawn singly</i>	<i>If drawn in set of 2 for each part of the set</i>	<i>If drawn in set of 3 for each part of the set</i>		<i>If drawn singly</i>	<i>If drawn in set of 2 for each part of the set etc.</i>	<i>If drawn in set of 3 for each part of the set</i>
6 (2) (a)							
(i) If the amount secured does not exceed Rs. 200	0.90	0.60	0.30	(i) If the amount secured does not exceed Rs. 500	1.50	0.75	0.50
(ii) If it exceeds Rs. 200 but does not exceed Rs. 400	1.70	0.90	0.60	(ii) If it exceed Rs. 500 but does not exceed Rs. 1000	5.00	2.50	1.70
If it exceeds Rs. 400 but does not exceed Rs. 600				(iii) If it exceeds Rs. 1000 for every Rs. 1000 or part thereof	5.00	2.50	1.70
If it exceeds Rs. 600 but does not exceed Rs. 800	3.40	1.70	1.10				
If it exceeds Rs. 800 but does not exceed Rs. 1000	4.30	2.30	1.40				
If it exceeds Rs. 1000 but does not exceed Rs. 1200	5.10	2.60	1.70				
If it exceeds Rs. 1200 but does not exceed Rs. 1600	6.80	3.40	2.30				
If it exceeds Rs. 1600 but does not exceed Rs. 2500	10.20	5.10	3.45				
If it exceeds Rs. 2500 but does not exceed Rs. 5000	20.30	10.10	6.80				
If it exceeds Rs. 5000 but does not exceed Rs. 7500	30.45	15.20	10.20				
If it exceeds Rs. 7500 but does not exceed Rs. 10000	40.50	20.30	13.50				
If it exceeds Rs. 10000 but does not exceed Rs. 15000	60.80	30.40	20.30				
If it exceeds Rs. 15000 but does not exceed Rs. 20000	81.00	40.50	27.00				
If it exceeds Rs. 20000 but does not exceed Rs. 25000	101.30	50.60	33.80				

	If it exceeds Rs. 25,000 but does not exceed Rs. 30,000	121.50*	60.80†	40.50‡	
	& for every additional Rs. 10,000 or part thereof in excess of Rs. 30,000	40.50*	20.30†	13.50‡	
	(b) If such loan or debt is repayable not more than 3 months from the date of such instrument	Half the duty payable under clause (a) (i) or (ii) above		Half the duty payable under clause (a) above	
7	Appointment in execution of a Power whether of trustees or of property movable or immovable where made by any writing not being a will	56.30		75.00	
8	Appraisal or valuation made otherwise than under an order of a Court in the course of a suit‡	The same duty as a Bottomry Bond (No. 14) for such amount		Same revised rates as for No. 14	
	(a) Where the amount does not exceed Rs. 1,000	22.50		30.00	
	(b) In any other case	11.30		10.00	
9	Apprenticeship Deed, including every writing relating to the service or tuition of any apprentice, clerk or servant placed with any master to learn any profession, trade or employment, not being articles of clerkship (No. 11)	150.00		200.00	
10	Articles of Association of a Company	375.00		No change	
11	Articles of Clerkship or contract whereby any person first becomes bound to serve as any clerk in order to his admission as an attorney in the High Court	The same duty as Bottomry Bond (No. 14) for such amount		Same revised rates as for No. 14	
12	Award, that is to say any decision in writing by an arbitrator or umpire not being an award directing a partition on a reference made other wise than by the order of the court in the course of a suit‡	30.00		No change, but no necessity to fix a maximum	
	(a) Where the amount or value of the property to which the award relates as set forth in such award does not exceed Rs. 1,000	Rs. 1.50 subject to a maximum of Rs. 150			
	(b) If it exceeds Rs. 1,000 but does not exceed Rs. 5,000; and for every additional Rs. 1,000 or part thereof in excess of Rs. 5,000				

* If drawn in singly. † If drawn in set of 2 for each part of the set. ‡ If drawn in set of 3 for each part of the set.

	(1)	(2)	(3)
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13 Bond as defined by Section 2 (a) not being a debenture and not being otherwise provided by this Act or by the Court Fees and Suits Valuation Act 1959 or other enactment for the time being in force—

Where the amount or value secured does not exceed Rs. 10	0.40
Where the amount exceeds Rs. 10 and does not exceed Rs. 50	0.80
Where it exceeds Rs. 50 and does not exceed Rs. 100	1.50
Do. Rs. 100 do. Rs. 200	3.80
Do. Rs. 200 do. Rs. 300	4.60
Do. Rs. 300 do. Rs. 400	7.50
Do. Rs. 400 do. Rs. 500	9.40
Do. Rs. 500 do. Rs. 600	13.50
Do. Rs. 600 do. Rs. 700	15.80
Do. Rs. 700 do. Rs. 800	18.00
Do. Rs. 800 do. Rs. 900	20.30
Do. Rs. 900 do. Rs. 1000	22.50
And for every Rs. 500 or part thereof in excess of Rs. 1,000	11.30

For every Rs. 100 or part thereof of the amount or value secured Rs. 2.50

14 Bottomry Bond, that is to say, any instrument whereby the master of a sea-going ship borrows money on the security of the ship to enable him to preserve the ship or prosecute her voyage—

Where the amount or value secured does not exceed Rs. 10	0.60
Where it exceeds Rs. 10 and does not exceed Rs. 50	1.10
Do. Rs. 50 do. Rs. 100	2.30
Do. Rs. 100 do. Rs. 200	4.50
Do. Rs. 200 do. Rs. 300	7.50
Do. Rs. 300 do. Rs. 400	9.00
Do. Rs. 400 do. Rs. 500	11.30
Do. Rs. 500 do. Rs. 600	13.50
Do. Rs. 600 do. Rs. 700	15.80
Do. Rs. 700 do. Rs. 800	18.00
Do. Rs. 800 do. Rs. 900	20.30
Do. Rs. 900 do. Rs. 1000	22.50

For every Rs. 100 or part thereof of the amount or value secured Rs. 2.50

	And for every Rs. 500 or part thereof in excess of Rs. 1,000	11.30	
15	Cancellation—Instrument of (Including any instrument by which any instrument previously executed is cancelled) if attested and not otherwise provided for	22.50	30.00
16	Certificate of sale (in respect of each property put up as a separate lot and sold) granted to the purchaser of any property sold by public auction by a Civil or Revenue Court or by the Government, Collector or other Revenue Officer:		
	(a) Where the purchase money does not exceed Rs. 10	0.60	} The same duty as on a conveyance (No. 21 or 21 A as the case may be) for a consideration equal to the amount of purchase money only
	(b) Where the purchase money exceeds Rs. 10 but does not exceed Rs. 25	1.10	
	(c) In any other case	The same duty as a conveyance (No. 21 or 21A as the case may be) for a consideration equal to the amount of the purchase money only	
17	Certificate or other Document evidencing the right or the title of the holder thereof or any other person either to any share, script or stock in or of any incorporated company or other body corporate or to become proprietor of share, script or stock in or of any such company or body	0.30	0.50
18	Charter Party, that is to say, in any instrument except an agreement for the hire of a tugsteamer whereby a vessel or some specified principal part thereof is let for the specified purpose of the charterer whether it includes a penalty clause or not	4.50	5.00
19	Chitty or Kuri variola where the total amount subscribed exceeds Rs. 100	3.00	For every Rs. 1,000 or part thereof the total amount subscribed 5.00

	(1)	(2)	(3)
20	Composition Deed, that is to say, any instrument executed by the debtor whereby he conveys his property for the benefit of his creditors or whether payment of a composition or dividend on their debt is secured to the creditors or whereby provision is made for the continuance of the debtor's business under the supervision of Inspectors or under letters of licence for the benefit of his creditors	33.80	35.00
21	Conveyance (as defined by Section 2 (d) not being a transfer charged or exempted under No. 54 Where the amount or value of the consideration for such conveyance as set forth therein does not exceed Rs. 50	2.25	For every Rs. 100 or part ther of of the amount or value of the consideration for such conveyance 5.00
	Where it exceeds Rs. 50 but does not exceed Rs. 100	4.50	
	Where it exceeds Rs. 100 but does not exceed Rs. 200	9.00	
	Where it exceeds Rs. 200 but does not exceed Rs. 300	13.50	
	Do. Rs. 300 do. Rs. 400	16.00	
	Do. Rs. 400 do. Rs. 500	22.50	
	Do. Rs. 500 do. Rs. 600	27.00	
	Do. Rs. 600 do. Rs. 700	31.50	
	Do. Rs. 700 do. Rs. 800	36.00	
	Do. Rs. 800 do. Rs. 900	40.50	
	Do. Rs. 900 do. Rs. 1000	45.00	
	And for every Rs. 500 or part thereof in excess of Rs. 1,000	22.50	
21 A.	Conveyance (as defined in Section 2 (d) not being a transfer charged or exempted under No. 54) of immovable property situated within the following Municipal Corporation and Municipalities viz., Trivandrum, Calicut, Quilon, Alleppey, Kottayam, Ernakulam, Mattancherry, Fort Cochin Alwaye, Trichur, Palghat, Tellicherry and Cannanore		

Where the amount or value of the consideration for such Conveyance as set forth therein does not Exceed Rs. 50

Where it exceeds Rs. 50 but does not exceed Rs. 100			
Do.	Rs. 100	do.	Rs. 200
Do.	Rs. 200	do.	Rs. 300
Do.	Rs. 300	do.	Rs. 400
Do.	Rs. 400	do.	Rs. 500
Do.	Rs. 500	do.	Rs. 600
Do.	Rs. 600	do.	Rs. 700

3.00
6.00
12.00
18.00
24.00
30.00
36.00
42.00
48.00
54.00
60.00
30.00

For every Rs. 100 or part there of of the amount or value of the consideration for such conveyance Rs. 7.50

22 Copy or extract, certified to be a true copy or extract by or if by order of any public officer and not chargeable under the law for the time being in force relating to court fees—

(i) If the original was not chargeable with duty or the duty with which it was chargeable does not exceed Rupee one

2.30

2.50

(ii) In any other case

4.50

5.00

23 Counterpart or duplicate of any instrument chargeable with duty and in respect of which the proper duty has been paid—

(i) The duty with which the original instrument was chargeable does not exceed Rs. 4.50

The same duty as is payable on the original

(i) The duty with which the original Instrument was chargeable does not exceed Rs. 500

The same duty as is payable on the original

(1)	(2)	(3)
(ii) In any other case	4.50	(ii) In any other case 5.00
24 Customs Bond or Central excise Bond— (a) Where the amount does not exceed Rs. 1,000	The same duty as Bottomry Bond (No. 14) for such amount	<i>(Note:—</i> Sec. 6 of the Kerala Stamp Act has to be amended as the maximum duty fixed therein for a counterpart or duplicate is Rs. 4.50) Same revised rate as for No. 14
24 (b) In any other case	30.00	No change
25 Delivery Order in respect of goods, that is to say, any instrument entitling any person therein named or his assigns or the holder thereof to the delivery of any goods laying in any dock or port or in any warehouse in which goods are stored or deposited on rent or hire or upon any wharf such instrument being signed by or on behalf of the owner of such goods, upon the sale or transfer of the property therein where such goods exceed in value twenty rupees	0.20	0.30
26 Divorce—Instrument of that is to say, any instrument by which any person effects the dissolution of his marriage	10.00	No change
27 Entry as an advocate on the roll of the High Court— (a) In the case of an Advocate (b) In the case of an attorney	500.00 312.00	800.00 400.00
28 Exchange of property instrument of	The same duty as a conveyance (No. 21 or 21 A as the case may be) for a consideration equal to the value of the property of greater value as set forth in such instrument	Same revised rate as for No. 21 or 21 A.
29 Further charge-Instrument of, that is to say, any instrument imposing a further charge on mortgaged property— (a) When the original mortgage one of the description referred to in clause (a) of article 36 (ie., tiith possession)	The same duty as a conveyance (No. 21 or 21 A as the case may be) for a consideration equal to the amount of the further charges secured by such instrument	do.

	(b) When such mortgage is one of the description referred to in clause (b) of article 36 (i.e. without possession)		
29	(b) (i) If at the time of execution of the instrument of further charge possession of property is given or agreed to be given under such instrument	The same duty as conveyance (No. 21 or 21 A as the case may be) for a consideration equal to the total amount of the charge (including the original mortgage and any further charge already made), less the duty already paid on such original mortgage and further charge.	Same revised rate as for No. 21 or 21 A
	(ii) If possession is not so given	The same duty as a Bottomry Bond (No. 14) for the amount of the further charge secured by such instrument	Same revised rate as for No. 14
30	Gift—Instrument of, not being a settlement or Will or transfer	The same duty as a conveyance (No. 21 or 21A as the case may be) for a consideration equal to the value of the property as set forth in the instrument	Same revised rate as for 21 or 21 A.
31	Indemnity Bond	The same duty as a Security Bond (No. 49) for the same amount	Same revised rate as for No. 49
32	Lease—including an underlease or sub-lease and any agreement to let or sub-let—		
	(a) Where by such lease the rent is fixed and no premium is paid or delivered		
	(i) Where the lease purports to be for a term of less than one year	The same duty as a Bottomry Bond (No. 14) for the whole amount payable or deliverable under such lease	Same revised rate, as for No. 14
	(ii) Where the lease purports to be for a term of not less than one year but not more than 5 years	The same duty as a Bottomry Bond (No. 14) for the amount or value of the average annual rent reserved	Same revised rate, as for No. 14

	(1)	(2)	(3)
32 (a) (iii) Where the lease purports to be for a term exceeding 5 years but not exceeding 10 years	The same duty as a Conveyance (No.21 or 21A as the case may be) for a consideration equal to the amount or value of the average annual rent reserved	Same revised rate, as for 21 or 21 A.	
(iv) Where the lease purports to be for a term exceeding 10 years but not exceeding 20 years	The same duty as a Conveyance (No. 21 or 21 A as the case may be) for a consideration equal to twice the amount or value of the average annual rent reserved	do.	
(v) Where the lease purports to be for a term exceeding 20 years but not exceeding 30 years	The same duty as a Conveyance (No. 21 or 21 A as the case may be) for a consideration equal to three times the amount or value of the average rent reserved	do.	
(vi) Where the lease purports to be for a term exceeding 30 years but not exceeding one hundred years	The same duty as a Conveyance (No. 21 or 21A as the case may be) for a consideration equal to four times the amount or value of the average annual rent reserved	do.	
(vii) Where the lease purports to be for a term exceeding 100 years or in perpetuity	The same duty as a Conveyance (No. 21 or 21A as the case may be) for a consideration equal to one-sixth of the whole amount of rents which would be paid or delivered in respect of the first fifty years of the lease	do.	
32 (a) (viii) Where the lease does not purport to be for any definite term.	The same duty as a Conveyance (No. 21 or 21A as the case may be) for a consideration equal to three times the amount or value of the average annual rent which would be paid or delivered for the first ten years if the lease continued so long	Same revised rates as for 21 or 21 A.	

(b) Where the lease is granted for a fine or premium or for money advanced and where no rent is reserved	The same duty as a Conveyance (No. 21 or 21 A as the case may be) for a consideration equal to the amount or value of such fine or premium or advance as set forth in the lease,	do.
(c) Where the lease is granted for a fine or premium or for money advanced in addition to rent reserved	The same duty as a Conveyance (No. 21 or 21 A as the case may be) for a consideration equal to the amount or value of such fine or premium or advance as set forth in the lease in addition to the duty which would have been payable on such lease if no fine or premium or advance had been paid or delivered: Provided that in any case where an agreement to lease is stamped with ad valorem stamp required for a lease & a lease in pursuance of such agreement is subsequently executed the duty on such lease shall not exceed one rupee and ninety-five paise	do.
33 Letter of Allotment of shares in any company or in respect of any loan to be raised by any company or proposed company	0.30	0.40
34 Letter of licence, that is to say any agreement between a debtor and his creditors that the latter shall for a specified term suspend their claims and allow the debtor to carry on business at his own discretion	33.80	40.00
35 Memorandum of Association of a company—		
(a) If accompanied by articles of Association under the Companies Act, 1956 (Central Act I of 1956)	90.00	150.00
(b) If not so accompanied	240.00	350.00
36 Mortgage deed, not being an agreement relating to Deposit of Title deed, pawn or pledge (No. 6) Bottomry Bond. (No. 14) Mortgage of a crop (No. 37), Respondentia Bond (No. 48) or Security Bond (No. 49)—		

(1)	(2)	(3)
(a) When possession of the property or any part of the property comprised in such deed is given by the mortgagor or agreed to be given	Same duty as a Conveyance (No. 21 or 21A as the case may be) for a *consideration equal to the amount secured by such deed	Same revised rate as for No. 21 and 21 A.
(b) When possession is not given or agreed to be given as aforesaid	Same duty as a Bottomry Bond (No. 14), for the amount secured by such deed	Same revised rate as for No. 14.
<i>Explanation.</i> —A mortgagor who gives or has given to the mortgagee a power of attorney to collect rents or gives or has given to the mortgagee a lease of the property mortgaged or part thereof, is deemed to give possession thereof within the meaning of this article.		
(c) When a collateral or auxiliary or additional or substituted security or by way of further assurance for the abovementioned purpose where the principal or primary security is duly stamped for every sum secured not exceeding Rs. 1,000 and for every Rs. 1,000 or part thereof secured in excess of Rs. 1,000	2.30	5.00
37 Mortgage of a crop, including any instruments evidencing an agreement to secure the re-payment of a loan made upon any mortgage of a crop whether the crop is or is not in existence at the time of the mortgage—		
(a) When the loan is repayable not more than 3 months from the date of the instrument— —for every sum secured not exceeding Rs. 200 —for every Rs. 200 or part thereof secured in excess of Rs. 200	0.40	0.50
(b) When the loan is repayable more than three months but not more than 18 months from the date of the instrument— —for every sum secured not exceeding Rs. 100 —for every Rs. 100 or part thereof secured in excess of Rs. 100	0.40	0.50
	0.60	0.75
	0.60	0.75

38. Notarial Act, that is to say, any instrument endorsement, note, attestation, certificate or entry not being a Protest (No. 44) made or signed by a notary public in the execution of the duties of his office or by any other person lawfully acting as a notary public	3.40	5.00
39 Note or Memorandum sent by a Broker or agent to his principal intimating the purchase or sale on account of such principal—		
(a) of any goods exceeding in value twenty rupees	0.60	0.75
(b) of any stock or marketable security exceeding in value 20 rupees	Subject to a maximum of Rs. 45, paise 40 for every Rs, 10,000 or part thereof of the stock or security	Subject to a maximum of Rs. 50, 50 paise for every 10,000 or part thereof.
40 Note of protest by the Master of a ship	3.00	5.00
41. Partition—instrument of [as defined by Section 2 (K)]	The same duty as a Bottomry Bond (No. 14) for the amount of the value of the separated share or shares of the property	Same revised rate as for No. 14.
	<i>N.B.</i> The largest share remaining after the property is partitioned (or if there are two or more shares of equal value and not smaller than any of the tother shares, then one of such equal shares) shall be deemed to be that from which the other shares are separated:	
	Provided always that—	
	(a) When an instrument of partition containing an agreement to divide property in severality is executed and partition is effected in pursuance of such agreement, the duty chargeable upon the instrument effecting such partition shall be reduced by the amount of duty paid in respect of the first instrument, but shall not be less than two rupees and thirty paise.	
	(b) Where land is held on Revenue Settlement for a period not exceeding thirty years and paying the full assessment, the value for the purpose of duty shall be calculated at twenty—five times the annual revenue.	
	(c) Where a final order for affecting a partition passed by any Revenue Authority or any civil court or an award by an arbitrator directing a partition is stamped with the stamp required for an instrument of partition, and an instrument of partition in pursuance of such order or award is subsequently executed, the duty on such instrument shall not exceed two rupees and thirty paise.	

(1)	(2)	(3)
42 Partnership.		
A. Instrument of—		
(a) Where the capital of the partnership does not exceed Rs. 1,000	15.00	} No change
(b) In any other case	60.00	
B. Dissolution of	30.00	
43. Power of attorney [as defined by section 2 (p) not being a proxy]—		
(a) When executed for the sole purpose of procuring the registration of one or more documents in relation to a single transaction or for admitting execution of one or more such documents	1.15	1.50
(b) When authorising one person or more to act in a single transaction other than the case mentioned in clause (a)	2.30	3.00
(c) When authorising not more than 5 persons to act jointly and severally in more than one transaction or generally	16.90	20.00
(d) When authorising more than 5 but not more than 10 persons to act jointly and severally in more than one transaction or generally	33.80	40.00
(e) When given for consideration and authorising the attorney to sell any immovable property	The same duty as a Conveyance (No. 21 or 21 A as the case may be) for the amount of the consideration	Same revised rate as for 21 or 21A.
(f) In any other case	3.40 for each person authorised	Rupees five for each person authorised.
<i>Explanation</i> †		
For the purposes of this article, more persons than one when belonging to the same firm shall be deemed to be one person.		
44 Protest of bill or note, that is to say any declaration in writing made by a Notary Public or other person lawfully acting as such attesting the dishonour of a bill of exchange or promissory note	3.00	5.00

<p>45 Protest by the Master of a Ship, that is to say, any declaration of particulars of her voyage drawn up by him with a view to the adjustment of losses or the calculation of averages and every declaration in writing made by him against the charterers or the consignees for not loading or unloading the ship, when such declaration is attested or certified by a Notary Public or other person lawfully acting as such</p>	3.00	5.00
<p>46 Reconveyance of mortgaged property—</p>		
<p>(a) If the consideration for which the property was mortgaged does not exceed Rs. 1,000</p>	<p>The same duty as conveyance (No. 21 or 21A as the case may be) for the amount of such consideration as set forth in the reconveyance</p>	<p>Same revised rate as for 21 or 21A</p>
<p>(b) In any other case</p>	<p>Rs. 60.00 in the case of immovable properties situated in the areas referred to in Art. 21A and Rs. 45 in the case of immovable properties situated in other areas</p>	<p>75.00 in respect of cases covered by Art. 21A & Rs. 50 in other cases</p>
<p>47 Release that is to say, any instrument (not being such a release as is provided for by Sec. 24), whereby a person renounces a claim upon another person or against any specified property—</p>		
<p>(a) If the amount or value of the claim does not exceed Rs. 1,000</p>	<p>The same duty as Bottomry Bond (No. 14) for such amount or value as set forth in the release</p>	<p>Same revised rate as for No. 14</p>
<p>(b) In any other case</p>	22.50	30.00
<p>48 Respondentia Bond, that is to say any instrument securing a loan on the cargo laden or to be laden on board a ship and making repayment contingent on the arrival of the cargo at the port of destination</p>	<p>The same duty as a Bottomry Bond (No. 14) for the amount of the loan secured.</p>	<p>Same revised rate as for No. 14</p>

	(1)	(2)	(3)
		Rs.	Rs.
49	Security bond or mortgage deed, executed by way of security for the due execution of an office or to account for money or other property received by virtue thereof or executed by a surety to secure the due performance of a contract—		
	(a) when the amount secured does not exceed Rs. 1,000	The same duty as a Bottomry Bond (No. 14) for the amount secured	Same revised rate as for No. 14
	(b) In any other case	22.50	30.00
50	Settlement—		
	A. Instrument of (including a deed of dower)	The same duty as a Bottomry Bond (No. 14) for a sum equal to the amount or value of the property settled as set forth in such settlement	Same revised rate as for No. 14
		Provided that where an agreement to settle is stamped with the stamp required for an instrument of settlement and an instrument of settlement in pursuance of such agreement is subsequently executed, the duty on such instrument shall not exceed two rupees thirty paise	Provided that where an agreement to settle is stamped and an instrument is subsequently executed the duty on such instrument shall not exceed Rs. 5
	B. Revocation of:	The same duty as a Bottomry Bond (No. 14) for a sum equal to the amount or value of the property concerned as set forth in the instrument of revocation, but not exceeding forty-five rupees	Same revised rate as for No. 14, but subject to a maximum of Rs. 50
51	Share warrants, to bearer issued under the Companies Act, 1956 (Central Act I of 1956)	One and a half times the duty payable on a conveyance (No. 21 or 21A as the case may be) for a consideration equal to the nominal amount of the share specified in the warrant	For every Rs. 100 or part thereof the nominal amount of the share specified in the warrant Rs. 10

52	Shipping order for or relating to the conveyance of goods on board of any vessel	0.20	0.30
53	Surrender of lease—		
	(a) when the duty with which the lease is chargeable does not exceed Rs. 22.50	The duty with which such lease is chargeable	(a) when the duty with which such lease is chargeable does not exceed Rs. 30 The duty with which such lease is chargeable (vide No. 92)
	(b) In any other case	22.50	(b) In any other case 30.00
54	Transfer whether with or without consideration—		
	(a) of debentures being marketable securities whether the debenture is liable to duty or not	One rupee for every Rs. 100 or part hereof of the face amount of the debenture	No change
	(b) of debenture stock	One rupee for every Rs. 100 or part thereof of the face amount of the debenture stock	No change
	(c) of any interest secured by a Bond, mortgage deed or policy of insurance—		
	(i) if the duty on such a bond, mortgage deed or policy does not exceed Rs. 22.50	The duty with which such bond, mortgage deed or policy is chargeable	(i) if the duty on such a bond, mortgage deed or policy does not exceed Rs. 25 No change in the rate.
	(ii) In any other case	22.50	25.00
	(d) of any property under the Administrator General's Act, 1913 (Section 25)	33.80	40.00
	(e) of any trust property without consideration from one trustee to another trustee or from a trustee to a beneficiary	Rs. 16.90 or such smaller amount as may be charged under clause (a) to (c) of this article	Rs. 25.00 or such smaller amount as may be charged under clauses (a) to (c) above
55	Transfer of lease by way of assignment and not by way of underlease	The same duty as a Conveyance (No. 21 or 21A as the case may be) for a consideration equal to the amount of the consideration for the transfer	Same revised rate as for No. 21 or 21A

(1)	(2)	(3)
56	Trust—	Rs.
A. Declaration of—Of or concerning any property when made by any writing not being a Will	The same duty as a Bottomry Bond (No. 14) for a sum equal to the amount or value of the property concerned as set-forth in the instrument but not exceeding Rs. 67.50	Rs. Same revised rate as for No. 14
B. Revocation of—Of or concerning any property when made by any instrument other than a Will	The same duty as Bottomry Bond (No. 14) for a sum equal to the amount or value of the property concerned as set forth in the instrument but not exceeding Rs. 45	Rs. Same revised rate as for No. 14
57	Warrant for goods, that is to say, any instrument evidencing the title of any person therein named or his assigns of the holder thereof to the property in any goods lying in or upon any dock, warehouse or wharf, such instrument being signed or certified by or on behalf of the person in whose custody such goods may be	1.15
		1.50

ANNEXURE—II.

Exemptions from Stamp Duty which are proposed to be retained**(i) UNDER THE SCHEDULE TO THE KERALA STAMP ACT**

<i>Sl. No. of Article in The Schedule</i>	<i>Exemptions</i>
22 Copy or extract	(a) Copy of any paper which a public officer is expressly required by law to make or furnish for record in any public office or for any public purpose (b) Copy of or extract from any register relating to births baptisms or namings
27 Entry as an Advocate	Entry as an advocate on the roll of the High Court when he has been previously enrolled as a Vakil in the same High Court or as an Advocate or Vakil in any other High Court
54 Transfer.	Transfer by endorsement (a) of a bill of exchange, cheque or promissory note (b) of a bill of lading, delivery order, warrant for goods or other mercantile document of title to goods (c) of a policy of insurance (d) of securities of the Central Government.

(ii) Notified under the Kerala Stamp Act

1. The whole stamp duty under the Stamp Act for decisions awards or orders of the Registrar of Co-operative Societies or arbitrators under the Co-operative Societies Act.
2. The duty in respect of instruments relating to the transfer of 4½% Defence Deposit Certificates which are securities of the Central Government.
3. The duty in respect of transfers by endorsement of 4½% Kerala Electricity Bonds, 1975.

4. The duty in respect of the bonds to be executed by the Scheduled Castes and Tribes for the drawal of interest free loans sanctioned to them.
5. The duty in respect of instruments of gifts in favour of Government or local bodies
6. The duty for issue of extracts of mark lists of the annual examinations of Standards I to IX in the case of Harijan students.
7. The duty on agreements for right to collect seigniorage on minor produce brought for sale by hill tribes.
8. Letter which a person depositing money in a post office Savings Bank as security to the Government or a local authority for the due execution of an office or for the fulfilment of a contract or for any other purpose, is required to address the Postmaster in charge of the Post Office Savings Bank agreeing to special conditions with respect of the application and withdrawal of the money deposited and the payment of interest accruing due thereon.
9. The duty in respect of instrument of reconveyance of mortgaged property executed by State Government in favour of any person who is or has been in the Civil or Military service of the Government on the repayment of an advance received by him from the Government for the purpose of constructing, purchasing or repairing a dwelling house for his own use.
10. The duty in respect of instrument of reconveyance executed by State Government in respect of the property mortgaged by an officer of Government or his surety as security for the due execution of an office or the due accounting for money or other property received by virtue thereof.
11. The duty in respect of instrument of exchange executed by a private person where land is given by him for public purposes in exchange for other land granted to him by the Government.
12. The duty in respect of instrument of release referred to in Section 130 of the Indian Merchant Shipping Act 1958 (Act 44 of 1958).
13. The duty in respect of certificate of sale granted to the purchaser of any property sold by public auction by a Registrar of Co-operative Societies in the said State. Duty reduced to the amount of duty chargeable on a similar certificate granted by a Civil or Revenue Court.
14. The duty on agreements executed by Harijans either collectively or individually in cases of acquisitions of house-sites where initial deposits are collected from them and in cases of acquisition of land for wholesale shifting of cheris where the cost of acquisition is recovered from the Harijans as an alternative to the condition of relinquishment of their old sites.
15. The duty payable by the authorised agents under the National Savings Scheme in respect of the agreements to be executed by them.

16. The duty payable by authorised agents under the system for the sale of National Plan Certificates in respect of the supplementary agreements to be executed by them.
17. The duty with which mortgage deeds executed by Industrial Concerns in the State in respect of the loans received by them from the Government of India under the Subsidised Industrial Housing Scheme of the Government of India are chargeable.
18. The duty with which agreements executed by the industrial concerns in this State in respect of the subsidies received by them from the Government of India under the subsidised Industrial Housing Scheme of the Government of India are chargeable under the said Act.
19. The duty on the security bond executed by a non-gazetted officer of the State of Kerala or an employee of a local body in the State drawing salary not exceeding Rs. 300 per mensem in respect of the advance drawn by him for treatment of Tuberculosis for him or a member of his family in private T. B. Sanatoria in the State of Kerala.
20. The duty chargeable in respect of undertakings furnished by Government servants in connection with the final withdrawal from Provident Funds for house building purposes.

CHAPTER 10

MISCELLANEOUS TAXES

(WEALTH TAX, ESTATE DUTY AND SUCCESSION DUTY)

10.1 The Directive Principles of State Policy adumbrated in the Indian Constitution enjoin that the ownership and control of the material resources of the community should be so distributed as to subserve the common good and that the operation of the economic system should not result in concentration of wealth and means of production to the common detriment. Since under the existing socio-economic framework in India the brunt of the burden of resource mobilisation is on the poorer masses of the population, it is necessary to lessen this inequity through a complementary system of progressive taxation on the well-to-do sections who constitute only a small percentage of the total population. In the absence of such a system the massive outlays on the Five Year Plans have resulted in a disproportionate increase in the wealth of the richer sections of the community, thus undermining the concepts of justice and equity envisaged in the Directive Principles. Mr. Nicholas Kaldor who reviewed the Indian tax system in 1956 sought to achieve these objectives by introducing a comprehensive tax reform embracing taxes on wealth, capital gains, gifts and personal expenditure besides income-tax. Estate duty and succession duties are other forms of taxation capable of reducing inequalities in wealth and income.

10.2 Mr. Kaldor had estimated that the net yield of the reforms suggested by him would be in the range of Rs. 80 to 110 crores a year. This estimate includes the expected yield from the Capital Gains Tax (Rs. 25-40 crores annually). Though all the new taxes have been introduced by the Government of India the total yield from them came to only Rs. 12.40 crores in 1966-67 (accounts) (excluding the collection from capital gains tax for which separate figures are not available) in spite of the significant rise in property values under the Plans. This indicates either that there has been a conspicuous lack of determination on the part of the Centre to administer the taxes efficiently or that the existing system of valuation of property needs improvement.

10.3 Estate duty was already being levied when Mr. Kaldor reviewed the tax system. But even today it is not being really used as an instrument for reducing inequalities in wealth; this is clear from

the fact that the total revenue collected from this source in 1966-67 was only Rs. 6.26 crores.

10.4 Under the scheme of distribution of fiscal powers between the Union and the States, wealth tax (excluding that on agricultural land) falls within the jurisdiction of the former. At the same time taxation of agricultural wealth has not been specifically included either in the State List or in the Union List. Succession duties relating to agricultural land and estate duty in respect of agricultural land are State taxes (Entries 47 and 48 of List II of the Seventh Schedule to the Constitution). Though estate duties and succession duties in respect of properties other than agricultural land are included in the Union List, the proceeds of these taxes are to be assigned to the States as laid down in Article 269 of the Constitution.

10.5 Under the existing arrangements the Centre is levying estate duty on agricultural land and making over the collections to the States after deducting collection charges. The total revenue for all the States is less than a crore. The relative insignificance of this tax will be clear from the fact that Kerala got from this source only Rs. 1.47 lakhs in 1966-67. Estate duty on property other than agricultural land is distributed among the States on the basis of the formula prescribed by the Finance Commissions from time to time. The principles of distribution suggested by all the Finance Commissions have been the same, though many States have been advocating changes in the scheme before the successive Commissions. According to the formula adopted, the net proceeds are apportioned between immovable property and other property in proportion to the gross value of the properties assessed in a year. The amount apportioned to immovable property is distributed among the States in proportion to the gross value of immovable property located in each State. The sum apportioned to other properties is distributed among the States on the basis of population.

10.6 Wealth tax on agricultural land and succession duties in respect of both agricultural and non-agricultural properties are not levied at present. As mentioned earlier, the levy of a wealth tax on agricultural land is not specifically provided for by any Entry relating to taxation in either the Union List or the State List. But under the residuary powers conferred on the Union, Parliament can legislate for such a measure. We consider that there is no justification to exclude agricultural land from wealth tax. In fact agricultural land constitutes a more stable base of wealth than bank balances, investments in stocks and shares or most other forms of non-agricultural property; there has been a tremendous appreciation in land values due to the ever increasing pressure of population on land, sizeable investments in rural development and so on. Of course, the ceilings fixed for land holdings have, to a limited extent, acted

as a check against accumulation of agricultural wealth. In this process the base for agricultural wealth tax is rendered some what slender. Even so, with the increase in productivity brought about by advanced methods of cultivation and intensive application of inputs on the one hand and favourable market prices on the other agricultural wealth would constitute a fruitful field for taxation. We recommend that the Government of India may be moved to pass suitable legislation authorising the States to collect and appropriate wealth tax on agricultural land, and, that for this purpose, the Government of Kerala may try to enlist the support of other State Governments also. This would help to remove a lacuna in the Indian tax system.

10.7 We are also in favour of imposing succession duties. While estate duty is levied on the entire assets of a deceased person, succession duties are to be levied on the inheritance of each individual. Thus the base of the levy as well as the incidence is divergent, though it can be argued that in actual practice both these will ultimately fall on the same property. Inherited wealth is really un-earned wealth to the beneficiary. Hence even under the present economic system in which private property rights are highly sanctified, there is a case for taxing inheritance. As in the case of estate duty, succession duties may be levied by a Central law applicable to both agricultural lands and other properties, with the concurrence of the States so far as agricultural lands are concerned. The following rates are suggested:—

Where the value of the inheritance does not exceed Rs. 25,000	} Nil
Where the value exceeds Rs. 25,000 but does not exceed Rs. 50,000	} 5 per cent of the excess over Rs. 25,000
Where the value exceeds Rs. 50,000 but does not exceed Rs. 1,00,000	} Rs. 1,250 plus 15 per cent of the excess over Rs. 50,000
Where the value exceeds Rs. 1,00,000 but does not exceed Rs. 2,00,000	} Rs. 8,750 plus 25 per cent of the excess over Rs. 1,00,000
Where the value exceeds Rs. 2,00,000	} Rs. 33,750 plus 50 per cent of the excess over Rs. 2,00,000

10.8 It appears that the peculiar features of the Hindu joint family system have been causing difficulty in the matter of imposing succession duty, which bases liability on the amounts inherited by various

persons and their degree of relationship to the deceased person. Until these difficulties could be satisfactorily solved the main objective behind this levy can only be achieved by introducing a higher degree of progressivity in estate duty.

10.9 Estate duty though administered by the Centre is of financial significance to the States as the proceeds are passed on to the States under Article 269 of the Constitution (duty in respect of agricultural land is a State tax under the Constitution itself). Under the Estate Duty Act, the word 'estate' includes all property which the deceased was at the time of his death competent to dispose of. Thus the duty will be leviable on all property belonging to the deceased, including cash, bullion, jewellery, household effects, motor cars and other vehicles etc. All bonafide debts of the deceased are deducted from the value of the assets for determining his total taxable property. The beneficiaries of the deceased person are made liable to submit within six months of the death a return showing the list and value of the property left by the deceased. The tax is levied on a slab system and is payable in instalments also. Certain exemptions are allowed. We would suggest one minor alteration in the scheme of exemptions. Under the existing provisions all gifts for public charitable purposes made six months before the date of death and all other gifts made two years before the date of death are exempted from estate duty. To minimise the loopholes for evasion, the time-limit prescribed above may be modified as one year and five years respectively, so that gifts for charitable purposes made during a period of one year and other gifts made during a period of five years before the death of a person will also be included in the property liable to taxation. The Government of India may be moved for amending the Act suitably for this purpose.

Summary of conclusions and recommendations

1. The Government of India may be moved to pass suitable legislation authorising the States to levy, collect and appropriate wealth tax on agricultural land, and for this purpose the support of the other State Governments may also be enlisted.

(paragraph 10.6)

2. Succession duties may be introduced as a complement to estate duty both on agricultural lands and other properties at the rates specified in paragraph 10.7. The Government of India may be moved to pass necessary legislation for this purpose as in the case of estate duty. Until the difficulties in the matter of imposing succession duty could be satisfactorily solved, the main objective behind this levy can only be achieved by introducing a higher degree of progressivity in estate duty.

(paragraphs 10.7 and 10.8)

3. The existing provision in the Estate Duty Act exempting gifts for charitable purposes made before six months and other gifts made before two years of the death of a person may be amended so that the properties gifted during a period of one year or five years as the case may be before his death will also attract tax. The Government of India may be moved to amend the Act suitably for this purpose.
(paragraph 10.9)

D. NON-TAX REVENUES

CHAPTER 11

KERALA STATE ELECTRICITY BOARD

11.1 The Kerala State Electricity Board is a public sector undertaking enjoying the privileges of a monopoly concern. Though in theory the Board is at liberty to fix prices for all categories of consumers in such a way as to maximise the profit, being a Public Sector undertaking, they have not only been called upon to shoulder responsibilities in the public interest, including the supply of power at "concessional" and even "below cost" tariff, but are expected to operate within the framework of the State Government's industrial promotion and agricultural production plans and programmes. The generation and sale of power is not only a means for raising revenue for the public sector, but also a catalyst for economic development and spatial dispersion of industries. This assumes particular significance in a State like Kerala where electricity assumes the role of a "basic resource", particularly in view of the inadequacy or absence of basic resources like iron and coal.

Historical background

11.2 The generation of electricity in the public sector in the erstwhile Travancore State started in 1929 when the State Government set up in Trivandrum a thermal station with three oil-engine-driven generation sets of 65 KW each. Another power station equipped with three diesel sets of a total capacity of 240 KW was established in Quilon in the year 1934. By that time the potentiality of developing hydro-electric power was recognised and in 1933 work on the Pallivasal hydro-electric project was inaugurated. The first stage of the project, when completed in 1940, had a generating capacity of 13,500 KW. When electricity began to be supplied from the Pallivasal Project, the thermal stations at Trivandrum and Quilon were closed down.

11.3 Electricity was first introduced in the erstwhile Cochin State in 1935 when a thermal power station with diesel engines was established in Trichur. This was followed by the setting up of thermal stations run on diesel oil in Kalamassery, Mattancherry and Ernakulam in 1938, the last two being owned by licensees. The Poringalkuthu Hydro-electric project was taken up in 1946 as a post-war development scheme. Work on the project was in progress when the State was integrated with Travancore in 1949.

11.4 The Malabar area, particularly in Kozhikode District, was meeting its power requirements from the Pykara electricity system

in Madras State. There were three receiving stations in the district at Kuthumunda, Kozhikode and Nilambur. This arrangement continued for some years even after the reorganisation of States. There was also a private licensee engaged in the distribution of power—the West Coast Electric Supply Corporation—which catered to the needs of the Calicut town.*

11.5 With the implementation of the successive Five Year Plans there have been great strides in the development of hydro-power in the State. At the commencement of the First Five Year Plan, the installed capacity of the Pallivasal project—the only completed hydro-electric system then in the State—was 28.5 KW. On completion of the Pallivasal Stage II and the Sengulam Projects, the installed capacity rose to 85.5 MW at the close of the First Plan period.

Constitution of the Electricity Board

11.6 One year after the launching of the Second Five Year Plan i.e., in April 1957, the Kerala State Electricity Board was set up under the provisions of the Electricity (Supply) Act (Central Act), 1948, to take over the administration of the electricity undertaking which was being hitherto run departmentally by the Government. By that time, the installed capacity of the system had reached 101.5 MW. During the Second Plan, the first and second stages of the Poringalkuthu Project and two units of the Neriamaangalam Project were completed, bringing the installed capacity to 147.5 MW by the end of the year 1961. The Neriamaangalam Project (3rd unit) and the Panniar Project were completed during the Third Plan period and the capacity of the system went upto 192.5 MW by 1966. With the commissioning of two units of the Sholayar Project and all the six units of the Sabarigiri Project, the total capacity of the Kerala grid rose to 528.5 MW towards the close of 1967-68.

11.7 Thus, the last decade witnessed a significant growth in the power development in Kerala, the generating capacity rising by more than five times. The number of hydro-electric stations in operation increased from three to eight and new projects were taken up for construction. The sales operations of the Electricity Board covered more than 3.8 lakh consumers and the per capita consumption of electricity has been increasing from year to year.

Constraints on the economic functioning of the Board

11.8 The Board is charged with the general duty of promoting the co-ordinated development of generation, supply and distribution of electricity within the State in the most efficient and economical manner with particular reference to such development in areas not, for the time being, served by private licensees. According to the provisions of the Act, the Board should, as far as practicable, carry on

* On the expiry of the period of agreement of the licensee, the Kerala State Electricity Board took over the distribution work along with the assets of the Company.

its operations in such a manner that it does not incur any loss and for this purpose the Board is required to adjust its tariffs from time to time. But, in respect of private licensees, the Sixth Schedule to the Act lays down a rigorous financial code and fixes a ceiling on the returns that may be earned by them. No similar provision exists regarding the financial working of the State Electricity Board. The main aim of the Sixth Schedule to the Act is to regulate the working of the licensees so as to limit the profits that may be earned by them in their business of electricity distribution. Since most of the private licensees operate in urban areas, there is scope for making large profits and this has necessitated the provisions in the Sixth Schedule placing certain limits on the returns that may be earned by them. In the case of State Electricity Boards, however, the area of operation is state-wide, and, so long as the duty of promoting co-ordinated development of generation and distribution of electrical energy is placed on them, it will not be possible for the Boards to function like private licensees choosing only such areas for electrical development as are highly remunerative.

11.9 The promotional role of the State Electricity Board has been, from time to time, imposed on it by the State Government. The Electricity Board has, so far, been functioning in an atmosphere of supply scarcity, and hence pricing policies and strategies and marketing and management innovations had very little place in their developmental efforts. Apart from "cost of production" as the major factor in price setting, and the concept of "subsidy" to promote certain industries, there have been no scientific approach to the determination of electricity tariff. Since the Electricity Board had inherited the backlog of "below-cost contractual obligations" in respect of certain industrial consumers and since the organisational set-up of the Board, from the very beginning, was designed to operate in a system of contracts and sub-contracts, rather than direct jobbing work, the crucial significance of high-level managerial decision-making in conditions of demand rigidities has, so far, not been given due recognition.

Need for a Fair Return on Investment

11.10 As the financial working of most of the State Electricity Boards in India has been causing considerable concern, the Government of India appointed in 1964 a Committee of Ministers of various States with Shri R. Venkataraman, then Industries Minister, Madras State, as its convener, to examine the financial working of the State Electricity Boards and to make suitable recommendations as to how best the working of the Boards could be toned up to secure optimum returns on the investments. The above Committee's (Venkataraman Committee) main recommendation was that the immediate objective of the State Electricity Boards should be to earn adequate revenues to meet not only the working expenses and depreciation but also

the interest charges *in full* on the invested capital. After achievement of this first phase objective, the State Electricity Boards should work to achieve the second phase objective of earning a return of 3 per cent of the capital base after meeting the operation, maintenance, depreciation and interest charges. In fact, the recommendation of the above committee was that the State Electricity Boards should achieve the second phase objective within five years.

11.11 The recommendations of the Venkataraman Committee have been accepted by the Government of India, State Governments and State Electricity Boards. All efforts are therefore to be made to achieve the first and second phase objectives without delay.

Financial Position of the Board

11.12 The financial position of the Kerala State Electricity Board has, however, been showing considerable strain during the recent years. Though the revenues of the Board have gone up from Rs 7.07 crores in 1965-66 to Rs 9.42 crores in 1967-68, the total operation and maintenance expenses went up from Rs 2.07 crores to Rs 4.01 crores. After making allowance for depreciation and cost of power purchased, the net operating income of the Board went down from Rs 3.03 crores in 1965-66 to Rs 2.77 crores in 1967-68. Thus the increase in expenditure has been much more than the rise in revenue in recent years. The return on the capital base of the Board was 3.44 per cent in 1965-66 and it came down to 2.37 per cent in 1967-68. In 1965-66 the Electricity Board's revenue deficit to meet the full interest charges due to the Government was Rs 0.77 crore. This deficit increased to Rs. 2.7 crores in 1967-68. A statement in a consolidated form giving the picture of gross revenues, working expenses, depreciation, interest due and net deficit for the years 1963-64 to 1967-68 is given in Annexure I.

11.13 The Electricity Board and the Government of Kerala gave an undertaking to the World Bank, late in 1965 before availing of the Transmission loan, that all possible efforts would be made by the Board to increase progressively the return on the capital base. The expectation was that the Board should be able to get eleven per cent return by 1970-71 on the capital base, the 11 per cent being calculated as follows:—

Interest	6.0%
Duty	1.5%
General Reserves	0.5%
Profit	3.0%
	<hr/>
Total	11.0%
	<hr/>

11.14 It was promised that in the year 1967-68, Kerala State Electricity Board would achieve a return of 6.5 per cent on the capital base. Against this undertaking, performance has been only 2.37 per cent. There has been considerable pressure from the World Bank and the Government of India for the Kerala State Electricity Board taking adequate measures to step up its revenues so as to show appreciable progress for achieving the promised targets. Recently representatives of the Kerala State Electricity Board and Government of Kerala were examined by the World Bank authorities to ascertain what steps they propose to take for fulfilling the undertaking already given. During this examination certain broad principles were evolved as to how best the financial targets could be worked out and fulfilled. As a major concession, the World Bank authorities have now agreed to exclude works in progress from the capital base so that the return on the capital could be assessed with reference to the capital base consisting only of assets which are producing revenues. So far as Kerala is concerned, this is no doubt a substantial concession as a good block of the capital assets would not be ready for yielding revenue till 1971-72 when the Iddikki Project is to be commissioned. Till then it would be advantageous to exclude the capital invested on the works in progress of the Iddikki Project. After excluding works in progress the capital base of the Kerala State Electricity Board is expected to be as follows:—

	<i>Rs. in crores</i>
1967-68	85.90
1968-69	89.78
1969-70	103.09
1970-71	106.80
1971-72	170.19
1972-73	173.57

11.15 In this connection it will be relevant to explain the basis on which the capital base is arrived at. This capital base in brief represents the capital resources employed in the Kerala State Electricity Board after eliminating the internal capital generated by the Board which is largely in the form of depreciation reserve and security deposits of consumers. The total value of the fixed assets plus working capital for stores and cash is first arrived at and therefrom the accumulated depreciation reserve of the Board utilised internally and security deposits from consumers are deducted. The net figure gives the value of capital base representing mainly the capital resources obtained from outside sources involving payment of interest. In other words, what the Kerala State Electricity Board is expected to achieve is only a return on the borrowed capital and not on the capital generated internally. This approach has been accepted by the World Bank and it relieves the Board in showing

a return on its own internal capital generated. A statement indicating the details of capital base, operation and maintenance expenses and revenue of the Board for the years from 1965-66 to 1972-73 is given as Annexure II.

11.16 During the year 1968-69, revenues of the Board on the basis of the existing tariffs and the surcharge imposed from 1-6-1968 are expected to be in the region of Rs 12 crores. The revenue expenses including depreciation but excluding interest charges are expected to be Rs. 7.6 crores. The net revenue available for earning a return on the capital base is estimated to be Rs. 4.4 crores. This net revenue works out to a return of about 4.8 per cent on the capital base for that year. In view of the low return that the Kerala State Electricity Board has been earning, it would be difficult to reach in one step the targeted return of 9.5 per cent on the capital base. The Venkataraman Committee which examined the financial working of the various State Electricity Boards recommended that, as a first stage, each State Electricity Board should aim at achieving a return of 6 per cent to 6.5 per cent on the capital base which will be sufficient to meet the interest charges. According to this Committee, a second stage of achieving the target of 9.5 per cent including a net profit of 3 per cent to 3.5 per cent could be aimed at after initially achieving the first stage.

11.17 In this context, we may first examine the shortfall in the net revenues which the Kerala State Electricity Board is having for achieving the first stage of 6 per cent on capital base. For realising the above 6 per cent, the total revenues that would be necessary to be earned by Kerala State Electricity Board in 1968-69 should be at least Rs. 12.98 crores. Against this, the Board is expected to realise a revenue of only Rs. 12 crores. As a first step it is suggested that measures should be taken to increase the revenues so as to achieve this initial target of 6 per cent to 6.5 per cent. Happily, this position is likely to be achieved with the implementation for a full year of the surcharges recently imposed by the Government from 1st June 1968. This surcharge order is no doubt under dispute in the High Court, but once it is cleared it is estimated that a total revenue of Rs 14.5 crores will be realised in 1969-70. This estimated revenue is just adequate to meet the operation and maintenances and depreciation charges and to give a return of 6 per cent on the capital base.

11.18 There are certain basic assumptions on which the above forecast for 1969-70 is estimated. These assumptions are (1) the energy sales in 1969-70 should at least reach the target of 1680 million units; (2) Revenue expenses in 1969-70 should be comparable with those incurred in 1968-69. It is to be hoped that the above basic assumptions will not be upset.

11.19 Having reached the first stage of 6 per cent to 6.5 per cent return in 1969-70, ways and means have to be found for further increasing the net revenues of the Board to realise the target of 9.5 per cent. This target should be achieved before the Idikki Project is brought into commission because once this project is commissioned, the entire picture changes. Kerala State Electricity Board will have on its hand a huge generation potential of Idikki with the attendant interest and depreciation charges without being able to sell the entire power available from Idikki. The Idikki Project is expected to be commissioned in 1971-72. In view of the difficulties in achieving the target of financial returns after commissioning the Idikki Project, it is necessary for the Kerala State Electricity Board to think of achieving this objective just before the Idikki Project is commissioned. Thus in the year 1970-71, the target for the Kerala State Electricity Board should be to achieve a net revenue return which should give 9.5 per cent on the capital base.

11.20 The picture of power availability in Kerala State requires careful study. Till the commissioning of the Sabarigiri Project, this State was grossly deficient in power which necessitated large scale curtailment of extension of electricity services and imposition of power cut when monsoons failed. This picture of power scarcity has radically changed with the commissioning of the Sabarigiri Project which added 300 MW of power to the installed capacity. The installed capacity of the Kerala power system and the full generation potential thereof for the various years from 1968-69 projected upto 1972-73 are given below:

<i>Year</i>	<i>Installed capacity</i>	<i>Full generation potential</i>
1968-69	546.5 MW	2517 M. Units
1969-70	621.5 MW	2533 M. Units
1970-71	621.5 MW	2533 M. Units
1971-72	751.5 MW	2817 M. Units
1972-73	1011.5 MW	4372 M. Units

Electricity Board's Estimates of Revenue Deficits

11.21 On the basis of the existing tariff and surcharge, the Electricity Board has projected the energy sales and revenues anticipated for the current and the future years as follows:

<i>Year</i>	<i>Units in Million</i>	<i>Rs in crores</i>
1968-69	1,400	12.00
1969-70	1,680	14.50
1970-71	1,880	16.28
1971-72	2,030	18.07
1972-73	2,180	19.97

11.22 The cost of power at the generation end, extra high tension end, high tension end and low tension end has also been worked out. Annexure III gives the cost per unit at the various ends and also exhibits the fixed charges by way of depreciation and interest which do not vary with the off-take of power. For the purpose of arriving at the fixed charges, depreciation has been calculated on the straight line basis adopting years of life for each category of asset according to Schedule VII to the Electricity (Supply) Act, 1948. In respect of interest charges, a flat rate of 6 per cent on the capital base has been adopted excluding the capital internally generated by the Board. As the objective of the Kerala State Electricity Board is to realise in due course not only the cost of power including interest charges but also an additional 3.5 per cent on the capital base (making a total of 9.5 per cent), the total realisation that should be had by sale of power at various ends has been worked out in Annexure IV. In this annexure, the existing realisation per unit as per tariff plus surcharge is also indicated as from the various classes of consumers. The overall shortfall in revenue for the various years from 1968-69 to 1972-73 to give the total return of 9.5 per cent on the capital base is summarised below:

<i>Years</i>	<i>Rs. in crores</i>
1968-69	4.12
1969-70	3.22
1970-71	2.61
1971-72	7.50
1972-73	7.69

11.23 In the forecast of revenue assumed in the earlier paragraphs a steady growth of 12 to 20 per cent in various loads has been assumed for each year. An attempt has also been made to examine how the financial position of the Board will improve if we make an optimistic forecast about sale of power. If the supply of power to Madras and to the titanium complex materialises, this is likely to bring in extra revenues to the Board. The extra revenue from the titanium complex would, however, be possible only after 1971-72, as even the preliminary works have not been started by this industry. In view of this, it would be unrealistic to take this load into account for revenue purposes even for 1971-72. At best, a portion of this major load might come about in 1972-73. The generation potential and net surplus in power in the Kerala State Electricity Board from 1969-70 to 1972-73 are given in Annexure V. In the same annexure, the probable loads that might materialise to absorb a portion of the surplus power are also given. Thus sale of power to Madras might come about to 100 million units in each of the years 1969-70 and 1970-71 and to 200 million units in 1971-72 and 1972-73. And if the titanium complex and the newsprint project materialise,

further sale of power upto 613 million units might come about in 1972-73. According to the Electricity Board, even after making a load forecast on an optimistic basis, allowing for all possible development of industries, the following will be the picture of generation that would be required to meet the internal demand and the net surplus that is likely to be available.

<i>Years</i>	<i>Generation required to meet internal demand</i>		<i>Net Surplus Available</i>	
1969-70	2003	M. Units	463	M. Units
1970-71	2372	M. Units	266	M. Units
1971-72	2414	M. Units	363	M. Units
1972-73.	2600	M. Units	1595	M. Units

11.24 The surplus energy available upto the year 1971-72 is mainly on account of unutilised capacity of the Sabarigiri Power House. Thereafter the surplus energy availability steeply increases consequent on commissioning of Idikki Project.

11.25 The analysis given earlier is based essentially on a "cost-oriented" approach. The additional sales which can be generated by marketing effort, including selling techniques, better pricing policies and strategies, publicity and promotion, etc., are indeed, the most crucial magnitudes in our calculation. It is obvious that any determination of tariff based on unit cost plus a certain margin for profit, interest, etc., has to be related to the level of capacity utilisation. But the volume of sales and, therefore, of the degree of capacity utilisation, depends also on the level of electricity rates. Unless the complex relationship between price, unit cost, sales effort, demand, capacity utilisation, etc., are clearly understood, without committing the error of circular reasoning, calculations aimed at future profitability of the electricity undertaking will not succeed.

11.26 One method of estimating future demand for power is to analyse the pattern of industrial development envisaged under the proposed Fourth Five Year Plan of the State and to aggregate the projected demand schedules of the individual companies or industries (both existing industries and industries expected to be set up during the Plan period). In the absence of firm estimates of demand for individual companies or industries or sectors, broad estimates based on certain relationships or trend analysis may have to be made. The expected or planned developments in the rural sector with reference to use of electric pump sets, extension of electrification programmes in the municipalities and panchayats, etc., will have to be mapped out.

11.27 According to the Draft proposals for the Fourth Five Year Plan, of Kerala, prepared by the State Planning Board,

"Assured supply of steady power at relatively low cost should be considered as an important measure for attracting industries to Kerala. The policy of power development in the Fourth Plan will, therefore, be to increase installed capacity for power generation, to ensure adequate supply of firm power even during the non-monsoon periods, at prices which will induce industrial development, and to remove the bottlenecks in power distribution",

The Draft further states that,

"The assesment of power requirement would be based on the needs of the entire southern region, keeping in view the Centre's policy of developing power on regional basis."

11.28 The possibility of selling power to Madras is yet to be finally ascertained. But, the important point to remember is that the demand for Kerala-based power from neighbouring States is as much a function of price as a function of inter-State discussions of the relative economics of geographical specialisation. The Government of Kerala and the State Electricity Board should impress upon the Planning Commission, the Government of India and the State Governments in the southern region about the efficiency of investments in the power sector in Kerala and the possibility of power supply at relatively cheap rates provided the neighbouring States agree to make large-scale purchases of power from Kerala. At the same time, with substantial unutilised capacity likely to be generated after Idikki is fully commissioned, the Electricity Board should evolve a pricing strategy based essentially on the principle of 'incremental costing' so that additional sales can be effected, thereby making at least marginal contributions to profitability.

11.29 The data relating to the behaviour of costs at different levels of capacity and tariff rates indicate that, if demand can be generated to a level where substantial proportion of capacity can be utilised, unit costs would decline to such an extent that the anticipated profitability can be realised even without any increase in existing tariffs. The primary objective of the Electricity Board, around which the entire top management and the technical and administrative cadre of the Board should be motivated into action, should be the attainment of a desired 'sales effort' identified in terms of very clearly laid-down sales targets.

11.30 Though power is not a commodity like other consumer products in respect of which market research would yield quick results, still it would be a step in the right direction if a commercial approach is developed among the engineers at all levels with the objective of

developing load demands in every nook and corner of the State. At present the tendency among the power engineers in the State is to rest content with merely connecting new services for which applications are on hand. This tendency has to be radically changed. The outlook of every power engineer should be so reoriented as to encourage him to look out for fields of developing power loads. For example, there are many areas where the existing distribution transformers are not fully loaded. It should be the aim of every engineer in charge of distribution transformer to make an earnest attempt to ensure that the full distribution capacity of the transformer is utilised by connecting new loads within a specified time. Thereafter, his aim should be to anticipate new growth and to increase the capacity of transformers on the distribution system so as to take on more loads. The achievement of the field engineers should be measured in terms of load development and consequent increases in revenue in his area. This commercial approach coupled with proper marketing techniques should enable the power engineers to achieve a crash programme of increasing power sales.

11.31 In this context it is necessary to examine whether any of the existing procedures are creating obstacles in the way of load promotion. In the course of taking evidence we have been told that the minimum guarantee system prescribed by the Electricity Board is acting as a disincentive to the sale of power. In the present context, this system needs to be reviewed; we would advocate a liberalisation of the existing terms of minimum guarantee with a view to expand the consumption of power.

Economy in the Working of the State Electricity Board

11.32 There can be no two opinion regarding the need for achieving maximum economy in the working expenses of the Board. It would be essential for the State Electricity Board to evolve suitable work norms for various categories of personnel, improved managerial techniques at all levels and to ensure maximum productivity. The State Electricity Board has engaged the National Productivity Council in the southern region to conduct a special study of the work norms of various categories of personnel in the Board and to make recommendations relating to the staffing pattern so as to achieve maximum productivity and economy. This special study by the National Productivity Council should be given all the importance it deserves so that full advantage is taken of its considered recommendations for achieving maximum economy in the utilisation of personnel.

11.33 It must the point out, in this connection, that measures for increasing productivity should not be conceived of merely in terms of mechanisation, or computerisation of jobs which are now being handled by human labour. This needs emphasis particularly in view of the fact that, very often, managements of companies tend to

restrict the introduction of productivity techniques to labour-saving devices. In the present situation of increasing unemployment in the country productivity techniques should aim at reducing cost per unit of output or service through better organisation of productive operations and by cutting down unnecessary overhead expenses and avoidable waste.

11.34 Another important sector where economy could be achieved is inventory control. There seems to be no scientific procedure at present obtaining in the State Electricity Board for exercising a proper inventory control. The procedure of purchase and provisioning of stores has to be rationalised so that only essential items are purchased and stocked for the minimum period necessary. The process of inventory control is a technical subject in which the State Electricity Board would do well to take advice from specialists. It is, however, noted that a branch of Indian Statistical Institute, Calcutta, has been recently conducting classes in this State for the supervisory personnel connected with the purchase and stocking of stores in the Electricity Board in regard to various procedures of inventory control. Full advantage of this specialist assistance should be availed of by the State Electricity Board so that a scientific system of inventory control is devised and implemented with the least possible delay.

11.35 An equally important factor to be considered is the surplus capacity for generation of power, without corresponding investments for the development of transmission and distribution system. What is required is a more balanced investment pattern in respect of generation capacity and the transmission and distribution system. It is hoped that at least in the Fourth Five Year Plan the Electricity Board's investment programme will be drawn up taking adequate note of balances between generation and distribution of power.

11.36 As can be seen from the following table the losses of electricity in transmission and distribution has been increasing year after year:—

<i>Year</i>	<i>Losses of energy in percentage</i>
1961-62	16.0
1962-63	17.7
1963-64	17.7
1964-65	21.2
1965-66	19.7
1966-67	20.8

Efforts should be made to determine more adequately than before the areas where wastages are occurring and remedial action is called for. As a norm it may be stipulated that the losses of electricity in transmission should be kept below 15 per cent.

11.37 The new orientation for management and marketing action suggested above cannot succeed unless a complete overhaul of the Electricity Board is attempted with a view to building up an organisational structure in which the marketing or sales function will have the dominant position in management hierarchy. In other words unless the present set-up of the Board, with distorted emphasis on the production function to the utter neglect of the marketing functions such as costing and pricing, selling, publicity and advertising, etc., is remodelled on modern lines, the quest for profitability has no chance of success. This also implies that the senior and middle management of the Electricity Board should be given the necessary orientation in such diverse fields as marketing, marketing research, operations research, network techniques and modern management practices in general. What is important to remember is that the Electricity Board should be geared to the task of running the organisation on modern commercial lines, with the main corporate objective of "successful marketing". The Board's ability to move away from the present "capacity-creation approach" towards a meaningful application of the "marketing concept"—and the realisation that the Electricity Board is very much in the business of selling a product (in this case, a service)—will determine the level of profitability of the undertaking in the years to come.

Proposal for Tariff Revision

11.38 Since the attempts to increase the profitability of the Electricity Board, as pointed out in the earlier paragraphs, should be concentrated on the marketing or selling effort, we are not in favour of enhancing electricity rates across the line for covering 'anticipated' revenue deficits. However, we feel that there is some scope for revising certain rates upwards as a supplementary measure, particularly in view of the fact that many of the management improvements and marketing innovations would take some time to fructify.

11.39 In making proposals for revision of tariff in selected sectors, we have been guided by the following general considerations:—

- (i) To the extent to which the revenue deficit of the Electricity Board is a reflection of under-utilisation of capacity resulting from inadequate marketing effort or inefficiency in operations, tariff revision should not be used as a 'cover' for such inadequacies and inefficiency. However, upward revision of tariff is justified after ensuring maximum utilisation of capacity to the extent to which a fair return on investment has to be ensured.
- (ii) In evolving a progressive tariff structure, there should be explicit reliance on scientific principles of price-setting, taking into account various factors such as potential demand, load factor, diversity factor, etc.

- (iii) Any further upward revision of tariff must take into account the impact of tariff revisions in the past on the consumers as well as the industry and trade.
- (iv) As electricity supply is emanating from a monopoly concern, care has to be taken to fix the rates at suitable levels which will not impede the economic growth in the industrial, agricultural and other fields.
- (v) Electricity rates for different purposes should reflect, more adequately, the ability of consumers to pay and the purpose for which power is utilised.
- (vi) The tariffs should be simple from the point of view of understanding and accounting and easy for implementation.
- (vii) The overall realisation from the application of the entire tariff structure should be adequate to earn a fair return on investment anticipated.

Principles of tariff-making

11.40 One of the peculiar features of the generation and sale of electricity is that electrical energy cannot be stored and sold depending on the demand of the consumers. Hence, the generating capacity of the grid has to be kept at an adequately high level to meet the peak demand which might occur only for a period of one or two hours in a day, while at all other times the generating capacity has to be necessarily kept idle depending on the load demand. Moreover, the utilisation of electrical energy is for diverse purposes and the demand from these loads come on the grid at different times of the day depending on the purposes for which it is being used. The following principles are therefore considered in the determination of tariffs.

11.41 The peak demand should be taken into account and the consumers who contribute to the major portion of the peak demand in the grid have to pay a fixed charge based on the maximum demand, as the generating capacity to the extent of the maximum demand is always earmarked and reserved for their utilisation. The bulk contribution to the peak demand generally arises on account of offtake of power by the extra high tension and high tension consumers. Therefore, more than any other classes of consumers, these consumers directly contribute to the creation of the peak demand for which the generating capacity of the grid has to be kept geared. The creation of generating capacity of the grid, adequate to meet the peak demand, is directly related to installed capacity in power houses. Particularly in hydro stations, the bulk of the cost for creating adequate installed capacity is contributed by fixed charges which are interest on capital and depreciation. It is always an

accepted principle in tariff-making that these fixed charges are related to the maximum demand made on the grid in terms of KVA.

11.42 Prior to the commissioning of the Sabarigiri Project, the rate of the fixed charges per KVA of demand on the grid was of the order of Rs. 10 per KVA per month. This has now risen to about Rs. 15 per KVA per month after commissioning of the Sabarigiri Project. This increase is mainly on account of substantial addition of fixed charges relating to Sabarigiri power house without a corresponding increase in demand. With the commissioning of the Idikki Project in 1971-72, this figure of fixed charges in terms of rate per KVA per month is likely to go as high as Rs. 19. Here again, the increase would be on account of fixed charges of the Idikki Project, assuming no corresponding addition to the demand.

11.43 In formulating tariffs for the extra high tension and high tension consumers, due regard has to be given to the fixed charges devolving on the Electricity Board for creating sufficient generation potential to meet the peak demand. Thus, the tariff of high tension supply is generally evolved in two parts, the first part prescribing the rate in relation to maximum demand created by the consumer and the second part relating to the energy consumption by the consumer. Thus, two-part tariff is an ideal one from the point of view of the supplier as it provides charging on the maximum demand of the consumer covering the fixed charges, as also charging the actual consumption of energy by the consumer. The overall rates of power for the consumer, according to this two-part tariff, varies according to load factor and the maximum demand of the consumer. The higher the load factor at which he utilises the power, the lower will be the overall cost per unit.

11.44 In respect of consumers taking high tension power and utilising it in power intensive industries, a special tariff is given to them which is related to maximum demand of their load. If they utilise the maximum demand at a high load factor, that is, utilising power uniformly throughout the day, they automatically get a relief in terms of low cost of power per KWH. On the other hand, if after taking this special tariff, they do not use the power intensively at a high load factor, they automatically pay a penalty, as in that case, the eventual rate per KWH that would work out to them would be even more than what a normal high tension consumer would pay under the two-part tariff. The special tariff for power intensive industrial consumers, who are in a position to utilise power intensively at a high load factor, is thus considered as an 'incentive'.

11.45 As a portion of the generation capacity is kept idle during other than peak demand periods, increase in load demand at other

nours has to be encouraged. For this purpose step tariffs both for demand and energy consumed are prescribed for high tension consumers so that when consumption of energy increases, they get the benefit of progressively lower rates of tariff.

11.46 Though the above principles are recognised and are taken into account, either explicitly or implicitly, in tariff-making by the Electricity Board, we feel that the structure of electricity rates now obtaining in Kerala and the actual level of individual tariffs are more a product of *ad hoc* decisions in the past, and the theoretical basis of such tariffs is more in the nature of rationalisation of past actions taken on the basis of exigencies and short-term considerations of revenue. There is obvious need for a detailed and scientific enquiry into the structure of electricity tariffs in Kerala with a view to not only making the Electricity Board a growing and profitable concern, but also ensuring that the rate structure performs the role of promoting economic development in the various sectors of industry and agriculture.

11.47 We are of the opinion that the substantial degree of subsidy which is involved in the present tariff structure, particularly in the case of E.H.T. special rates needs immediate revision. While the concept of 'promotional tariff' must find a place in the tariff policy of the Electricity Board, any large-scale subsidy given to industry or agriculture must be in the direct form of Government subsidy, depending of course upon the judgment as to whether such sectors really need subsidy. In the case of new industries which are power-intensive and which need initial promotional effort, special rates may have to be considered for an initial period of three or five years. But the wrong policy of long-term contractual obligations as in the case of the present special rates should be clearly avoided in the future. Special rates negotiated in individual cases, wherever new industrial ventures are involved, should take into account the relative economics of the particular industrial venture. Though it is not possible to lay down rigid rules in this regard, it is advisable and even necessary to formulate general guidelines for administrative action and tariff negotiations.

Tariff Revisions in the Past.

11.48 Before considering measures for the strengthening of the finances of the Electricity Board, we shall have a brief look at the tariff revisions made in the past. In Travancore, the rates and conditions for the supply of electricity were governed by the old Pallivasal Hydro Electric Project Tariff Rules. These rules were extended to the Cochin area also after the integration of Travancore.

core and Cochin. The following were the tariffs for the supply of energy to the major categories of consumers:—

Low tension—general purposes

Tariff

- | | |
|--|---|
| 1. Domestic—i.e., lights and combined installations of lights and fans | 4½ annas per unit—
minimum Re. 1 annas 8 per meter per month. |
| 2. Refrigerators, small cookers, heaters, etc., for domestic purposes | 1½ annas per unit—
minimum Re. 1 annas 8 per meter per month. |
| 3. Air conditioning plants | 1 anna per unit—
minimum Re. 1 annas 8 per meter per month. |
| 4. All-electric homes | For the first 32 units per month—4½ annas per unit and all in excess 1 anna per unit. Minimum Rs. 10 per meter per month. |
| 5. Cinematograph installations | 2 annas per unit. |
- For temporary illuminations, street lights, etc., separate rates were prescribed.

Industrial and agricultural use (3 H.P. and above)

- | | |
|--|--|
| 1. Industrial power at 400 volts or lower | 1 anna per unit upto 1000 units. All in excess 0.9 anna per unit. |
| 2. Power at 400 volts or lower for agricultural purposes | Flat rate of 0.75 anna per unit—Minimum Re. 1 annas 8 per meter per month. |

High tension supplies.

The rate per unit varied from 0.6 anna to 0.35 anna according to the quantity of energy consumed. In addition, charges on the basis of KVA of maximum demand per month were also payable at varying rates. Separate rates were fixed for seasonal loads, for large-scale use of energy, for heating and air-conditioning, and so on.

11.49 By the Travancore-Cochin Electric Supply Surcharge Order 1950, a surcharge began to be levied on the price of all supplies of energy made by the Government or by licensees. The rates of surcharge for the various categories of consumers were as follows:—

- | | |
|--|------|
| (i) Lights and combined installations of lights and fans | 12½% |
| (ii) Public lamps | 12½% |

(iii) Refrigerators, small cookers, etc.	12½%
(iv) Air conditioning plants	12½%
(v) All electric homes	12½%
(vi) Cinematographic installations	20%
(vii) Temporary illuminations and display lighting	20%
(viii) Industrial and agricultural uses	20%

The energy consumed by licensees for their own purposes was also subjected to a surcharge of 12½ per cent. The surcharge Order of 1950 was given legal backing by the enactment of the Travancore-Cochin Electricity Supply Surcharge Act XIV of 1955.

11.50 The Pallivasal Hydro-Electric Tariffs were revised towards the close of the year 1958, and the new rates were made applicable to consumers in the entire State of Kerala. (Till then, the Madras tariffs continued to be in force in the Malabar area). This was the first revision since the formation of the Kerala State Electricity Board. The revised rates fixed in respect of the major categories of consumers were:—

	<i>Tariff</i>
Light and combined installations of lights and fans	30 paise per unit—Minimum Rs. 2 per meter per month.
All Electric homes	First 35 units at 30 paise per unit; all in excess 8 paise per unit. Minimum Rs. 12 per meter per month.
Industrial general purposes	First 1000 units: 8 paise per unit; all in excess 7.5 paise per unit. Monthly minimum Rs. 5 or Re. 1 per KW of connected load which ever is higher.
Agricultural purposes	6 paise per unit. Minimum Rs. 5 per meter per month.
Power at 11 KV for industrial purposes	Rate varied from 5 paise to 3 paise per unit, plus KVA rates to maximum demand per month

This revision converted the rates to the decimal coinage system. With the enforcement of the new rates the surcharge levied by the 1955 Act was discontinued in respect of consumers served directly by the Board. It may be noted that the incidence of the revised tariff on domestic consumers was lower than that of the earlier tariff including the surcharge.

11.51 The next revision of electricity rates was done with effect from 25-6-1963. The following were the revised rates in respect of major categories of consumers:—

Lights and combined installations of lights and fans	30 paise per unit—Minimum Rs 2 per meter per month.
Refrigerators, small cookers, etc.	15 paise per unit—Minimum Rs 4 per meter per month.
All Electric homes	First 50 units at 30 paise per unit all in excess 10 paise per unit. Minimum Rs 15 per meter per month.
Industrial general purposes	First 2000 units at 9 paise per unit; all in excess at 8.5 paise per unit. Monthly minimum Rs 5 or Rs 2 per KW of connected load whichever is higher.
Agricultural purposes	6 paise per unit subject to a minimum of Rs 5 per meter per month
Electric boilers, large cookers, etc.	8 paise per unit—Minimum of Rs. 5 per meter per month.
Power at 11 KV for industrial purposes	The rate per unit varied from 5 paise to 3.3 paise according to the quantity of energy consumed. Separate KVA rates on maximum demand basis were also payable in addition.

11.52 For augmenting the return from the electricity undertaking a further revision of tariffs was made in September 1965. A new tariff on a slab system was then introduced for commercial and non-domestic consumers, the first 100 units being charged at 34 paise, the next 200 units at 33 paise and all in excess at 32 paise. The minimum charge per meter was fixed at Rs 5 per mensem. The tariff for agricultural consumers was raised from 6 paise per unit to 8 paise. In the case of industrial consumers taking power at 400 volts or below, the rate-structure was modified as 12 paise per unit for the first 2000 units and 11 paise for all energy consumed

in excess of that limit. For high tension supplies the unit rate varied from 5.75 paise to 4 paise; KVA rates on maximum demand basis were also payable in addition.

11.53 The low rates of tariff fixed years back in respect of licensees continued till 1968 in spite of the rise in the costs of generation and supply of electricity. From April 1, 1968, the Board framed the following Grid Tariff in accordance with the Kerala State Electricity Board Grid Tariffs Regulations, 1966 and in exercise of the powers conferred on the Board by section 46 of the Electricity (Supply) Act, 1948.

Monthly consumption in KWH	Rate per KWH in paise	Rate per KVA of MD per month
For the 1st 100000	5.75	For the 1st 500 KVA Rs. 8 For the next 500 KVA Rs. 7 For excess above 1000 KVA Rs. 6
Next 200000	5.25	
All in excess of 300000	4.00	

With the introduction of the grid tariff there was significant improvement in the revenue realisable from the licensees.

11.54 From 1-6-1968, the Government ordered the imposition of a 'surcharge' ranging between 10 per cent and 33 1/3 per cent of the overall charges for the supply of energy—Vide details given below:—

1. E.H.T. Consumers on special rates:

(a) those who are on special rates up to and including Rs 164 per KW or KVA per year. Surcharge 33 1/3 per cent limited to a ceiling of Rs 198.

(b) those on special rates of Rs 165 and above

Sucharge 20%

2. H.T. industrial consumers

" 20%

3. L. T. consumers:

(i) (a) Domestic lighting

No surcharge

(b) Domestic power—All Electric Homes

Surcharge 10%

(ii) Commercial

" 10%

(iii) Public lighting

" 10%

(iv) Industrial

" 20%

(v) Agricultural

No surcharge.

11.55 A comparative statement showing the revisions of tariff rates for power supply effected in the past is given in Annexure VI. Another statement showing the rates prevailing in various State Electricity Boards is given as Annexure VII.

11.56 We have seen that side by side with the rise in the costs of production and distribution of electricity, tariffs have also been revised from time to time. But, since the large industries which consume the major share of the power produced have been protected by long-term contracts, it was not possible till recently to enhance the tariffs applicable to them in keeping with the rise in costs. Even after the recent levy of surcharges by the Government, the Board is able to recover from them only about one-half of the costs of power generation and supply.

Our proposals

11.57 After taking into account the general principles of tariff fixation and impact of upward tariff revision on the different classes of consumers, we propose the following revisions:—

- | | |
|--------------------------------------|--|
| (1) (a) Domestic lighting | No change |
| (b) Domestic power—all electric home | No change |
| (2) Commercial and non-domestic— | |
| (i) lights and fans, etc. | Replace the existing rate structure by a flat rate of 40 paise per KWH. |
| (ii) small power loads | Raise the rate to 26 paise per KWH. |
| (3) Public lighting | Existing 10% surcharge to be raised to 20% |
| (4) Agricultural | Raise the rate from 8 paise to 10 paise per KWH. |
| (5) L.T. industrial | Existing surcharge of 20% to be increased to 35% |
| (6) 11 KV loads and licensees | Existing 20% surcharge to be raised to 35% with provision for rebates. |
| (7) E.H.T. special rates | Existing surcharges to be so increased as to recover the costs of generation and supply. |

Domestic Consumers.

11.58 According to accepted principles of tariff-making, as the lighting load of domestic consumers comes during the peak hour periods and the load factor of such loads is small, the tariff rates for such consumption have necessarily to be high. The present rate is 30 paise per KWH. We feel that, in view of the earlier tariff revisions and the already high rate of tariff, there is no case for any further revision at present. No change is therefore suggested in the rates for domestic consumers.

11.59 For those taking supply for power loads, or combined lighting and power loads (all-electric home) the existing rates are 30 paise per KWH for the first 50 units and 10 paise for the excess. This is subject to a surcharge of 10%. The overall rate works out to an average of 16.50 paise per KWH for a consumption of 200 units per month. Consumers falling under this category are, no doubt, in the upper income brackets. Prima facie, therefore, there is a case for increasing the electricity rates in respect of all-electric homes. But it is not known how far consumers falling under this category are sensitive to increases in the power cost of maintenance of electrical equipments. In our view these consumers are more inhibited by the costs of household electrical equipments and other consumer durables than by marginal increases in the cost of power. Since the need of the hour is load promotion, we do not recommend any immediate revision of tariff affecting all-electric homes. We would, however, urge the need for a market survey to determine the demand pattern and the rate structure that is conducive to promoting sales. If such studies would indicate the relative insensitivity of the consumers to changes in power rates there will be a good case for raising the rates relating to this category of consumers.

Commercial

11.60 The present rates of tariff for commercial and non-domestic lighting purposes are 34 paise per unit for the first 100 units, 33 paise for the next 200 units and 32 paise for all in excess. This is subject to a surcharge of 10 per cent. Including the surcharge the present rate works out to about 37 paise per unit. We consider that the existing step-rate system can be simplified by adopting a flat rate. While doing so, there is also justification for a slight increase, and we accordingly recommend that a flat rate of 40 paise per unit may be adopted in the case of these consumers.

In respect of commercial and non-domestic heat and small power loads, the existing rate is 21 paise per unit with a surcharge of 10 per cent. This may be enhanced to 26 paise per unit.

Public Lighting.

11.61 The existing tariff for this class is not on consumption basis but at a flat rate for each bulb or tube depending on its wattage and number of burning hours. The rate covers also maintenance and replacement. The existing surcharge may be increased from 10 per cent to 20 per cent and incorporated in the tariff rates themselves. This increase cannot be considered unreasonable in the light of increased costs and operation and maintenance expenses.

Agricultural.

11.62 This class of consumers has all along been receiving a favoured treatment and the present rate of 8 paise/KWH. is about one-third of the cost per unit for generation, transmission and distribution at the low tension end. The consumers are using power generally for pumping or for dewatering and most of these consumers are agriculturists of the well-to-do class. The present agricultural tariff in Kerala (8 paise) is the lowest in India as can be seen from Annexure VII. In view of the fact that the users of pump sets for agricultural purposes in Kerala belong to the relatively high income groups and in view of the unduly low agricultural tariff at present, we suggest a new tariff of 10 paise/KWH. The revised rate would cover only less than 50% of the cost of supplying power. Thus, a substantial subsidy element will still be available.

11.63 While proposing an upward revision of agricultural tariff we wish to place on record the crucial significance of rural electrification in the strategy of agricultural development in Kerala. We feel that any subsidy for small and middle peasants, wherever needed, should be given directly by the Government and should not be unduly loaded on the agricultural tariff of the Electricity Board. The Electricity Board should concentrate its attention on the supply of electricity for agricultural operations by prompt action for extending the lines and for simplifying the procedures. It may be pointed out, in this connection, that the conference of Chairmen of State Electricity Boards held in November 1965 had evolved certain guide-lines for simplifying and liberalising terms and conditions for making power available to agriculturists in order to provide the use of electric power for agricultural pumping.

11.64 At the conference of Chairmen of State Electricity Boards held on 12th August 1966, the Union Minister for Irrigation and Power suggested that rates for supply of power to agriculturists should be lowered so as not to exceed 12 paise per KWH. and also that the terms and conditions of supply to the agriculturists be liberalised. It is important to note that, even after the proposed

revision of agricultural tariff in Kerala (10 paise per KWH), agriculturists using pump sets will get power at a rate lower than the norm proposed by the above conference.

L.T. Industries.

11.65 The existing rates are 12 paise/KWH for the first 2,000 units and 11 paise/KWH for the excess. This is subject to a surcharge of 20 per cent. The overall rate works out to 14.40 paise/KWH. This may be raised to 16 paise/KWH, without any step-tariff.

11 KV Loads and Licensees.

11.66 Two-part tariffs have been prescribed for 11 KV loads, both for individual consumers and for licensees. The licensees take bulk supply from the Board and distribute it mostly in urban areas where there is concentration of consumers. A standard grid tariff has been evolved for the licensees, which is practically on par with the two-part tariff prescribed for 11 KV industrial consumers. A surcharge of 20 per cent, however, has been levied on the latter class, while in respect of the licensees, there is no surcharge directly on them but they are required to collect a surcharge at prescribed rates from their consumers and pass on the collections to the Board. Our proposal is to increase the surcharge to 35 per cent and incorporate it in the tariff itself. This increase of 35 per cent should also be made in the grid tariff applicable to the licensees and the revised rates notified to the licensees giving them the notice statutorily prescribed. This notice is necessary so that the licensees may examine and revise suitably their rates for the consumers. When such a revision of grid tariff is notified and implemented the existing surcharge applicable on the consumers in the licensees' areas will have to be withdrawn.

The above proposed revision is likely to increase the existing rates of large industrial consumers taking 11 KV supply from 8.75 paise to 9.8 paise/KWH. This increase in power charges may possibly act as a deterrent for new industries, but this can be got over by offering a suitable rebate in the power rates for deserving new industries which are set up in the State. This rebate may be offered for a period of three to five years.

E.H.T. Consumers.

11.67 This class of consumers consume about 60 per cent of the power generated in the State but pay very much less than the cost. To appreciate the impact of the increases proposed for E.H.T. consumers on long-term special contract it will be necessary to know how the final rate would work out for them. The following table

gives the existing rates plus surcharge for the E.H.T. consumers on special contract:—

	<i>Existing rate with Surcharge (Ps. per Unit)</i>
M/s. Indian Aluminium 66 KV	2.5
„ Indian Aluminium 110 KV	1.9
„ Travancore-Cochin Chemicals	4.2
„ Fertiliser Chemicals	2.3
„ F.A.C.T. 110 KV supply	2.9
„ Carborandum Universals Ltd.	2.9
„ Cominco Binani Zinc	3.5
„ Travancore Rayons Ltd.	3.6
„ Premier Tyres	5.4

The existing contracted rates for these consumers are fetching an average revenue of only 2.01 paise per KWH which goes upto 2.47 paise per KWH on the introduction of the recent surcharge. The mere cost of power at the E.H.T. end (without adding 3.5 per cent margin) works out to an average of 4.89 paise per KWH for the five years from 1968-69 to 1972-73. Thus, even after the introduction of the recent surcharge, power supplies to E.H.T. consumers are subsidised to the extent of 50 per cent. Since they account for about 60 per cent of the power consumed in the State, the effect is that the rest of the consumers and the general tax-payers are, between them, subsidising the big industrialists. This is hardly justifiable especially since some of the big industries, which consume the bulk of the power, are making large profits. According to us, there is no justification for continuing the present policy of subsidising them. The rate structure should be so modified as to recover at least the actual costs of generation and supply of power, for which it is necessary to enhance the rates by about 100 per cent. But, since the existing rates in the case of different industries vary from 1.9 paise to 5.4 paise per unit, a flat rate of surcharge will obviously be inequitable. We would, therefore, recommend that the Government may design a suitable structure of surcharge in consultation with the Electricity Board so as to recover at least the unit cost from the E.H.T. consumers.

We have, however, no intention to discontinue incentives for new entrepreneurs who wish to start industries in the State. They may be given a suitable rebate in the power rates for an initial period of three to five years.

11.68 It was only recently, i.e., from June 1, 1968, that an increase of the power rates was made by the imposition of a surcharge. Therefore, it may not be in the fitness of things to bring about another enhancement immediately. In the case of licensees who are governed by the Grid Tariff Regulations any revision of electricity rates can be implemented only after due notice is given. Furthermore, we are aiming at a return of 9.5 per cent on the capital base only by 1970-71. For these reasons we recommend that the revisions of tariff proposed above may be implemented from the beginning of the financial year 1970-71.

Electricity duty.

11.69 Since the rates of electricity duty have been prescribed in terms of percentages of tariff our proposals for revision of tariff would automatically augment the yield from duty. In this connection we have examined the recommendation of the Kerala State Electricity Board Finances Enquiry Commission to introduce a combined rate for tariff and duty. It is no doubt, important that the fixation of tariff or duty must take into account their combined incidence on the consumers. But it is doubtful whether the introduction of a combined rate for tariff and duty will bring about any substantial reduction in administrative work. This is because, even if the tariff and duty are combined for purposes of determining the amount payable to the Government, it would be necessary to keep separate accounts in respect of different classes of consumers having desperate rates of duty, besides consumers like Government of India offices which are exempt from payment of duty.

Summary of conclusions and recommendations.

1. All efforts have to be made to achieve a return of 9.5 per cent (excluding proceeds from electricity duty) on the capital base by the year 1970-71.

(Paragraphs 11.11 and 11.19)

2. The Government of Kerala and the State Electricity Board should impress upon the Planning Commission, the Government of India and the State Governments in the southern region about the efficiency of investments in the power sector in Kerala and the possibility of power supply at relatively cheap rates provided the neighbouring States agree to make large-scale purchases of power from Kerala. The Electricity Board should also evolve a price strategy based essentially on the principle of 'incremental costing' so that additional sales can be effected, thereby making at least marginal contributions to profitability.

(Paragraph 11.28)

3. The primary objective of the Electricity Board should be the attainment of a desired 'sales effort' identified in terms of very clearly laid-down sales targets

(Paragraph 11.29)

4. The outlook of every power engineer should be so reoriented as to encourage him to look out for fields of developing power loads. The achievement of the engineers should be measured in terms of load development and consequent increases in revenue in his area.

(Paragraph 11.30)

5. The existing minimum guarantee system needs to be reviewed; a liberalisation of the terms of minimum guarantee with a view to expand the consumption of power supply is necessary in the present context.

(Paragraph 11.31)

6. The Electricity Board should evolve suitable work norms for various categories of personnel and improved managerial techniques at all levels with a view to ensuring maximum productivity. The special study currently being made by the National Productivity Council should be given all the importance it deserves, so that full advantage is taken of its considered recommendations for achieving maximum economy in the utilisation of personnel.

(Paragraph 11.32)

7. In the present situation of increasing unemployment in the country productivity techniques should aim at reducing cost per unit of output or service through better organisation of productive operations and by cutting down unnecessary overhead expenses and avoidable waste, and not by labour-saving devices like mechanisation or computerisation.

(Paragraph 11.33)

8. The procedure of purchase and provisioning of stores has to be rationalised so that only essential items are purchased and stocked for the minimum period necessary. In the matter of training for inventory control the Board should take full advantage of the specialised assistance provided by the Indian Statistical Institute.

(Paragraph 11.34)

9. A more balanced investment pattern is required in respect of generation capacity on the one hand and the transmission and distribution system on the other.
(Paragraph 11.35)
10. As a norm it may be stipulated that the losses of electricity in transmission should be kept below 15 per cent.
(Paragraph 11.36)
11. Unless the present set-up of the Board, with distorted emphasis on the production function to the utter neglect of the marketing functions, is remodelled on modern lines, the quest for profitability has no chance of success. The senior and middle management of the Board should be given the necessary reorientation in such diverse fields as marketing, marketing research, operations research, network techniques and modern management practices in general.
(Paragraph 11.37)
12. Since the attempts to increase the profitability of the Electricity Board should be concentrated on the marketing or selling effort, it is not proper to enhance electricity rates across the line for covering 'anticipated' revenue deficits. However, there is some scope for revising certain rates upwards as a supplementary measure.
(Paragraph 11.38)
13. The following general considerations have been borne in mind in making proposals for revision of tariff in selected sectors:—
- (i) To the extent to which the revenue deficit of the Electricity Board is a reflection of under-utilisation of capacity resulting from inadequate marketing effort or inefficiency in operations, tariff revision should not be used as a "cover" for such inadequacies and inefficiency. However, upward revision of tariff is justified after ensuring maximum utilisation of capacity and to the extent to which a fair return on investment has to be ensured.
 - (ii) In evolving a progressive tariff structure, there should be explicit reliance on scientific principles of price-setting, taking into account various factors such as potential demand, load factor, diversity factor, etc.
 - (iii) Any further upward revision of tariff must take into account the impact of tariff revisions in the past on the consumers as well as the industry and trade.

- (iv) As electricity supply is emanating from a monopoly concern, care has to be taken to fix the rates at suitable levels which will not impede the economic growth in the industrial, agricultural and other fields.
- (v) Electricity rates for different purposes should reflect, more adequately, the ability of consumers to pay and the purpose for which power is utilised.
- (vi) The tariffs should be simple from the point of view of understanding and accounting and easy for implementation.
- (vii) The overall realisation from the application of the entire tariff structure should be adequate to earn a fair return on investment anticipated.

(Paragraph 11.39)

14. There is need for a detailed and scientific enquiry into the structure of electricity tariffs in Kerala with a view to not only making the Electricity Board a growing and profitable concern, but also to ensure that the rate-structure performs the role of promoting economic development in the various sectors of industry and agriculture.

(Paragraph 11.46)

ANNEXURE I

Statement showing the Revenue, Working expenses & Surplus/Deficit in crores of rupees

<i>Details</i>		1963-64	1964-65	1965-66	1966-67	1967-68
1. Gross Revenues	..	4.84	5.78	7.07	8.62	9.42
2. Working expenses including power purchase	..	1.93	2.28	2.89	3.51	4.26
3. Depreciation	..	0.93	1.10	1.15	1.62	2.39
4. Interest on public loans etc.	..	0.25	0.30	0.30	0.34	0.30
5. Total expenditure (2+3+4)	..	3.11	3.68	4.34	5.47	6.95
6. Net Revenue (1-5)	..	1.73	2.10	2.73	3.15	2.47
7. Interest payable to Government	..	2.21	2.73	3.50	4.44	5.17
8. Deficit (7 - 6)	..	0.48	0.63	0.77	1.29	2.70

ANNEXURE II

Details of Capital Base, Operation & Maintenance Expenses & Revenue

(Rs. in crores)

Sl.No.	Details	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
1	Fixed assets in use	50.43	88.05	98.70	105.53	121.71	128.76	195.60	203.81
2	Add Working Capital Stores	0.50	0.50	1.00	1.00	1.20	1.30	1.50	1.50
3	Working Capital—Cash & Bank Balance	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50
4	Total (items 1 to 3)	51.38	89.05	100.29	107.03	123.41	130.56	197.60	205.81
5	Less Depreciation Reserve	9.18	10.79	13.18	15.89	18.81	22.10	25.60	30.28
6	Security deposit from consumers	0.88	1.00	1.21	1.36	1.51	1.66	1.81	1.96
7	Total deduction (Items 5 and 6)	10.06	11.79	14.39	17.25	20.32	23.76	27.41	32.24
8	Capital Base (Item 4-7)	41.32	77.26	85.90	89.78	103.09	106.80	170.19	173.57
9	Revenue expenses, including Depreciation	4.05	5.17	6.65	7.59	7.92	8.74	9.40	11.18
10	6% on capital base for interest	2.48	4.64	5.14	5.39	6.19	6.41	10.21	10.41
11	Total Revenue expenses and interest (Items 9+10)	6.53	9.81	11.79	12.98	14.11	15.15	19.61	21.59
12	3½% on Capital base	1.45	2.70	3.01	3.14	3.61	3.74	5.96	6.07
13	Total Revenue expenses including 3½% (Items 11+12)	7.98	12.51	14.80	16.12	17.72	18.89	25.57	27.66
14	Revenue with the existing tariff and surcharge	7.07	8.62	9.42	12.00	14.50	16.28	18.07	19.97
15	Surplus (+) or Deficit (-) of item 14 against item 11	+0.54	-1.19	-2.37	-0.98	+0.39	+1.13	-1.54	-1.62
16	Do. item 14 against item 13	-0.91	-3.89	-5.38	-4.12	-3.22	-2.61	-7.50	-7.69

ANNEXURE III

Details of Demand, Charges and Unit rate at the E. H. T., H. T. and L. T. ends per unit sold

Details	Year										Average
	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1968-69 to 1972-73
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. In M. W.	156.9	169.7	187.7	225.0	246.9	290.0	332.0	371.0	405.0	442.0	
2. Demand— In MKVA with I. I. D. F. & 0.9 P. F. Fixed charges, Generation Transmission & H. T. distribution in Rs. crores	191.8	207.4	229.4	275.0	301.8	354.4	405.8	453.4	495.0	540.2	
3. Charges Rate per KVA per year in Rupees	113	114	102	169	190	174	171	163	220	228	194
Rate per KVA per month in Rs.	9.44	9.50	8.50	14.08	15.83	14.50	14.25	13.58	18.33	19.00	16.17
4. Total units sold in millions	592	607	657	854	1181	1400	1680	1880	2030	2180	
	646	683	750	916	1208						
5. Generation Total charges (in crores of Rs.)	1.58	1.65	1.68	3.75	4.83	5.13	5.72	5.94	9.38	10.47	
	1.92	2.18	2.50	4.32	5.08	5.47					
Rate per unit in paise	2.67	2.72	2.56	4.39	4.09	3.67	3.40	3.16	4.62	4.80	4.00
	2.97	3.19	3.33	4.73	4.20	3.91					

5	<i>E. H. T. Transmission</i>											
	Total charges in Rs. crores	0.52	0.67	0.51	0.88	1.02	1.21	1.42	1.63	1.87	2.04	2.24
	Rate per unit in paise	0.89	1.10	0.79	1.03	0.86	0.86	0.85	0.87	0.92	0.93	0.89
		0.81	0.98	0.68	0.96	0.85	0.86					
	Rate per unit in paise at EHT end	3.56	3.82	3.35	5.42	4.95	4.53	4.25	40.3	5.54	5.74	4.89
		3.78	4.17	4.01	5.69	5.05	4.77					
7	Units sold at the H. T. end in millions	274	316	363	405	502	510	638	715	804	900	
8	<i>H. T. Distribution</i>											
	Total charges in Rs. crores	0.86	0.89	0.89	1.20	1.51	1.66	1.80	2.05	2.23	2.42	
	Rate per unit in paise	3.14	2.82	2.73	2.96	3.01	3.25	2.82	2.87	2.77	2.69	2.85
	Rate per unit in paise at the H. T. end	6.70	6.64	6.08	8.38	7.96	7.78	7.07	6.90	8.31	8.43	7.74
		6.92	6.99	6.74	8.65	8.06	8.02					
9	Units sold in L. T. in millions	142	175	203	207	250	282	317	355	399	448	
10	<i>L. T. Distribution</i>											
	Total charges Rs. in crores	1.97	2.15	2.53	3.41	4.18	4.64	5.17	5.53	6.13	6.66	
	Rate per unit in paise	13.87	12.29	12.46	16.47	16.72	16.45	16.31	15.58	15.36	14.87	15.62
	Rate per unit at the L. T. end in paise	20.57	18.93	18.54	24.85	24.68	24.23	23.38	22.48	23.67	23.30	23.36
		20.79	19.28	19.20	25.12	24.78	24.47					
11	<i>Over all rate</i>											
	Total charges in Rs. crores	5.27	5.89	6.58	9.81	11.79	12.98	14.11	15.15	19.61	21.59	
	Rate per unit in paise	8.19	8.62	8.71	10.71	9.75	9.27	8.40	8.06	9.66	9.90	9.10

Note: Denominator figures represent cost including inter-State power purchases.

ANNEXURE—IV

Statement showing the details of Shortfall in E. H. T., H. T. and L. T. Sales of Revenue compared with the Cost taking into Account 3½% return on Capital base

Details (1)	Year				
	1968-69 (2)	1969-70 (3)	1970-71 (4)	1971-72 (5)	1972-73 (6)
1. Generation in paise per unit :					
Cost	3.67	3.40	3.16	4.62	4.80
Addition for 3½%	1.41	1.95	1.20	2.08	1.93
Cost inclusive of 3½% addition	5.08	4.75	4.36	6.70	6.73
2. E. H. T. end in paise per unit.					
Cost	4.53	4.25	4.03	5.54	5.74
Addition for 3½%	0.21	0.22	0.22	0.24	0.24
Cost inclusive of 3½% addition	6.15	5.82	5.45	7.86	7.91
3. H. T. end in paise per unit.					
Cost	7.78	7.07	6.90	8.31	8.43
Addition for 3½%	0.61	0.45	0.45	0.46	0.44
Cost inclusive of 3½% addition	9.91	9.09	8.77	11.09	11.04
4. L. T. end in paise per unit					
Cost	24.23	23.38	22.48	23.67	23.30
Addition for 3½%	2.16	2.18	2.11	2.21	2.10
Cost inclusive of 3½% addition	28.52	27.58	26.46	28.66	28.01
5. Realisation per unit in paise.					
E. H. T. sales	2.37	2.47	2.46	2.46	2.48
H. T. sales	10.00	10.25	10.31	10.27	10.24
L. T. sales	23.93	24.23	24.28	24.29	24.15

6. <i>Surplus (+) or short fall (—) in E. H. T. sales</i> In paise per unit	—3.78	—3.35	—2.99	—5.40	—5.43
	—4.02				
Sales in million units	890	1042	1165	1226	1280
Surplus or short fall Rs. in crores	—3.58	—3.49	—3.48	—6.62	—6.95
7. <i>Surplus (+) or short fall (—) in H. T. sales.</i> In paise per unit	—0.09				
	—0.15	1.16	1.54	—0.82	—0.80
Sales in million units	228	321	360	405	452
Surplus or short fall Rs. in crores	—0.04	0.37	0.56	—0.34	—0.36
8. <i>Surplus (+) or short fall (—) in L. T. sales.</i> In paise per unit	—4.59				
	—4.83	—3.35	—2.18	—4.37	—3.86
Sales in million units	282	317	355	399	448
Surplus or short fall in Rs. crores	—1.36	—1.06	—0.77	—1.75	—1.73
9. <i>Miscellaneous revenue in Rs. crores</i>	0.86	0.96	1.08	1.21	1.35
10. <i>Total short fall in Rs. crores</i>	4.12	3.22	2.61	7.50	7.69
11. <i>Over all</i>					
Cost per unit in paise	11.51	10.55	10.05	12.60	12.69
Realisation per unit in paise	8.57	8.63	8.66	8.91	9.11

Note:—Denominator figures represent short fall including power purchases

ANNEXURE--V

Power Potential and Net Surplus available

(In Million KWH)

<i>Details</i>	1969-70	1970-71	1971-72	1972-73
	1. General Potential	2,517	2,533	2,817	4,372
2. Internal sales	1,680	1,880	2,030	2,180
3. Generation required to meet internal sales	2,003	2,237	2,414	2,600
4. Surplus	514	296	403	1,772
5. Transmission loss 10%	51	30	40	177
6. Net power available	463	266	363	1,595

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Probable additional sales and revenue

(Rs. in Crores)

<i>Details</i>	1969-70		1970-71		1971-72		1972-73	
	<i>M. Units</i>	<i>Revenue</i>	<i>M. Units</i>	<i>Revenue</i>	<i>M. Units</i>	<i>Revenue</i>	<i>M. Units</i>	<i>Revenue</i>
1. Sales to Madras	100	0.45	100	0.45	200	0.90	200	0.90
2. Newsprint	..	..	..	..	..	..	61	0.20
3. Titanium Complex	..	..	..	..	..	..	552	1.40
Total	100	0.45	100	0.45	200	0.90	813	2.50

ANNEXURE—VI

Comparative Statement of the Revision of Tariff rates for supply of Electricity

Category	Tariff rates prior to 1950	Rates in 1950 (i.e. the rates existed prior to 1950 plus surcharge as indicated below)	Rates in 1958	Rates in 1963	Rates in 1965	Rates in 1968 (i.e. the rates existed prior to 1968 plus surcharge as indicated below)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Domestic—i.e. lights and combined installations	4½ annas per unit; minimum Re. 1 annas 8 per meter per month	Plus surcharge of 12½%	30 ps. per unit Minimum Rs.2 per meter per month	No change	Light and combined installations of lights & fans—30 ps. per unit; minimum Rs. 2 per meter per month.	} No surcharge } Plus surcharge 10%
					Commercial & non-domestic consumers—First 100 units 34 ps. per unit. Next 200 units 33 ps. per unit. All in excess 32 ps. per unit. Minimum Rs. 5 per meter per month	
Refrigerators, small cookers, heaters etc., for domestic purposes	1½ annas per unit; minimum Re. 1 annas 8 per meter per month	Plus surcharge of 12½%	12 ps. per unit, minimum Rs. 2 per meter per month	15 ps. per unit minimum Rs.4 per meter per month	No change	Plus 10% surcharge
Airconditioning plant	1 anna per unit minimum Re.1 annas 8 per meter per month	Plus surcharge of 12½%	Included under the above category			

<i>Category</i>	<i>Tariff rates prior to 1950</i>	<i>Rates in 1950 (i.e. the rates existed prior to 1950 plus surcharge as indicated below)</i>	<i>Rates in 1958</i>	<i>Rates in 1963</i>	<i>Rates in 1965</i>	<i>Rates in 1968 (i.e. the rates existed prior to 1968 plus surcharge as indicated below)</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
All Electric Home	1st 32 units per month at 4½ annas per unit; all in excess 1 anna per unit —Minimum Rs. 10 per meter per month	Plus 12½ % Surcharge of	1st 35 units at 30 ps. per unit; All in excess 8 ps. per unit; minimum Rs.12 per meter per month	1st 50 units at 30 ps. per unit, all in excess 10 ps. per unit; Minimum Rs. 15 per meter per month	No change	Plus 10% surcharge
Cinematographic installations	2 annas per unit	Plus 20 % Surcharge of	1st 100 units at 30 ps. per unit; All in excess at 20 ps. per unit, minimum Rs. 12 per meter per month	No change	1st 100 units at 35 ps. per unit; all in excess at 25 ps. per unit; minimum Rs. 20 per meter per month	Plus surcharge 10%
Industrial Power at 400 volts	1 anna per unit upto 1000 units; all in excess 0.9 anna per unit	Plus 20 % Surcharge of	1st 1000 units at 8 ps. per unit, all in excess at 7.5 ps. per unit, minimum Rs. 5 or Re. 1 per K.W. of connected load whichever is higher	1st 2000 units at 9 ps. per unit, all in excess 8.5 ps. per unit. Monthly minimum Rs. 5 or Rs. 2 per K.W. of connected load whichever is higher	1st 2000 units at 12 ps. per unit, all in excess 11 ps. per unit; minimum Rs. 3 per K.W. of connected load for welding sets the rates are higher by 20%	Plus 20% surcharge

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For agricultural purposes	Flat rate of 0.75 anna per unit; minimum Rc. 1 annas 8 per meter per month	Plus Surcharge of 20%	6 ps. per unit minimum Rs. 5 per meter per month	No change	8 ps. per unit minimum Rs; 5 per meter per month	No surcharge
High Tension Supplies	Rate per K.W.H. varied from 0.6 anna to 0.35 anna according to the quantity of energy consumed. Charges on the basis of K.V.A. of maximum demand per month were also payable in addition	Plus surcharge of 20%	Rates varied from 5 ps. to 3 ps. per unit plus K.V.A. rates of maximum demand per month	The rate per unit varied from 5 ps. to 3.3 ps. according to the quantum of energy consumed, In addition K.V.A. rates on maximum demand basis was also payable	The unit rate varied from 5.75 ps. to 4 ps. plus K.A.V. rates on maximum demand basis	Plus surcharge of 20%

Note:—This statement is not exhaustive and covers some of the selected categories of consumers only.

ANNEXURE—VII

Comparative Statement of Tariffs of the various Electricity Boards

(All in paise per KWH)

Details	Name of Boards												
	Andhra Pradesh	Bihar	Gujarat	Kerala	Madras	Mysore	Madhya Pradesh	Maharashtra	Orissa	Punjab	Rajasthan	West Bengal	Assam
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Domestic :													
Lights & Fans 30 units P.M.	33.00	40.00	31.00	30.00	32.00	26.00	28.00	31.00	28.00	..	44.00	36.00	40.00
Heat & Power 100 units P.M.	29.00	33.00	15.00	16.50	13.80	9.00	13.00	13.20	..	..	25.30	13.00	20.00
Combined load 130 unit P.M.	21.24	27.70	..	..	26.30	7.54	..	..	19.15	11.90	..	..	..
D.B.S. 3 K.W. lighting load 200 units P.M.	21.00	25.00	..	16.50	26.00	9.00	..	..	..	..	..	..	..
Commercial :													
Lights & Fan 200 units P.M.	45.00	32.00	31.00	36.85	35.48	30.00	28.00	25.90	..	..	46.00	36.00	37.20
Heat & Power 400 Units P.M.	45.00	31.00	15.00	23.10	13.80	10.00	13.00	18.20	..	..	25.30	13.00	23.50
Combined load 600 units P.M.	44.17	26.92	..	..	23.65	..	..	..	23.38	12.30	..	..	..
Street light :													
250 lights 2,000 units P.M.	*30.00	31.25	32.50	..	*19.35	12.00	..	..	33.50	23.78	*35.00	..	31.00
Agriculture :													
10 H.P. 15% L.F. 817 units P.M.	12.00	17.34	14.00	8.00	8.25	10.00	11.50	13.87	12.00	10.60	14.30	12.00	14.00
							c						
							k						
							13.00						
							s						
							12.00						
Industrial—Small—10 KW 20%													
L. F. 1460 units P.M.	20.54	18.00	16.00	14.40	13.80	10.00	13.00	13.96	14.00	10.97	15.53	15.00	16.00

<i>Industrial—Medium—50 KW 40%</i> L. F. 10950 units P.M.	18.27	17.32	14.93	13.42	12.85	9.45	13.00	13.61	14.00	9.20	15.53	16.30	13.37
<i>Industrial—Large—250 KW 40%</i> L. F. 73,000 units P.M.	15.09	13.44	11.58	10.67 11.56	16.99	7.03	11.21 10.80 10.24	8.50 10.84	11.62	7.19	11.33	12.90	11.21
<i>Industrial—Large—1000 KV 50%</i> L.F. 365,000 units P.M.	13.35	11.90	9.61	8.72 9.54	14.97	5.96	10.54 9.91 9.35	7.74 9.57	10.90	6.35	10.50	11.37	8.90
<i>Heavy—5000 KW 60%</i> L.F. 2190000 units P.M.	10.51	[10.72	7.48	7.00 7.40	12.83	4.39	9.88 9.05 8.40	6.84 7.76	9.80	5.57	9.61	10.64	6.68
<i>Licensees—2000 KW 60%</i> L. F. 876000 units P.M.	..	10.63	8.07	5.81	6.33	5.13	9.84 9.69	7.58 10.25	..	5.90	11.20	11.09	11.23
<i>Remarks</i>	..	Without fuel S.C.	..	H.T. (fuel S.C. 5.43 paise)	C.Ch- ambal (1.82 P. F.S.C.) K. Kor- ba Ana- kan— tale (2.01 F.S.C.) S.Sou- thern (1.45 F.S.C.)	..	H.T. (Fuel S.C. 0.53 paise)	..	..	(Fuel S.C. 2.78 paise)	(Fuel S.C. 1.66 paise)	..	..

*Bulb 3 renewals in a year free by the Board.

CHAPTER 12

KERALA STATE ROAD TRANSPORT CORPORATION

12.1 The State transport undertaking had its origin in the erstwhile State of Travancore when in 1938 a transport department was established to run a road transport service. To begin with the department had only a small fleet of 30 buses operating over four routes. From this modest beginning, the department extended its activities year after year and established a network of passenger services. After the integration of the states of Travancore and Cochin in 1949, the service was extended to the Cochin area. The next important stage in the development of the State Transport undertaking was reached with the birth of Kerala State when the service was extended to Malabar.

12.2 Till 1965, the State Transport enterprise functioned as a regular department of the Government, though the principles of commercial accounting were followed and profit and loss accounts drawn up every year. It was felt that the efficiency of the service could be improved if the undertaking was organised on regular commercial lines and given sufficient autonomy to draw up its policies and implement them applying business principles. Moreover, there was the offer of the Indian Railways to contribute a share to the development of road transport provided such development was undertaken by an autonomous Corporation. In the State's Third Plan, provision was made for the expansion of road transport but the assistance from the Railways could not be availed of in the first four years, as the Corporation had not been formed. The outlay incurred by the Department on the expansion of road transport was treated as outside the Plan. In these circumstances, the Government took a policy decision to convert the department into a Corporation. Accordingly the Corporation came into existence on 15th March, 1965.

12.3 At the time of the formation of the Corporation, the department had a fleet of 900 buses operating about 660 schedules. The book value of the assets transferred to the Corporation came to Rs. 5.04 crores. The Railways have contributed their share of Rs. 1.25 crores towards the initial capital investment of the State Government. During the short period of its existence, the performance of the Corporation has been quite encouraging. During 1965-66 and 1966-67 the Corporation made gross profits of Rs. 40.55 lakhs and Rs. 60.80 lakhs respectively. After paying income-tax, the net profits came to Rs. 16.55 lakhs and Rs. 24.80 lakhs respectively. The number of vehicles increased to 1200, and the number of schedules to over 1000. The Corporation is at present operating

600 routes including 24 inter-State routes. The importance of the State transport service will be sufficiently clear from the fact that about 6 lakhs of passengers, i.e., one out of every thirty persons in the State, travel in the vehicles of the Corporation every day.

12.4 But the tasks that lie ahead are of no small magnitude. Only 30 per cent of the total route mileage in the State is now under the control of the Corporation. There are 712 private operators in the State who are running about 2500 buses in all. Again the Corporation has yet to enter the field of goods traffic in a big way. Owing to historical factors the Corporation has established a network of services in the districts in Travancore and to a lesser extent in Cochin. But in the districts of Malabar, the Corporation has only begun to establish a foothold. These regional imbalances in the transport facilities provided by the Corporation have to be corrected.

12.5 We have not attempted a detailed study of the working of the Corporation. A preliminary scrutiny of the financial results of its working disclosed a generally satisfactory state of affairs resulting from a fairly efficient standard of operation. Improvements in the working are no doubt possible. To locate areas of possible improvement, a study in depth of the various aspects and processes of the operation is called for. While giving evidence before us, several members of the public have expressed comments on the working of the Corporation and given a few suggestions for improvement of the service. We have discussed these matters with the Chairman and officers of the Corporation. In the following paragraphs we advert to a few salient aspects in the hope that our comments will stimulate further detailed studies and consequential action.

Programme of Nationalisation.

12.6 In 1956, the Government of India had amended the provisions of the Motor Vehicles Act 1939 to enable nationalisation of road transport service. The relevant section of the Act as it stands now is extracted below:—

“Where any State Transport Undertaking is of the opinion that, for the purpose of providing an efficient, adequate, economical and properly co-ordinated road transport, it is necessary in the public interest that road transport services in general or any particular class of such services in relation to any area or route or portion thereof should be run and operated by the State Transport Undertaking, whether to the exclusion, complete or partial, of other persons or otherwise, the State Transport Undertaking may prepare a scheme giving particulars of the nature of the services proposed to be rendered, the area or route proposed to be covered and

such other particulars respecting thereto as may be prescribed, and shall cause every such scheme to be published in the Official Gazette and also in such other manner as the State Government may direct”.

The above section empowers the State Transport Undertaking to formulate and carry out schemes of nationalisation either for the whole State or a district or a part of it, or a route or part of it, to the complete or partial exclusion of private operators. During the ten years, 1957-58 to 1966-67 259 routes were nationalised; the average works out to 26 routes a year. Complete nationalisation involves the displacement of 712 operators who are running about 2500 schedules. We understand that Government have taken a policy decision to take over all the routes in the State. The time schedule and phasing of the nationalisation have yet to be decided.

12.7 Based on the report of a Study Group, a tentative scheme of nationalising all medium and long distance routes in the State during the period of the Fourth Plan (i.e. 1969-74) has been drawn up by the Corporation. By G.O.(P) No. 32/67/PW, dated 9th February, 1968, the routes in the State have been classified as follows:—

- (i) Short routes—routes covering a distance of not more than 40 km.
- (ii) Medium routes—routes covering a distance of more than 40 km. but not more than 80 km.
- (iii) Long routes—routes covering a distance of more than 80 km.

It has been estimated that the number of long routes operated by the private sector is 126 and that of medium routes 367. About 700 buses are plying in these routes. For nationalising all medium and long routes the Corporation would require 850 vehicles—700 vehicles for replacing the existing ones and the balance to be used as spares and to take care of the growth of traffic in these routes in the next five years. During the Fourth Plan period, additional schedules have to be introduced in the routes now operated by the Corporation to cater to the increase in passenger traffic. The number of buses required for this purpose is estimated to be 483. The investment required for all this is estimated to be Rs. 13.36 crores, of which Rs. 3.36 crores will be met from the internal resources of the Corporation. About 347 buses have also to be replaced during this period necessitating a further investment of Rs. 2.43 crores but this amount will be charged to the depreciation fund. The fresh capital to be invested is thus Rs. 10 crores which will have to be made available by the State Government and the Railways.

12.8 We understand that the programme of nationalisation of long and medium routes in the State during the Fourth Plan period as

indicated above has not been finally approved by Government and that an alternative scheme of complete nationalisation is being worked out. The cost of such a scheme may be of the order of Rs. 40 crores. The study of the feasibility of nationalisation of all routes including the short distance routes within the Fourth Plan period itself is, however, only under way.

12.9 There is no doubt that nationalisation of passenger service will bring in larger revenues to the Corporation besides raising the standards of service now enjoyed by the people. The private operators pay scant attention to passengers' conveniences and comforts. Overcrowding is quite common; breakdowns and accidents are frequent, owing to failure to maintain reasonable standards of operational efficiency. The main concern of the private operator is to secure the maximum profit. But in the case of a public sector undertaking like the Corporation, profit cannot be the overriding consideration. Hence it will be able to pay attention to increasing passenger amenities. The construction of waiting sheds, for instance, is an activity that will not normally be taken up by a private operator. Thus from the point of view of the passenger, operation of all the services in the State by the Corporation will be a real blessing and has to be achieved as quickly as possible.

12.10 The pace of nationalisation is, however, to be determined on the basis of availability of finances and on other practical grounds. It is also linked up with the question of managerial ability. An overnight expansion of the services may throw up problems of operation and administration and unless the Corporation is sufficiently geared to cope with these problems the standards of the service may be affected. The facilities for repairs and maintenance of vehicles have to be considerably expanded. Arrangements have to be made for purchasing and stocking stores in large quantities; even the procedures may have to be streamlined. Staff having the right technical skills have to be recruited in considerable numbers and got trained. Thus nationalisation brings in its wake a host of problems affecting every facet of the Corporation's work. Again, the sudden displacement of the private operators may give rise to large-scale unemployment; not all the staff engaged by the private operators are sufficiently qualified or competent to enable their absorption into the service of the Corporation. The large numbers of vehicles now plying on the routes operated by the private sector may have to be withdrawn and kept unutilised which amounts to a national waste. Over a period of time it will be possible to smooth out the transitional problems and make necessary adjustments. Both the private operators and the Corporation should have a reasonable time to prepare the ground for the impending changes so that the efficiency of the services is not affected on the one hand and the wastage of men, materials and other resources is minimised on the other. We

are therefore inclined to support the tentative scheme of nationalisation, already drawn up, according to which all long and medium routes will alone be taken over during the Fourth Plan period.

Contribution from the Railways.

12.11 It is seen that the contribution from the Railways for road transport development in the State is very low. The following table showing the comparative rates of contribution will illustrate this.

	<i>Proportion of capital contribution (State and Central Governments).</i>
Mysore State Road Transport Corporation	3:1
Andhra Pradesh	3:1
Madhya Pradesh	3:1
Gujarat	2:1
Kerala State Road Transport Corporation	4:1

The circumstances under which the Central contribution to Kerala has been pegged down at the low level are not known. The importance of an efficient system of road transport in a State like Kerala where rail facilities are woefully inadequate cannot be over-emphasised. The density of population and the opening up of all the rural areas have made a wide network of road traffic, connecting up even the nooks and corners of the State, a compelling necessity. Owing to the lopsided policy of rail development followed by the Britishers and continued by the Central administration since independence the State's rail mileage is far below that of other States. The Central investment in railways being significantly low, the Central contribution for the road transport should have been proportionately higher than in other States. But paradoxically enough the State is getting the smallest contribution, both in relative and in absolute terms. Unless the Centre changes its present policies which are not geared to the removal of inter-State or inter-regional disparities, States like Kerala will not get their due share of the fruits of economic progress. Thus this is a matter correlated to the broader policies and strategies of national development. We understand that the question of raising the Central contribution has already been taken up by the Chairman, Kerala State Road Transport Corporation, in the recent conference of the Chairmen of the Road Transport Corporations. This is a crucial matter, particularly now when the Corporation is pledged to a policy of nationalisation of road transport service in the State, a policy necessitating large-scale financial investments. We suggest that the representations already made in the matter may be pursued with vigour so that the State Government would get enhanced Central contribution for transport development.

12.12 The Central contribution comes directly from the Railways which are in a way rivals of the road transport undertaking. We consider that the more appropriate procedure of releasing Central assistance will be routing it through the Ministry of the Government of India dealing with road transport, the allocations being, however, determined by the Ministry of Finance in conformity with the general patterns and principles of Central assistance for development.

Revision of fare structure.

12.13 The existing fare structure was fixed in 1963. The operating cost of the service has increased considerably since then. The private operators have been strongly clamouring for a fare revision. In fact the Government had appointed a committee sometime back to enquire into the structure of fares and suggest suitable modifications. The report of the committee is under the consideration of the Government, and no decisions have been taken on the matter so far. The representatives of the Corporation have stated that the minimum fare can be raised from 10 paise to 20 paise in mofussil services and from 40 paise to 50 paise in fast passenger services. As mentioned by us earlier in paragraph 7.20, we have not studied the question of fare increase as a Committee had already studied the matter recently and made recommendations to Government. Hence we are not making any comments on the views expressed by the representatives of the Corporation on this matter.

Problems in day-to-day administration.

12.14 One of the important causes of breakdown of buses is failure of tyres. Tyres should be withdrawn as and when they are due for re-treading so that their life can be prolonged. The Corporation has only one tyre re-treading unit now. The work in this unit is heavily in arrears; there are about 6000 tyres to be retreaded. This backlog will increase when new schedule are introduced in implementation of the policy of nationalisation. We therefore suggest that a new tyre retreading unit may be set up at a central place in the State so that retreading work can be promptly attended to. Ultimately this will contribute to greater economy in the costs of operation and increased efficiency.

12.15 Non-availability of spares is another bottleneck. The inventory policies may be so designed that, while ensuring that capital is not locked up unnecessarily by purchasing and stocking spare parts and stores of all kinds, sufficient stock is maintained to meet the requirements for a reasonable period of time. A buyer's market does not however, exist now and hence the need for building up sufficient stock on the basis of a proper assessment of the requirements need no emphasis. Utmost economy has also to be exercised in the use of spare parts. The procedures for the custody and issue of these materials should be reviewed and made fool-proof. A systematic procedure

should be evolved to ensure that the materials issued are utilised for the vehicles intended and that they are not diverted for other purposes. This will minimise opportunities for malpractices. One suggestion that can be considered is to introduce a marketing system on the spare parts and other items of stores so that their ownership can be established beyond doubt. Such a system will be an effective safeguard against pilferage. While on this subject we would suggest that the Corporation should build up the expertise and technical know-how to fabricate and improvise spare parts. A system of incentives and awards for showing distinctive originality in this matter may lead to a better utilisation of the existing talents and produce significant results. Reconditioning for the old parts should invariably be restored to wherever possible, before new parts are fitted up in vehicles.

12.16 The wage bill of the Corporation constitutes about 31 per cent of the working expenses. It is pointed out that this proportion of wages to working expenses is the highest among the public sector transport undertakings in India. The expenditure in this direction may increase further when the recent award on the arbitration of the dispute on wages is implemented. Obviously the problem is one which does not lend itself to an easy solution. At best it can be tackled over a period of time by curtailing the growth of staff to the extent possible, without detriment to efficiency. The need for ensuring that there is no idle or surplus capacity and that the existing manpower is deployed and utilised to the best advantage of the Corporation is therefore imperative.

12.17 The city services are now running at a loss. In other States also, the services in the cities and towns are not self-financing. The contributory factors for the loss in city services in the State are the limited mileage operated by each vehicle, the comparatively high rate of consumption of fuel, battery power, etc. consequent on the very frequent stops in each route, the damage caused by overcrowding at the peak hours, the wastage in running buses below capacity at other times, the concessions granted to students and the relatively lower level of fares. It is poor consolation that city services elsewhere are also not self-sustaining. Special studies may be made of the problems of these services to make them more remunerative. The routes can be rationalised; unimportant and unnecessary halts can be avoided and the schedules can be staggered so that all buses ply on full capacity. Sustained efforts may be made to streamline the working of the city services so that they would not be a drag on the Corporation.

12.18 Considerable damage is caused to the vehicles of the Corporation during periods of agitations of students and other sections of the people. The Corporation is helpless in the matter of taking any preventive action. This is a problem which has to be tackled at the political and social levels by organising public opinion against such reckless practices. We wish that the accredited leaders of the public

would instil a sense of responsibility among the people and wean away the sensitive sections of the society from such irresponsible actions.

12.19 The Corporation is on the threshold of a vast expansion programme. The nationalisation of all routes in the State, which it has adopted as its goal, will increase the fleet strength by at least three times. This necessitates corresponding increase in operational, mechanical, administrative and managerial staff. New offices have to be opened and new units set up for body-building and for maintenance and repairs. Constructing bus stands, bus stations, waiting sheds etc. have also to go hand in hand. As matters stand at present, apart from internal resources a large part of the finances for development of the Corporation has to come from the State Government and the Central Government. But, given the necessary finances, it is the responsibility of the Corporation to make a success of the nationalisation programme and run the transport services fairly efficiently and to the satisfaction of the travelling public. Though all this depends upon the forethought and planning bestowed in the utilisation of available resources, in the ultimate analysis, it is the human factor that counts. In other words, the standards of the transport service centre very much round the efficiency and devotion displayed by the staff engaged in the various jobs—of fitting out the vehicles, putting them on the road, planning out their schedules; managing the stores, and finally in dealing with the passengers face to face. We therefore suggest that the Corporation should address itself to the tasks of training and shaping the human material, building up the necessary operational efficiency and developing technical and managerial skills.

Summary of conclusions and recommendations.

- (1) The scheme of nationalising all long and medium distant routes alone during the Fourth Plan period is found more practicable than a scheme of complete nationalisation.
(Paragraph 12.10)
- (2) The question of getting enhanced Central contribution for the development of road transport in the State may be pursued with the Government of India.
(Paragraph 12.11)
- (3) The appropriate procedure of releasing Central assistance will be to route it through the Ministry of the Government of India dealing with road transport, the allocations being determined by the Ministry of Finance in conformity with the general pattern and principles of Central assistance for development.
(Paragraph 12.12)

- (4) A new tyre retreading unit may be set up at a central place in the State. It should be ensured that tyres are withdrawn as and when they are due for retreading, so that their life can be prolonged.

(Paragraph 12.14)

- (5) The inventory policies should be so designed that, while ensuring that capital is not unnecessarily locked up, sufficient stock is maintained to meet the requirements for a reasonable period. Utmost economy has to be exercised in the use of spare parts; necessary safeguards should be taken to ensure that opportunities for pilferage and malpractices are reduced.

(Paragraph 12.15)

- (6) The Corporation should build up the expertise and technical know-how to fabricate and improvise spare parts. A system of incentives and awards may be introduced to tap the available talent. Reconditioning of old parts may be resorted to, wherever possible, before new parts are fitted up in vehicles.

(Paragraph 12.15)

- (7) Considering the size of the wage bill in relation to the total working expenses, it is necessary to ensure that the existing man-power is deployed and utilised to the best advantage. Over a period of time it should be possible to bring down the expenditure by curtailing the growth of staff.

(Paragraph 12.16)

- (8) Special studies of the working of the city services may be undertaken and sustained efforts made to streamline the system so as to make them more remunerative.

(Paragraph 12.17)

- (9) The damage caused to vehicles during periods of agitation deserves serious attention. The accredited leaders of the public should endeavour to create public opinion against such irresponsible practices.

(Paragraph 12.18)

- (10) The Corporation should address itself to the tasks of training and shaping the human resources, building up the necessary operational skills, so as to enable it to face up to the responsibilities that should devolve on it consequent on the nationalisation of road transport services throughout the State.

(Paragraph 12.19)

CHAPTER 13

GOVERNMENT INDUSTRIAL CONCERNS

13.1 Public sector undertakings in Kerala can be classified under three main groups, viz:

- (1) Statutory corporations.
- (2) Fully owned Government industrial concerns.
- (3) Industrial concerns in which the State Government hold majority of shares.

By the end of 1967-68, there were 13 fully owned Government companies and four Statutory Corporations, viz., the Kerala Financial Corporation, Kerala State Road Transport Corporation, Kerala State Electricity Board, and Kerala State Warehousing Corporation. There are seven other Government companies in which the State Government holds more than 51 per cent shares. In addition, the Kerala Government has investments in 50 companies (including banks) in the form of shares and loans, of which five companies are under the control of the Government of India. These five companies are F.A.C.T., National Projects Construction Corporation Ltd., Cochin Refineries, Modern Bakeries of India and Banana & Fruit Development Corporation.

13.2 As on 31-3-1968, the Kerala Government had a total investment of Rs. 137.43 crores in industrial concerns. Of this amount Rs. 28.06 crores was invested in the form of share capital, and Rs. 108.84 crores constituted loans and capital expenditure while the remaining was in the form of loans for working capital and other purposes.

13.3 The performance of public sector undertakings in Kerala, measured in terms of dividend realisations on share capital contributed by the Government, and the interest on loans, has been very unsatisfactory. Even the repayments of instalments of loans, not to speak of interest payments, are in some cases delayed or postponed indefinitely, thus depriving the Government of the much needed financial resources for developmental purposes.

Ratio of dividends to total capital investments.

13.4 The ratio of dividends received to total capital invested in Government commercial and industrial undertakings in Kerala during

the three years 1965-68 remained much below 1 per cent the lowest being 0.38 per cent in 1966-67.

	1965-66	1966-67	1967-68
	Rs.	Rs.	Rs.
Total capital investment	10,05,95,701	13,53,73,978	16,71,86,863
Dividend received	9,98,164	5,08,906	7,15,131
Ratio of dividends to capital investments	0.99%	0.38%	0.43%

Investments made in Kerala State Electricity Board and Kerala State Road Transport Corporation and the interests received from these investments are not included in the above table.

Interest on loans.

13.5 An analysis of the figures relating to interest received on loans granted to the various Government owned industrial concerns and Government companies reveals as unsatisfactory position; the actual receipts generally falling far short of budget estimates.

Interest received on loans granted to Government owned companies and Government companies

<i>Year</i>	<i>Budget estimates</i>	<i>Actuals</i>
	Rs.	Rs.
1965-66	1,00,000	2,82,258
1966-67	8,08,700	1,92,282
1967-68	2,80,000	1,24,722

Repayment of loans.

13.6 In the case of repayment of loans also, the performance of Government owned industrial concerns have been wide off the mark, as can be seen from the following table:

Repayment of loans received from Government owned *companies

<i>Year</i>	<i>Budget estimates</i>	<i>Actuals</i>
	Rs.	Rs.
1965-66	12,85,000	7,09,158
1966-67	8,26,200	7,66,530
1967-68	7,90,000	17,900

13.7 Thus, instead of becoming an expanding source of additional resources for the Government, public sector enterprises in general have remain a drag on the State's resources. The heavy investments already made by the Government in these concerns represent a substantial capital base for generating non-tax revenues for financing the developmental Plans. Since these investments represent the past savings of the community, the primary task of the Government should be to ensure that they become revenue-generating assets, thereby enabling the Government to raise more non-tax revenues and consequently imposing less burdens on the masses in terms of additional taxes.

The Present Mechanism of Managerial and Financial Control.

13.8 At present, the State Government exercises control over the public sector undertakings primarily through the Government Directors in the companies and partly through departmental control in some cases. Needless to state that the present system of financial control is inadequate to cope with the task of converting the existing public sector enterprises into revenue yielding concerns. Though the nature of the problem has been recognised by the Government, and its serious dimensions were explained, time and again, in reports including the report of the Committee on Public Undertakings, no effective solution has so far been found.

13.9 The Government nominees on the Boards of Directors of the companies are today in a position to exercise only "marginal" or "fringe" controls, particularly in view of the facts that they attend only the Board meetings (often, not all the meetings) and are not in day-to-day contact with the managerial and marketing problems faced by the companies. In certain cases, senior officials of Government Departments who have only remote acquaintance or connection with the industry under consideration are nominated as Directors. Since the various companies are controlled by different administrative Departments of Government, and since the problems faced by individual companies are so diverse and complex, needing the assistance of a large number of agencies, the present system of control through Government Directors is completely incompatible with the objective of running public sector enterprises in a coordinated manner and on profitable commercial lines.

13.10 One of the proposals put forward for ensuring effective financial control over public sector industries is that the Government should appoint Financial Advisers whose role should be:

- "(i) To introduce management accounting, i.e., to provide methods of reporting data on which decisions can be taken. Modern techniques of accountancy and costing enable such reporting possible.

- (ii) To introduce an integrated financial system, including management, accounting, costing and internal audit.
- (iii) To supervise the functioning of the above system to ensure its continuous efficacy.
- (iv) To send quarterly reviews on the working of the concern to Government pointing out the problems of financial management, if any, facing the concern.**

While we recognise the important role which a Financial Adviser can play in helping the Government in the exercise of financial control over the companies, and also in helping the companies themselves, particularly in respect of factors such as budgeting, costing, internal audit, financial scrutiny of schemes, etc., we feel that this role should be played by persons who are not only experts in the field of financial management, but who have, in addition, adequate experience in industrial management and marketing. "Financial Control" should be conceived of not as a narrow problem of ensuring control over finances of public enterprises by the Government, but as an integral part of the day-to-day management and marketing operations of the companies themselves. In other words, modern financial management should be introduced as a necessary element in the day-to-day management decision-making of the public undertakings, rather than as an "extended arm" of bureaucratic control mechanism of the Government.

13.11 The problems of managing public sector undertakings in India have been the object of enquiry of a number of committees of which the Estimates Committee and the Committee on Public Undertakings of Parliament need special mention. These reports have given us an insight into practically every aspect of management, both in general terms and with specific reference to individual public undertakings. Recently the Administrative Reforms Commission in its report on public undertakings has given a series of recommendations for improving the efficiency of public sector units. We hope that the Government of Kerala will indentify those recommendations of the Administrative Reforms Commission which have relevance to the Government undertakings in the State and initiate appropriate remedial measures.

* Government of Kerala, Finance Department, *Financial control on Public Sector undertakings and Government Companies in Kerala*—basic paper circulated for discussion at the Conference held on 14th October, 1968 at Trivandrum.

Formation of Sector Corporations.

13.12 For certain fields of industrial activity, the proposal of the Administrative Reforms Commission is to set up Sector Corporations comprising individual undertakings functioning in the same fields of industry. The following advantages of this proposal merit our consideration:—

- (a) It will reduce the dimensions of Government control as many of the functions that are co-ordinative per se will be taken care of by the Corporation;
- (b) It will make Government control more effective by keeping it confined to a few vital and strategic points;
- (c) It will help to achieve the economies of large-scale operations and the establishment of otherwise expensive staff organisations and of common service facilities in the field of research and consultancy, training of personnel and sales promotion;
- (d) It will lead to better personnel management, uniformity in the terms and conditions of service of employees, wider prospects for the managerial and technical personnel and the development of managerial resources in the public sector.

13.13 In view of the proliferation of Government companies and corporations in Kerala during the last decade, we consider that there is scope for integrating some of the public sector concerns in Kerala into Sector Corporations in order to reap the benefits indicated above. We recommend that the possibility of such integration of activities in Kerala's public sector should be gone into in greater detail by the State Planning Board and the Industries Department before the final decision is taken. For instance, the possibility of bringing together the proposed Forest Corporation, the existing Forest Industries (Travancore) Ltd., and the Kerala Plantation Corporation should be explored. Prima facie there is a strong case for such integration.

Profitability as a Function of Management.

13.14 A review of the working of public sector undertakings in Kerala will reveal the fact that attempts to increase the profitability of these undertakings should be concentrated on managerial reform and the inculcation of modern marketing techniques. This point needs reiteration because, in the past, most of the attempts at improving the profitability of Government undertakings were conceived of in narrow terms and without solving the most fundamental problem of managerial reform.

13.15 Case Studies of twelve Government Industrial Concerns in Kerala indicate that, in respect of some of the most crucial areas of

management action, the present practices are not only conservative but even primitive. The following table summarises the results of this survey. Affirmative and negative responses to questions covering such areas as training programme for staff, product planning, research and development programme pricing policy and sales organisation are given in this table:

The state of Management Practices in twelve Government Industrial undertakings in Kerala.

	Yes	No.
Training programme for staff	2	10
Product planning	3	9
Research and development programme	0	12
Clearly laid-down pricing policy	3	9
Proper sales organisation	2	10

13.16 The studies relating to individual public sector industrial undertakings have revealed a number of deficiencies which can be listed in general terms as follows:—

1. *Inadequacies in organisational patterns.*

* The delegations of managerial and financial powers at different levels of the organisation are often inadequate and faulty.

* There is over-staffing in some divisions and sections of the company while there is dearth of personnel in certain other areas.

2. *Under-utilization of capacity.*

* There is substantial under-utilization of capacity of machinery in most of the companies.

* Due to the existence of imbalance in the plant, certain units have extra capacity while certain other units have inadequate capacity.

* Since there is lack of maintenance schedule in certain companies, the maintenance of plant and machinery is unsatisfactory.

* There is avoidable delay in taking action for commissioning the plant and for other major activities.

3. *No Product Planning.*

* The crucial significance of product planning is not even recognised by many companies.

* There is undue wastage in production due to high level of rejections particularly at the intermediary stages of production.

* Quality control is not strictly adhered to in some cases.

* Research and development with a view to developing new products and improving existing products is not given adequate attention by most of the companies.

4. *Insufficient application of productivity techniques.*

* Many companies do not give adequate attention to the problem of making maximum utilization of waste products.

* In general, the companies do not have any scientific system of inventory control.

* Productivity techniques such as work study, operations research, etc., are completely alien to most of the public sector undertakings.

* In the matter of materials management and purchase of inputs the companies have been found to be lacking in expertise.

5. *Continuously rising cost of production.*

* Senior managements of most of the companies have no cost consciousness and, hence, do not venture to take bold steps aimed at reducing costs.

* In certain companies, due to delays in completing expansion programmes, the cost has increased considerably from the original estimates.

* Due to the lack of adequately trained experts in financial management, costing is done by persons who have no appreciation of modern methods of costing and cost control.

6. *Outmoded and static pricing policy.*

* In many companies there is utter lack of understanding of modern principles of pricing.

* In the case of some companies prices of products are not reviewed even after a substantial increase in cost of production.

* In some cases there are long-term agreements for supply of the company's product at a cost lesser than the cost of production and, in the agreement, there is no enabling clause for the revision of rates. This has resulted in loss to the companies.

7. *Inadequate Marketing and Sales Effort.*

* In most of the companies, the marketing function is one of the most neglected areas of management. Very often the production manager, or the managing director, directly undertakes marketing and sales; and there is no person specialised in sales job.

* The selection of distribution channels is, in some cases, not conducive to long-term growth in sales. Appointment of agents, wholesalers, etc., is done, in some cases, without proper assessment of the efficiency of the distribution system.

* Companies exhibit a callous neglect of market research.

13.17 These defects will have to be rectified as early as possible. It is necessary to detect the causes for the defective working of each public sector undertaking and to take immediate action to rectify the defects so that the performance of the companies could be made more satisfactory. The top management of each company should have qualified experts in fields like finance and accounts, planning and personnel management and labour administration. At least the major public sector undertakings should have the following categories of personnel:—

- (a) Economists and statisticians having specialisation in marketing and operations research.
- (b) Chartered and cost accountants with specialisation in management accounting.
- (c) Personnel managers and labour welfare officers.
- (d) Materials management experts.
- (e) Industrial engineers having knowledge in work study and productivity.

Creation of a Management Cadre for Government Industrial and Commercial Concerns in Kerala.

13.18 Consistent with our view that the most crucial element in enhancing profitability of Government industrial and commercial undertakings is managerial reform, we recommend the creation of a Management Cadre for running all the commercial and industrial

units in which the Government of Kerala has effective control. The creation of the Management Cadre should be by:

- (a) giving an option to all the officers of the Administrative Services of Government to join the Management Cadre. Once they are absorbed in the new cadre they will not be transferred back to general administration; and
- (b) recruiting from industry and trade qualified managerial personnel-junior, middle-level and senior management personnel.

13.19. The advantages of a Management Cadre consisting of those officers in Government services who have an aptitude and positive interest in managerial work and inducting new talent from among the competent managers in industry and trade are obvious. We are aware that this suggestion will pose a number of problems in respect of service conditions and problems of promotion, seniority and remuneration. But these problems are not unsurmountable. We recommend that a separate Management Cadre be constituted as early as possible so that the large number of management and marketing problems, which the public sector concerns in Kerala are today facing, can be solved effectively and in a systematic and scientific manner.

Effective Management Training.

13.20. The above proposal for creation of a Management Cadre implies intensive training in management, marketing and allied fields for the benefit of those who are inducted into the cadre, particularly general administrative personnel who are allowed to enter this cadre. Training programmes in diverse fields such as general management, marketing, financial control, materials management, inventory control, operations research and so on will have to be organised for different levels of managements. Both long-term basic courses and short-term programmes will have to be specially designed to meet the requirements of managerial personnel belonging to different groups of products and services. Thus, it should be possible to develop a group of modern managers and marketing men trained in the science and art of managing men and materials, to help the State Government in running the Government industrial and commercial concerns on profitable lines, making a substantial contribution to the revenues of the State.

CASE STUDIES OF INDIVIDUAL COMPANIES

13.21. The recommendations embodied in the earlier paragraphs and the general propositions regarding management reforms to be introduced in the public sector industrial units in Kerala are borne out by a series of Case Studies undertaken by the Economics Division of the State Planning Board for the benefit of the Taxation Enquiry

Committee. In fact, most of the general recommendations made in this chapter spring from a close examination of the management problems faced by the companies covered by these Case Studies.

13.22 With a view to highlight the specific management and marketing problems of the public sector enterprises, a summary of the case data relating to 12 companies are presented here. Statutory Corporations are excluded from the discussion in this Chapter. The Companies selected here comprise two categories, namely,

	<i>No. of Companies selected.</i>
I. Government owned companies	6
II. Government companies (Industrial concerns in which the State Government hold majority of shares)	6
Total	12

I. GOVERNMENT-OWNED COMPANIES

(1) *The Kerala Soaps and Oils Limited.*

13.23 The Kerala soaps and oils Limited, Calicut is a Government-owned company. The authorised share capital of the company is Rs. 1 crore. The share value of Government in the company up to the end of 1967-68 is Rs. 36.73 lakhs and the total loan outstanding as on 31-3-1968 is about Rs. 43.48 lakhs. The company has under it three main units viz. the soap institute unit, the oil factory unit and the hydrogenation factory unit. The main products of the company are soaps, vitaminised oils and vanaspathi.

Production and Sales of the Company

13.24 The trends in the growth of sales of the company's products are given in the following table:

<i>Products</i>	<i>Sales (Rs. in lakhs)</i>		
	1964-65	1965-66	1966-67
Hydrogenation Factory			
Division	50.00	92.80	88.05
Soap Institute	15.99	19.85	20.57
Oil Factory	10.23	9.88	11.97

13.25 The main difficulties that the company faces at present are scarcity of raw materials and the fluctuation in the prices of oils. Even though there is heavy demand for vanaspathy, the company

has been unable to utilise the full potential of the Hydrogenation Factory mainly because of the scarcity of raw materials and the fluctuations in prices of groundnut oil. About 80 per cent of the cost of production is accounted for by the cost of raw materials and so the profitability is mainly dependant on the prices of raw materials. The selling price for the product is determined by the Directorate of Sugars and Vanaspathy of the Government of India.

13.26 An analysis of the working result of the company for the years 1965-67 reveals that while the Hydrogenation Factory Division has been running at a loss during all the years, the Soap Institute and Oil Factory Divisions have been running at profit. The net result was that the company had loss of Rs. 4.73 lakhs during 1966-67.

13.27 The details of the working result of the 3 divisions are given below:—

Year	Hydrogenation Factory	Soap Institute (Rs. in lakhs)	Oil Factory
1964-65	(—) 2.86	(+) 0.26	(+) 0.61
1965-66	(—) 0.83	(+) 1.00	(+) 0.12
1966-67	(—) 4.94	(+) 0.09	(+) 0.11

Expansion Programme

13.28 The soap institute division is implementing a scheme for the installation of a Mazzoni Soap plant and the oil division is erecting a plant for hydrogenation of fish oil. It is also proposed to set up a glycerine concentration unit for the utilisation of the bye-product of soap.

13.29 The financial results of the Kerala Soap and Oils Ltd., are given in the following table:

Financial results of the Kerala Soaps and Oils Ltd.

	1964-65	1965-66	1966-67
	(Rupees in lakhs)		
I. Financial position			
<i>Liabilities</i>			
(a) Paid up capital	5.97	29.97	34.23
(b) Reserves and surplus	0.92	0.99	1.16
(c) Borrowing	33.43	40.01	41.52
(d) Trade dues and other current liabilities	24.28	7.61	10.47
Total	64.60	78.58	87.38

	1964-65	1965-66	1966-67
<i>Assets</i>			
	(Rs. in lakhs)		
(a) Gross block	21.53	21.82	23.22
(b) Depreciation	1.49	3.22	4.79
(c) Net fixed assets	20.04	18.60	18.43
(d) Capital works in progress	0.92	3.54	3.88
(e) Other assets (intangible assets)	2.99	2.70	7.43
(f) Current assets loans and advances	40.65	53.74	57.64
Total	64.60	78.58	87.38
Capital employed	36.41	64.73	65.60
Net worth	3.90	28.26	27.96
II Capital structure			
Debt-equity ratio	16.5:3	4:3	21:17
III. Liquidity and solvency			
(a) % of current assets to total net assets	63%	68.4%	66%
(b) % of current assets to current liabilities	207%	675%	580%
IV. Working results			
(a) Profit (+) (Loss (-))	(-) 2.99	(+) 0.29	(-) 4.73
V. Cost trends			
(a) Sales	74.74	122.55	120.30
(b) Add Loss Deduct profit	2.99	0.29	4.73
(c) Cost of sales	77.73	122.26	125.03
(d) % of cost of sales to sales	104%	99.2%	104.2%
VI. Inventory and productions			
(a) Raw materials	10.84	18.13	14.79
(b) Stores and spare parts	0.55	0.60	0.60
Goods in progress	3.93	3.59	3.22
(d) Finished goods	8.26	6.54	20.23
(e) Others	0.33	0.34	0.34
Total	23.91	29.20	39.18
VII. Sundry debtors	8.42	8.85	11.60

13.30 Suggestions for improvement of the working of the Company.

- (i) The Hydrogenation factory division is running at a continuous net loss. The main reason for this is that the full capacity is not being utilised even though there is great demand for vanaspathy. It is estimated that only 60 to 75 per cent of the capacity is being utilised by the company. In order to reduce the cost of production, effort should be made to utilise full capacity. Since the selling price is fixed by the Government of India, in order to run the company successfully, the cost of production should be reduced to the minimum possible.
- (ii) There is vital need for improving the sales organisation of the company. Similarly the research and development section will have to be organised and the marketing system improved.
- (iii) There is export possibility for the products. Attempts should be made to explore this possibility.

(2) *Kerala Electrical and Allied Engineering Company, Ltd., Kundara*

13.31 This is a fully Government-owned company. The date of incorporation of this company was 5-6-1964. The company's main activities are fabrication and erection of steel structures, fabrication of pole line hardware items and manufacture of electrical accessories like cutouts, fuse units, porcelain box, switch, etc. The company's authorised share capital is Rs. 25 lakhs. The value of the shares issued to Kerala Government is Rs. 18.82 lakhs and the loan outstanding to Government is Rs. 18.82 lakhs (as on 31-3-1968).

Production and sales

13.32 The company's production is based on the orders received from the customers and the success of the company depends on the capacity to secure orders from various parties. The sales of the company during the last three years are given below:

<i>Year</i>	<i>Sales (Rs. Lakhs)</i>
1965-66	16.11
1966-67	21.65
1967-68	20.09

Working result

13.33 The working result shows that the company was running at a loss during 1964-65 and 1965-66, though a net profit of Rs. 0.57 lakhs was realised during 1966-67.

13.34 The company is at present importing raw materials like tool steel and zinc; tool steel from U.K. and zinc from Poland. The capacity utilization of the company varies from 80 per cent to 90 per cent. The general policy of the company for pricing its products is to add 10 per cent margin for profits on estimated cost. But for certain products for which the market is highly competitive, price is fixed at prevailing market price. The company has no separate sales organisation. The distribution arrangements are made through reputed firms in Kerala and Andhra Pradesh.

13.35 A scheme for the starting of a new unit for manufacture of equipments like Distribution Transformers, Cranes, etc., has been chalked out by the company. For this, land has been acquired at Mamala (Ernakulam) and factory building for steel fabrication unit has been completed. Licence has already been received from the Government of India for the manufacture of certain new items like transformers. Steps have also been taken to set up the transformer factory at Mamala and it is possible to commission the unit shortly.

13.36 The financial results of the company are given in the following table:

Financial results of the Kerala Electrical and Allied Engineering Co. Ltd

	1964-65	1965-66	1966-67
	(Rs. in lakhs)		
I. Financial position			
<i>Liabilities</i>			
(a) Paid up capital	..	2.25	4.00
(b) Reserves and surplus	0.05	0.07	0.21
(c) Borrowings	13.04	14.75	17.51
(d) Trade dues and other current liabilities	11.17	15.72	20.37
Total	24.26	32.79	42.09
<i>Assets</i>			
(a) Gross block	6.33	7.04	8.40
(b) Depreciation	0.33	0.91	1.54
(c) Net fixed assets	6.00	6.13	6.86
(d) Capital works in progress	0.07	0.63	7.22
(e) Other assets (intangible)	1.15	2.82	2.25
(f) Current assets, loans and advances	17.04	23.21	25.76
Total	24.26	32.79	42.09
Capital employed	11.87	13.62	12.25
Net Worth	(-)1.10	(-)0.50	1.96

	1964-65	1965-66	1966-67
(Rs. in lakhs)			
II. Capital structure			
Debt equity ratio	13:1	59:9	17:4
III. Liquidity and solvency			
(a) % of current assets to total net assets	70%	69%	62%
(b) % of current assets to current liabilities	172%	143%	130%
IV. Working results			
(a) $\frac{\text{Profit (+)}}{\text{Loss (-)}}$	(-)-1.11	(-)-1.67	(+)-0.57
(b) % of profit to sales	..	-	2.6%
V. Cost Trends			
(a) Sales	10.47	16.11	21.65
(b) <u>Less Profit before tax</u>	1.11	1.67	0.57
<i>Add loss</i>			
(c) Cost of sales	11.58	17.78	21.08
(d) % cost of sales to sales	110.6	110.3%	97.3%
VI. Inventory and Production			
(a) Raw materials	6.52	8.83	9.38
(b) Stores and spare parts	1.35	1.01	1.15
(c) Goods-in-progress	1.59	1.93	2.16
(d) Finished goods	0.78	1.08	1.25
(e) Others	0.51	1.29	0.63
Total	10.75	14.14	14.57
VII. Sundry Debtors	4.40	8.42	10.41

13.37 *Suggestions for improvement in the working of the company.*

- (i) At present there is lack of modern methods of production, planning and control in the company. Due to heavy overhead costs and other administrative charges the cost of production is very high. Efforts should be made to reduce the cost of production of the company's products. Product planning is also a must.
- (ii) There is no proper inspection at the various stages of production. So it is necessary to improve the quality of inspection.
- (iii) Sales organisation should also be improved with a view to capture more markets.

(3) *The Kerala Ceramics Limited, Kundara.*

13.38. The Kerala Ceramics Limited, Kundara was previously working as two departmentally managed undertakings, the Government Ceramic Concerns and the Kerala Government Ceramics. These two concerns were amalgamated according to the recommendations of the committee of the Kerala State Industrial Development Corporation. The new company viz. the Kerala Ceramics Limited was registered on 1st November, 1963. Now this company is a fully owned Government company and it started functioning on 24th February, 1964. The authorised share capital of the company is Rs. 1 crore. The total value of shares issued to Government up to the end of 1967-68 was Rs. 32.45 lakhs and the total loan outstanding from Government as on 31-3-1968 was Rs. 37.24 lakhs. The ceramic company has 3 units for the manufacture of different products, unit I is manufacturing crockery, unit II is manufacturing stoneware pipes, fire bricks and other refractory products and unit III is engaged in the mining and processing of china clay.

Production and sales of the Company's products.

13.39. The production and sales of the company's products during the last 3 years are summarised in the following table:—

Year	Production (Rs. in lakhs)			Sales (Rs. in lakhs)		
	Unit I	Unit II	Unit III	Unit I	Unit II	Unit III
1965-66	10.55	0.81	2.84	10.71	1.71	2.89
1966-67	15.60	0.91	5.15	14.48	0.63	3.79
1967-68	19.22	0.86	6.55	17.44	0.40	4.82

13.40. The production in unit I mainly depends in the supply of electricity. Due to power cuts during the previous years a considerable number of working days was lost and this had affected the production and even the life of the machines (due to sudden drop in voltage of power). In order to attain the required temperature for reworking, usually the Kiln takes 15 days after switching on the machine. Since the company is depending on electric power for firing its kiln, it was at a disadvantage to compete with other companies which use oil fired kilns at cheap rates. It is stated that the firing cost of the kiln comes to Rs. 35,000 per month for a monthly production of Rs. 1.25 lakhs. This is about 28 per cent of the total cost whereas fuel cost of oil kilns of similar capacity is below 20 per cent. Another drawback of the company is the imbalance in machine capacity. The capacity for preparatory processing machines is up to 6 tonnes a day. This defect can be rectified by increasing the kiln capacity. Considerable difficulties are being experienced by the company in obtaining good quality ceramic transfer pictures to suit the tastes of the consumers with the result that the company

is forced to curtail production. The marketing system of the company needs suitable modification.

13.41 The financial result of the company is summarised in the following table:—

Financial result of the Kerala Ceramics Limited, Kundara

	1964-65	1965-66	1966-67
	(Rs. in lakhs)		
I. Financial Position			
Liabilities			
(a) Paid up capital	10.68	20.00	32.45
(b) Reserves and surplus	..	..	..
(c) Borrowings	..	30.07	33.02
(d) Trade dues and other current liabilities	48.50	20.68	8.89
Total	59.18	70.75	74.36
Assets			
(a) Gross block	35.64	36.70	38.64
(b) Depreciation	2.20	4.27	6.26
(c) Net fixed assets	33.44	32.43	32.38
(d) Capital works in progress	..	..	..
(e) Other assets (intangible)	2.81	12.16	19.03
(f) Current assets, loans and advance	22.93	26.16	22.95
Total	59.18	70.75	74.36
Capital employed	7.87	37.91	46.44
Net cost	7.87	8.84	13.42
II. Capital structure			
Debt equity ratio	..	3:2	1:1
III. Liquidity and Solvency			
(a) % of current assets to total	38.8%	37%	30.9%
(b) % of current assets to current liabilities	47%	123%	255%
IV. Working results			
(a) Profit (+)	(—)2.75	(—)9.04	(—)5.06
Loss (—)			
V. Cost trends			
(a) Sales	18.38	19.31	18.91
(b) Add loss	2.75	9.04	5.06
(c) Cost of sales	21.13	28.35	23.97
(d) % of cost of sales to sales	116%	147%	126%

		1964-65	1965-66	1966-67
		(Rs. in lakhs)		
VI. Inventory and production				
(a)	Raw materials	5.28	6.97	7.06
(b)	Stores and spare parts			
(c)	Goods in progress	7.77	5.86	8.11
(d)	Finished goods			
(e)	Others	0.15	0.14	0.14
Total		13.20	12.97	15.31
VII. Sundry debtors		3.28	2.08	3.36

The above table shows that the company has been running at a loss during the last 3 years.

13.42 Suggestions for improving the working of the company.

- (i) Regular supply of power to this company must be ensured by the Electricity Board.
- (ii) The imbalance in the machine capacity will have to be reduced by increasing the kiln capacity. Expansion of production capacity of crockeries in Unit I by installation of an additional kiln is highly necessary.
- (iii) It is also necessary to install a ceramic transfer picture manufacturing plant in Unit I. For this purpose sanction from the Government of India has been received for the import of the machinery from Japan.
- (iv) For the modernisation and expansion of production in Unit II (stoneware pipe section) the construction of a six chamber fuel economy semi-continuous kiln with chimney has been found necessary. The company has already taken action in this regard.
- (v) It is also necessary to modernise the method of mining and washing the china clay in Unit III.
- (vi) The marketing arrangement of the company's products is not at all satisfactory. Every effort should be made to capture home and foreign markets by adopting the modern marketing system. It is necessary to improve the products by research and development.
- (vii) The Committee on Public Undertakings has observed that there is surplus staff in the company. Therefore it is necessary to assess the staff requirement and surplus staff may be absorbed in future vacancies.

By taking the steps suggested above, it is possible to run the company profitably.

(4) The Travancore Plywood Industries Ltd., Punalur.

13.43 The Travancore Plywood Industries Ltd., Punalur, is a Government owned company. The main products of the company are plywood panels and battens for tea chests. The company was formed on 1-11-1963.

The authorised share capital of the company is Rs. 50 lakhs and the total value of shares issued to Kerala Government by the end of 1967-68 was Rs. 29.08 lakhs. The Kerala Government has also given loans to the company; the total loan outstanding on 31-3-1968 being Rs. 27.73 lakhs.

Production and Sales.

13.44 The production and sale of the company's products during the last three years are given in the following table:—

Plywood

Year	Production		Sales	
	Qty. Sq. M.	Value Rs.	Qty. Sq. M.	Value Rs.
1965-66	3,29,108	8,42,929	3,47,223	13,56,201
1966-67	3,52,934	11,28,077	3,67,024	15,68,740
1967-68	3,46,306	11,56,003	3,17,419	15,40,505

Battens

Year	Production		Sales	
	Qty. Sets	Value Rs.	Qty. Sets	Value Rs.
1965-66	70,600	45,676	65,500	40,119
1966-67	68,256	47,792	67,756	41,641
1967-68	33,800	No separate cost taken	33,800	29,222

13.45 The financial working result of the company shows that the company is running at a profit for the last four years. Dividend at the rate of 10 per cent on the share capital was declared for the year 1965-66 and at the rate of 6 per cent during 1966-67.

13.46 In order to develop the plywood industry, the company has formulated two schemes for increasing the capacity for production of plywood. This involves the establishment of new plywood units and a chip board plant. It is expected that the commissioning of the new plywood unit can be implemented during 1968-69 itself.

13.47 The financial result of the company is given in the following table:--

Financial result of the Travancore Plywood Industries Ltd.

(Rs. in lakhs)

	1964-65	1965-66	1966-67
I. Financial results			
Liabilities			
(a) Paid up capital (equity)	1.64	6.51	6.59
(b) Reserves and surplus	1.58	2.05	3.47
(c) Borrowings	3.51	6.50	6.41
(d) Trade dues	9.52	8.01	6.17
Total	16.25	23.07	22.64
Assets			
(a) Gross blocks	7.23	8.17	13.66
(b) Depreciation	0.90	1.47	2.39
(c) Net fixed assets	6.33	6.70	11.27
(d) Capital works in progress	..	3.31	0.10
(e) Other assets	..	..	0.14
(f) Current assets, loans and advances	9.92	13.06	11.13
Total	16.25	23.07	22.64
Capital employed	6.73	11.75	4.96
Net worth	3.22	8.56	9.92
II. Capital structure			
Debt-equity ratio	2.1:1	1:1	1:1
III. Liquidity and Solvency			
(a) % of current assets to total net assets	61.5%	56.6%	49.21%
(b) % of current assets to current liabilities	104.2%	163%	180.4%
IV. Working results			
(a) Profit before tax	2.92	2.32	0.96
(b) Tax Provision	1.46	1.42	0.54
(c) Profit after tax	1.46	0.90	0.42
(d) % of profit before tax			
(i) To sales	22.6%	16.5%	5.9%
(ii) Gross fixed assets	40.4%	28.4%	7.1%
V. Cost trends			
(a) Sales	12.93	14.07	16.46
(b) Less profit before tax	2.92	2.32	0.96
(c) Cost of sales	10.01	11.75	15.50
(d) % of cost of sales to sales	77.4%	83.5%	94.1%

(Rs. in lakhs)

	1964-65	1965-66	1966-67
VI. Inventory & production			
(a) Raw materials	0.38	0.74	0.44
(b) Stores and spare parts	1.01	1.32	1.48
(c) Goods-in-progress	0.12	0.12	
(d) Finished goods	1.04	0.65	0.50
(e) Others	0.10	0.14	0.16
Total	2.65	2.97	2.72
VII. Sundry debtors	0.95	2.33	2.97

Suggestions for improving the working of the company.

13.48. This company is running at a profit. But, the rate of profit is decreasing year after year. This is mainly due to the under-utilisation of the capacity of the machines and the lack of effective sales organisation. There is no product planning for the company and the price of the company's product is fixed in conformity with the price fixed by the South Indian Plywood Manufacturers' Association.

13.49. The following steps will have to be taken to improve the working of the company:

- (i) Full machine capacity should be utilised and the sales organisation should be improved with a view to enlarging the market for the company's products.
- (ii) Product planning should be taken up immediately.
- (iii) There should be substantial improvement in the management practices of the company.

5. The Trivandrum Rubber works Ltd.

13.50. The Trivandrum Rubber Works Ltd. was incorporated as a private limited company on 1st November, 1963 and it took over the assets and liabilities of the Travancore Rubber Works (started in 1935), Kerala Government Rim Factory (started in 1959) and Kerala Cycles (set up in 1957). Now the Trivandrum Rubber works limited is a Government owned Company and the company has three units under it. They are the Rubber Unit, the Rim Unit, and the Cycle Unit. The main products of the Rubber unit are Cycles, tyres and tubes, and other moulded rubber goods. Cycle rims are manufactured in the Cycle Rim Unit and in the Cycle Unit Kerala Cycles are being manufactured. The authorised share capital of the company is Rs. 75 lakhs. The total value of shares taken by the State Government as on 31st March, 1968 was Rs. 40.70 lakhs and the loan outstanding to Government as on 31st March 1968 was Rs. 30.85 lakhs.

Production and sale of the company's products.

13.51. The production in all the three units of the company is given in the following table:—

Item	Production (in numbers)			
	1964-65	1965-66	1966-67	1967-68
Cycle Tyres	1,67,460	2,00,294	2,09,433	2,11,418
Cycle Tubes	2,14,235	3,13,457	4,46,665	4,11,960
Cycle Rims	1,72,868	1,95,981	2,14,970	2,90,668
Cycles	563	1,295	1,855	2,565

The total sales during the year 1964-65 to 1967-68 is as follows:—

Year	Value of Net sales (in lakhs of rupees)
1964-65	47.51
1965-66	47.41
1966-67	64.94
1967-68	72.43

Expansion Programme.

13.52. The capacity for production of cycle tyres and tubes is planned to be increased in a phased programme. The first stage of expansion envisaged was an additional production of tyres and tubes to the extent of 5 lakhs each. This target is nearing completion. The second stage of expansion was an additional production of 7.2 lakhs each of cycle tyres and tubes per year. It is also proposed to take up the manufacture of V. Belts and hoses and to increase the capacity of Rim factory during the Fourth Plan.

Working results.

13.53. An analysis of the working result of the company reveals that this company has earned a profit of Rs. 3.69 lakhs after providing for depreciation, interest on capital investment and reserves for bonus to employees during the year 1967-68 as against a net profit of Rs. 3.35 lakhs during 1966-67.

Suggestions for improvement in the working of the company.

- 13.54. (i) Of the three units of the company the Rim Unit is the most profitable one. It is noticed that serious attempts have not been made to expand production of this unit so far. Immediate attention of the management is called for in this direction.
- (ii) It is imperative that early efforts are made to expand the Unit. No. II and also attempts are made to capture more markets.

Financial results of the Trivandrum Rubber Works Limited, Trivandrum

(Rs. in lakhs)

	1964-65	1965-66	1966-67	
I. Financial position				
Liabilities				
(a)	Paid up capital (equity)	6.96	20.00	30.81
(b)	Reserves & Surplus	0.29	0.82	2.17
(c)	Borrowing	24.84	28.34	30.85
(d)	Trade dues	30.08	20.48	16.59
	Total	62.17	69.64	80.42
Assets				
(a)	Gross Block	26.66	28.13	33.73
(b)	Depreciation	1.18	3.17	5.33
(c)	Net fixed assets	25.48	24.96	28.40
(d)	Capital works in progress	0.74	2.51	..
(e)	Other assets	..	..	..
(f)	Current assets, loans & advances	35.95	42.17	52.02
	Total	62.17	69.64	80.42
	Capital employed	31.35	46.65	63.83
	Net worth	7.25	20.82	32.98
II. Capital structure				
	Debt-equity ratio	3.6:1	1.4:1	1:1
III. Liquidity and solvency				
(a)	Percentage of current assets to total net assets	57.8%	60.6%	64.7%
(b)	Percentage of current assets to current liabilities	119.5%	206%	313.7%
IV. Working results				
(a)	Profit before tax	0.58	1.29	3.35
(b)	Tax Provision	0.29	0.87	2.00
(c)	Profit after tax	0.29	0.42	1.35
(d)	Percentage of profit before tax			
	(i) To sales	1.2%	2.8%	5.5%
	(ii) To gross fixed assets	2.2%	4.6%	9.9%
V. Cost trends				
(a)	Sales	47.41	45.49	60.39
(b)	Less Profit before tax	0.58	1.29	3.35
(c)	Cost of sales	46.93	44.20	57.04
(d)	Percentage of cost of sales to sales	98.8%	97.2%	94.5%

(Rs. in lakhs)

	1964-65	1965-66	1966-67
VI. Inventory of production			
(a) Raw materials	10.79	14.41	14.56
(b) Stores and spare parts	0.35	0.61	14.84
(c) Goods-in-Progress	1.38	1.46	1.75
(d) Finished goods	1.89	1.77	2.55
(e) Others	0.55	0.94	0.83
Total	14.91	19.19	34.53
VII. Sundry debtors	14.63	11.04	16.98

6. The Trivandrum Spinning Mills Limited, Balaramapuram

13.55. This is a fully Government owned company. The company was established in 24th February, 1964. The main products of the company are cotton yarn of sizes 20", 26", 40" in hanks 80's yarn in hanks and cones. The installed capacity at present is 21,600 spindles. As regards the capital structure of the company, the authorised capital is Rs. 75 lakhs, the total share value of the Kerala Government by the end of 1967-68 amounting to Rs. 48.20 lakhs. In addition, the Spinning Mill has taken loans from the Government; as on 31st March, 1968, the total loan outstanding was Rs. 55.20 lakhs.

Production and sales of the company

Year	Production during the year (Quantity)	Sales during the year (Rs. in lakhs)
1965-66	1900 bales of yarn	27.81
1966-67	3099 ,, (+ E.C.) 66 cones 5998 Kgs.	36.63
1967-68	Not available	47.37

Problems.

13.56. During the last two years the company has been experiencing difficulties in processing cotton due to the general scarcity and so the mill was forced to reduce the number of working days. Even though there was general increase in the price levels of cotton, there was no corresponding increase in price levels of cotton yarn. The working of the mill resulted in a loss of Rs. 2.4 lakhs, Rs. 10.42 lakhs and Rs. 7.73 lakhs during 1964-65, 1965-66 and 1966-67 respectively.

13.57. According to available information, for the economic working of this spinning mill, it should have at least 25,000 spindles. The present installed capacity is 21,600 spindles. Action has already been taken to increase the present installed capacity.

13.58 The market demand for yarn is not satisfactory. The yarn produced from the Mill is at present sold to the local handloom weavers and to the States of Madras, Maharashtra and West Bengal. The organisation for the marketing system of the company is not at all satisfactory. Every effort should be made to find markets for the products both inside and outside the country. Another factor for the loss of the company is overstaffing. In order to run the mill profitably and successfully, the Mills should have a weaving unit with sufficient capacity for the production of superior quality of cloth. With all these efforts it can be expected that the mill will work on a profitable basis during the coming years.

13.59 The financial results of the Spinning Mill for the years 1964-65, 1965-66 and 1966-67 are as given below:—

	1964-65 (1)	1965-66 (2)	1966-67 (3)
<i>(Rupees in lakhs)</i>			
I. Financial position			
<i>Liabilities</i>			
(a) Paid up capital	22.03	48.20	48.20
(b) Reserves and Surplus	..	2.27	4.61
(c) Borrowings	56.47	52.04	55.66
(d) Trade dues and other current liabilities	4.34	3.36	3.84
Total	82.84	105.87	112.31
<i>Assets</i>			
(a) Gross block	42.58	59.95	73.58
(b) Depreciation	4.53	10.38	16.24
(c) Net fixed assets	38.00	49.57	57.34
(d) Capital works in progress	24.58	18.89	13.79
(e) Other assets (intangible)	2.53	12.95	20.68
(f) Current assets, loans and advances	17.73	24.46	20.50
Total	82.84	105.87	112.31
Capital employed	51.39	70.66	74.00
Net worth	19.50	37.52	32.13
II. Capital structure			
Debt-equity ratio	2.5:1	1.07:1	1.15:1
III. Liquidity and solvency			
(a) Percentage of current assets to total net assets	21.4%	23.1%	18.2%
(b) Percentage of current assets to current liabilities	409%	727%	533%
IV. Working results			
Profit (+)/Loss (-)	(-)-2.44	(-)-10.42	(-)-7.73

	(1)	(2)	(3)
	(Rs. in lakhs)		
V. Cost trends			
(a) Sales	22.12	28.18	36.92
(b) Add Loss	2.44	10.42	7.73
(c) Cost of sales	24.56	38.60	44.65
(d) Percentage of cost to sales to sales	113%	137%	121%
VI. Inventory and production			
(a) Raw materials	2.81	7.77	2.35
(b) Stores and spare parts	1.28	1.35	2.42
(c) Goods in progress	0.50	1.03	1.84
(d) Finished goods	8.46	4.61	4.34
(e) Others	0.10	0.11	0.13
Total	13.15	14.87	11.08
VII. Sundry debtors	1.14	3.42	1.01

13.60 *Suggestions for improvement of the working of the Mill.*

- (i) The working result of the Spinning Mill shows that the company is running at a continuous loss. This is mainly attributed to the increase in cost of production of yarn due to non-utilisation of the full capacity. Even though cost of production has increased considerably, there has been no corresponding increase in price levels. Therefore pricing policy will have to be re-examined with a view to avoid loss to the company. At the same time effort should be made to reduce the cost of production by increasing the efficiency in the production and marketing functions.
- (ii) The sales organisation of the mill is not at all satisfactory. Efforts should be made to improve the sales effort of the company with a view to capture new market segments both in Kerala and outside.
- (iii) At present the company does not undertake any product planning worth the name. Product planning will have to be resorted to not only for ensuring lower cost of production but also for producing varieties of goods tailored for the various market segments.

II. GOVERNMENT COMPANIES

(INDUSTRIAL CONCERNS IN WHICH THE STATE GOVERNMENT HOLDS MAJORITY OF SHARES)

I. Forest Industries (Travancore) Limited, Alwaye

13.61 This company was originally set up for the purpose of supplying firewood for the F.A.C.T. from the Forest Department. Later on the company diversified the activities and set up a woodbased industrial unit. This is now a Government company with a total paid up capital of Rs. 13.28 lakhs of which the State Government's share is Rs. 6.77 lakhs.

Production programme.

13.62 The main function of the Company is the processing and selling of wood products. The Company processed 21,744 cu.m. of wood for a value of Rs. 25.58 lakhs during 1967-68 as against 27,642 cu.m. for a value of Rs. 36.24 lakhs during 1966-67. During 1967-68 the company sold 26,153 cu.m. of wood products for a value of Rs. 56.51 lakhs, as against 33,320 cu.m. for a value of Rs. 60.45 lakhs in 1966-67.

Working Results.

13.63 During 1967-68, the turnover of the Company was Rs. 56.51 lakhs only as against a turnover of Rs. 60.45 lakhs during the previous year. The net profit of the Company during 1967-68 was Rs. 5.06 lakhs (after tax) as against Rs. 5.22 lakhs (after tax) during 1966-67.

Expansion Programme.

13.64 During the Fourth Plan period the Company proposes to set up a particle board unit.

13.65 The financial results of the working of the company for the years 1965-66 to 1967-68 were as under:—

	1965-66 (1)	1966-67 (2)	1967-68 (3)
<i>(Rupees in lakhs)</i>			
I. Financial position			
<i>Liabilities</i>			
(a) Paid up capital	9.96	9.96	13.28
(b) Reserve and surplus	8.66	12.10	12.30
(c) Borrowings	..	..	..
(d) Trade dues	36.81	34.31	33.69
Total	55.43	56.37	59.27

	(1)	(2)	(3)
	(Rs. in lakhs)		
Assets			
(a) Gross block	9.92	12.41	12.40
(b) Depreciation	6.18	6.61	7.02
(c) Net fixed assets	3.74	5.80	5.38
(d) Capital works in progress	..	..	0.06
(e) Other assets	0.67	0.12	0.12
(f) Current assets, loans and advances	51.02	50.45	53.71
Total	55.43	56.37	59.27
Capital employed	17.95	21.94	20.02
Net worth	17.95	21.94	25.46
II. Capital structure			
Debt-equity ratio	..	..	..
III. Liquidity and solvency			
(a) Percentage of current assets to total net assets	92.7%	89.3%	91.5%
(b) Percentage of current assets to current liabilities	139%	147%	159%
IV. Working results			
(a) Profit before tax	11.92	15.57	15.76
(b) Tax provision	7.87	10.35	10.70
(c) Profit after tax	4.05	5.22	5.06
(d) Percentage of profit before tax—			
(i) To sales	31.9%	25.8%	27.9%
(ii) To gross fixed assets	120.2%	125.5%	127.1%
V. Cost trends			
(a) Sales	37.40	60.45	56.51
(b) Less profit before tax	11.92	15.57	15.76
(c) Cost of sales	25.48	44.88	40.75
(d) Percentage of cost of sales to sales	68.1%	74.2%	72.1%
VI. Inventory and production			
(a) Raw materials	18.73	14.80	10.49
(b) Stores and spare parts	2.32	2.53	2.89
(c) Goods in progress	0.57	0.83	0.70
(d) Finished goods	0.09	0.29	0.30
(e) Other items	0.03	..	0.01
Total	21.74	18.45	14.39
VII. Sundry debtors			
	3.28	4.22	4.29

13.66 *Suggestion for improvement in the working of the company.*

Efforts should be made to diversify the products and to increase production during the coming year. Marketing the products also requires attention.

Pallathara Bricks and Tiles Limited Shertallai

13.67 This is a public limited (Government) Company with an authorised capital of Rs. 1 crore. The paid up capital of the company is Rs. 10.97 lakhs of which the Government of Kerala holds shares for Rs. 10.44 lakhs. The main product of the Company is sand lime bricks. It is estimated that the plant has a capacity to manufacture more than 50 lakhs bricks per year (280 working days) under one shift. But due to lack of demand the Company had worked for only 168 days during 1967-68 and for only 62 days during 1966-67.

13.68 The production and sales during the last four years are given below:

Year	Production		Sales	
	Quantity (Nos.)	Value (Rs.)	Quantity (Nos.)	Value (Rs.)
1964-65	30,21,060	2,05,477	17,74,336	1,23,433
1965-66	23,03,738	1,91,399	28,25,159	2,13,981
1966-67	11,17,170	77,177	18,14,919	1,15,949
1967-68	31,07,861	1,86,141	30,57,562	1,82,831

Working results

13.69 The analysis of the data pertaining to this company shows that the Company is continuously running at a loss. The loss during 1967-68 was Rs. 0.88 lakhs as against a loss of Rs. 1.38 lakhs during 1966-67. The main reasons for this loss are the increased cost of production and lower selling price. The cost of production per 1000 bricks is Rs. 99 with one shift. This can be reduced to Rs. 83 per 1000 bricks if production is made on double shift basis. But the selling price is only Rs. 60 per 1000 bricks. Even then there is lack of demand. Therefore, efforts should be made to popularise the product and to capture markets. Effort should also be made to reduce the cost of production by improved technology.

13.70 The financial results of the company during the years 1965-66 to 1967-68 are as follows:

	1965-66	1966-67 (Rs. in lakhs)	1967-68
I. Financial Position			
Liabilities			
(a) Paid up capital	10.97	10.97	10.97
(b) Reserve and surplus	1.50	1.50	1.50
(c) Borrowings	5.99	7.84	8.06
(d) Trade dues	0.78	0.30	0.36
Total	19.24	20.61	20.89
Assets			
(a) Gross block	16.08	16.16	16.20
(b) Depreciation	1.97	2.64	3.26
(c) Net fixed assets	14.11	13.52	12.94
(d) Capital work in progress	..	..	..
(e) Other assets	3.49	4.87	5.75
(f) Current assets loans and advances	1.64	2.22	2.20
Total	19.24	20.61	20.89
Capital employed	14.97	15.44	14.78
Net worth	8.98	7.60	6.72
II. Capital structure			
Debt-equity ratio	0.5:1	0.7:1	0.7:1
III. Liquidity and solvency			
(a) Percentage of current assets to total net assets	8.5%	10.8%	10.5%
(b) Percentage of current assets to current liabilities	210%	740%	611%
IV. Working results			
Profit (+)/Loss (-)	(-)0.75	(-)1.38	(-)0.88
V. Cost Trends			
(a) Sales	2.14	1.19	1.91
(b) Add Loss	0.75	1.38	0.88
(c) Cost of sales	2.89	2.57	2.79
(d) Percentage of cost of sales to sales	135%	216%	146%
VI. Inventory and production			
(a) Raw materials	0.02	0.04	0.19
(b) Stores and spare parts	0.62	0.66	0.80
(c) Goods in progress	..	..	..
(d) Finished goods	0.53	0.05	0.05
(e) Other items	0.02	0.02	0.01
	1.19	0.77	1.05
VII. Sundry debtors			
	0.22	0.15	0.06

13.71 *Suggestions for improvements in the working*

- (i) The cost of production of the bricks is comparatively higher. Hence efforts should be made to reduce the cost of production by the application of improved technology and by double shift.
- (ii) There is lack of publicity and promotion effort aimed at increasing the demand for this product. Therefore, efforts should be made to popularise the product by giving adequate publicity to its product advantage and for capturing markets.

Traco Cable Company Limited, Irimpanam, Tripunithura

13.72 This is a public limited company with an authorised share capital of Rs. 1 crore. The issued capital is Rs. 59.9 lakhs out of which the share of Kerala Government amounted to Rs. 40.17 lakhs by the end of 1967-68. The main products of the company are: armoured cables, unarmoured cables wires and flexibles and bare conductors.

13.73 The inauguration of the Company was on 28th December 1964, and the regular commercial production of the company began from 1st January 1965. In this connection it may be noted that a period of seven years was lost in completing the project and for the regular commercial production of the company.

13.74 The total capacity for production and the percentage of production during the last three years is as given below:

<i>Period</i>	<i>Capacity (Rs. in lakhs)</i>	<i>Percentage of production</i>
Total capacity	120.00*	100%
1965-66	49.94	42%
1966-67	67.80	57%
1967-68	75.00	63%

(approximate)

*Note: Total capacity on a partial double shift basis=Rs. 120 lakhs.

Working Result

13.75 The working of the Company resulted in a loss of Rs. 6.99 lakhs during 1964-65. But during 1966-67 the company earned a profit of Rs. 0.98 lakhs. The main reason for the losses incurred by the company has been the fall in selling price. At present there is cut throat competition in the cable industry with the result that the selling price of the Company's products is less than the cost of production. In fact, the company's management took certain bold actions to cut down administrative overheads. During 1967-68 the sales of the company increased to Rs. 84.16 lakhs which was 56.44% higher than the previous year. But the percentage of gross profit to sales recorded a decline from 10.31% to 2.52%. The main reason for this was the decline in the selling price.

Main problem

13.76 The company is in need of more working capital. For this company is now depending on the State Bank of Travancore. Kerala Government have already sanctioned a longterm loan of Rs. 10 lakhs. But the Company requires more working capital for the diversification of its activities.

13.77 At present more than 85% of the Company's products are being sold to Government or Government sponsored agencies. The Company will have to attempt to capture markets by improving its marketing system.

13.78 The financial results of the Company for the years 1964-65, 1965-66 and 1966-67 are presented below:—

	1964-65	1965-66	1966-67
	(Rs. in lakhs)		
I. Financial position			
<i>Liabilities</i>			
(a) Pair up capital	39.91	49.92	49.92
(b) Reserves and surplus	6.24	6.55	7.02
(c) Borrowings	36.73	56.50	61.56
(d) The dues and other current liabilities	4.08	2.80	4.31
Total	86.96	115.77	122.86
<i>Assets</i>			
(a) Gross Block	52.92	55.51	54.23
(b) Less depreciation	..	3.50	4.22
(c) Net fixed assets	52.92	52.01	50.01
(d) Capital works in progress	..	..	..
(e) Other assets (intangible)	7.84	6.99	5.98
(f) Current assets, loans & liabilities	26.20	56.77	66.82
Total	86.96	115.77	122.81
Capital employed	75.04	105.89	112.52
Net worth	38.31	49.48	50.96
II. Capital structure			
Debt-equity ratio	37:40	57:50	62:50
III. Liquidity and solvency			
(a) % of current assets to total net assets	29%	49%	54%
(b) % of current assets to current liabilities	650%	1900%	1700%
IV. Working results			
(a) Profit before tax (+)			
Loss (—)	(+)6.99	(+)0.98	(+)0.88

	1964-65	1965-66	1966-67
V. Cost trends		(Rs. in lakhs)	
(a) Sales (Trial production)	..	39.10	53.97
(b) <u>Less profit before tax</u>			
Add Loss	..	0.98	0.88
(c) Cost of sales	..	38.12	53.09
(d) % of cost of sales to sale	..	97.4%	98.4%
VI. Inventory & production			
(a) Raw materials	17.80	25.23	19.57
(b) Stores and spare parts	0.21	0.63	0.79
(c) Goods-in-progress	3.09	7.11	5.71
(d) Finished goods	0.55	8.85	22.31
(e) Others	..	0.73	0.81
Total	21.45	45.55	49.19
VII. Sundry debtors	0.02	10.92	15.08

Travancore-Cochin Chemicals Limited

13.79 This is a Government Company. The Company is being managed by a Board of Directors in which the majority are Government Officials. As on 31st March, 1968 the total paid up share capital of the Company was Rs. 2 crores of which the Kerala Government's share was Rs. 1.3 crores. The main products of the Company are caustic soda, sodium hydro-sulphate and sodium sulphide.

Production and Sale of the Company.

13.80 The production and sales of the Company during the last three years are as given below:

Year	Production (M. T.)			Sales (M. T.)		
	Caustic soda	Sodium hydro sulphate	Sodium sulphide	Caustic soda	Sodium hydro sulphate	Sodium sulphide
1965-66	9,599	547	19	9,692	550	9
1966-67	6,487	447	20	6,330	439	20
1967-68	14,278	620	273	12,188	581	88

13.81 The value of production and sales during the years 1965-66 to 1967-68 was as follows:

Year	Production (Value in lakhs of rupees)	Sales (Value in lakhs of rupees)
1965-66	110.210	120.432
1966-67	92.630	89.792
1967-68	171.960	153.020

Working Results.

13.82 The working results of the Company show that the Company was running at a loss of Rs. 16.88 lakhs during 1967-68 compared to a net profit of Rs. 11.53 lakhs during 1965-66 and Rs. 0.39 lakhs during 1966-67.

Expansion Programme.

13.83 During 1966-67 a caustic soda plant was commissioned with the result that the Company was able to raise production from 40 to 65 tonnes per day. The capacity can further be increased to 100 tonnes if the required quantity of mercury can be made available. As regards hydro-sulphate the production capacity has been raised from 3 to 10 tonnes per day from August 1968 onwards.

Problems.

13.84 The Company suffered a power cut for a period of 175 days in 1965-66 with the result that there was a loss in production of 3,100 tonnes of caustic soda, 2,500 tonnes of chlorine and 190 tonnes of sodium hydro-sulphate. As a result, the turnover of the company declined and there was a loss in profit to the extent of Rs. 6 lakhs. There was labour strike during 1966-67 which lasted for 100 days. This coupled with power cuts and shortages of mercury resulted in the reduction of profit during 1966-67. Even though there was considerable increase in production and sales during 1967-68, the Company sustained a loss of Rs. 16.88 lakhs. The reason for this loss has to be traced, and remedial action taken to avoid such losses in future.

13.85 The financial results of the Company for the years 1965—68 are given below:—

	1965-66	1966-67	1967-68
	<i>(Rs. in lakhs)</i>		
Financial position			
<i>Liabilities</i>			
(a) Paid up capital	124.09	200.00	200.00
(b) Reserves & surplus	31.83	29.95	28.33
(c) Borrowings	216.62	198.86	279.53
(d) Trade dues and other current liabilities	145.27	178.03	198.11
Total	517.81	606.84	705.97
<i>Assets</i>			
(a) Gross Block	263.20	280.94	628.82
(b) Less Depreciation	150.21	166.30	195.24
(c) Net fixed assets	112.99	114.64	433.58
(d) Capital works in progress	298.92	397.51	112.13
(e) Other assets (intangible)	..	..	14.51
(f) Current assets, Loans & advances	105.92	94.69	145.75
Total	517.81	606.84	705.97

	1965-66	1966-67	1967-68
		(Rs. in lakhs)	
Capital employed	73.62	83.34	981.22
Net worth	155.92	229.95	213.82
II. Capital structure			
Debt-equity ratio	217:124	0.9:1	7:5
III. Liquidity & solvency			
(a) % of current assets to total net assets	10.2%	15.6%	20.6%
(b) % of current assets to current liabilities	73.1%	53.3%	73.3%
IV. Working results			
(a) Profit before tax (+)	+11.54	+0.39	-16.88
Loss (-)			
(b) Provision for tax	7.30	1.80	
(c) Profit after tax (+)	+4.24	-1.41	-16.88
Loss (-)			
V. Cost trends			
(a) Sales	120.43	89.79	153.02
(b) Less profit before tax	11.54	0.39	16.88
Add Loss			
(c) Cost of sales	108.89	89.40	169.90
(d) % of cost of sales to sales	90.8%	99%	111.1%
VI. Inventory & production			
(a) Raw materials	29.53	24.64	36.45
(b) Stores and spare parts	36.32	37.82	36.92
(c) Goods-in-progress	0.49	2.20	14.43
(d) Finished goods	3.52	6.10	6.71
Total	69.86	70.76	94.51
VII. Sundry debtors	2.54	6.07	8.94

Suggestions for improvement in the working of the company.

- 13.86 (i) As regards the shortages of mercury, necessary facilities will have to be provided by the Government for getting materials.
- (ii) The percentage of cost of sales to sales revenue has been increasing year after year. The percentage was as high as 111.1% during 1967-68 as against 90.8% during 1965-66. Immediate steps will have to be taken to bring down the cost of sales by appropriate management and marketing action.

**The Travancore Titanium Products Ltd.,
Trivandrum**

13.87 This is a company in which the State Government holds more than 50 per cent of the total paid up capital. The paid up capital of the company by the end of 1967-68 was Rs. 93.25 lakhs out of which the Kerala Government had shares to the value of Rs. 60 lakhs. The main products of the company are titanium dioxide and sulphuric acid.

13.88 The production and sale of the company during the last few years are as given below:—

	1965	1966	1967
Production in tonnes	4,776	4,017	3,370
Sales in tonnes	4,453	4,229	3,467
Sales value (Rs. in lakhs)	130.51	137.08	150.07

The installed capacity of the factory is 18 tonnes of titanium dioxide per day. Owing to shortage in raw materials, plant breakdowns, labour strike and lock-out, etc., there has been some under-utilisation of the machine capacity. However, the working result of the company shows that the company earned a net profit of Rs. 12.74 lakhs during 1966-67 as against Rs. 8.92 lakhs during the previous year.

Pricing policy.

13.89 The policy is to fix a price to cover full cost plus an adequate margin to cover other commitments of the company.

Cost of production.

13.90 The cost of production per tonne of the product of the company based on the current performance is approximately calculated as—

Fixed cost Rs. 1,000
Variable cost Rs. 2,000

13.91 The committee on public undertakings has observed that the cost of production of the Travancore Titanium Products is higher when compared to the cost of production for the comparable product in other countries like Japan, United Kingdom and West Germany where they are importing raw materials from outside.

Expansion scheme.

13.92 Preliminary steps have been taken for implementation of a scheme for increasing the production of the company from 6,000 tonnes per annum to 24,000 tonnes Titanium dioxide per annum. This requires an investment of Rs. 625 lakhs and the scheme is expected to be completed during 1970.

13.93 The financial results of the company during 1965-67 are given below:

	1965	1966	1967
<i>(Rs. in lakhs)</i>			
I. Financial position			
<i>Liabilities</i>			
(a) Paid up capital (equity):	73.25	93.25	93.25
(b) Reserves and surplus	52.42	55.94	63.02
(c) Borrowings	40.80	32.50	16.97
(d) Trade dues	42.27	66.07	65.86
Total	208.74	247.76	239.10
<i>Assets</i>			
(a) Gross block	212.12	213.40	214.21
(b) Depreciation	127.49	142.84	154.62
(c) Net fixed assets	84.63	70.64	59.59
(d) Capital works in progress	2.09	2.85	4.23
(e) Other assets	0.19	0.18	0.22
(f) Current assets, loans and advances	121.83	174.09	175.06
Total	208.74	247.76	239.10
Capital employed	164.19	178.66	168.79
Net worth	125.67	149.19	156.27
II. Capital structure			
Debt-equity ratio	0.6:1	0.3:1	0.2:1
III. Liquidity & solvency			
(a) % of current assets to total net assets	58.4%	70.3%	73.2%
(b) % of current assets to current liabilities	288%	263%	266%
IV. Working results			
(a) Profit before tax:	23.43	24.94	33.68
(b) Tax provision	15.76	16.21	21.00
(c) Profit after tax	7.67	8.73	12.68
(d) % of profit before tax			
(i) To sales	17.9%	18.2%	22.4%
(ii) To gross fixed assets	11%	11.7%	15.7%

	1965	1966	1967
	<i>(Rs. in lakhs)</i>		
V. Cost trends			
(a) Sales	130.74	137.25	150.12
(b) Less Profit before tax	23.43	24.94	22.68
(c) Cost of sales	107.31	112.31	116.44
(d) % of cost of sales to sales	82.1%	81.8%	77.6%
VI. Inventory & production			
(a) Raw materials	12.82	7.99	14.87
(b) Stores and spare parts	26.69	29.52	32.95
(c) Goods-in-progress	7.93	6.16	6.94
(d) Finished goods	15.17	11.91	12.46
(e) Others	0.28	0.20	0.17
Total	62.89	55.78	66.79
VII. Sundry debtors	31.65	22.47	24.64

13.94 *Suggestion for improvement in the working of the company.*

- (i) The cost of production for the company's product at present is comparatively higher and so effective steps should be taken to reduce cost of production.
- (ii) There is substantial potential demand for the company's products and so effort should be made for increasing sales through a vigorous marketing effort, particularly in respect of export sales, supported by a programme of cost reduction.

United Electrical Industries Limited, Quilon

13.95 This is a public limited company with an authorised capital of Rs. 25 lakhs. The paid up capital of the company is Rs. 22.9 lakhs of which the Government of Kerala holds shares worth Rs. 14.75 lakhs. The main products of the company are meters and starters.

13.96 The production and sales of the company for 1965, 1966, and 1967 are given below:

Year	Production		Sales	
	Meters (Nos.)	Starters (Nos.)	Meters (Nos.)	Starters (Nos.)
1965	66,246	3,937	76,680	3,880
1966	45,978	9,197	53,915	8,756
1967	65,098	6,689	68,645	6,678

Working Results.

13.97 The net profit after tax for the company during the last three years (1965—67) is as given below:

	<i>Year</i>		
	1965	1966	1967
Profit before tax (Rs. in lakhs)	0.02	1.36	8.77
Profit after tax (Rs. in lakhs)	0.01	0.38	3.77
Percentage of profit before tax to sales	0.1%	3.9%	15.8%

The Financial position of United Electrical Industries Limited, Quilon

	1965	1966	1967
<i>(Rs. in lakhs)</i>			
I. Financial position			
<i>Liabilities</i>			
(a) Paid up capital	18.90	22.90	22.90
(b) Reserves & Surplus	5.58	6.11	8.58
(c) Borrowings	12.30	13.71	11.49
(d) Trade dues	5.51	5.87	14.89
Total	42.29	48.59	57.86
<i>Assets</i>			
(a) Gross Block	15.92	16.40	18.23
(b) Less depreciation	6.68	7.47	8.53
(c) Net fixed asset	9.24	8.93	9.70
(d) Capital works in progress	..	..	1.09
(e) Current assets, loans & advances	33.05	39.59	57.86
Total	42.29	48.59	57.86
Capital employed	36.78	42.71	42.97
Net worth	24.47	29.00	31.48
II. Capital structure			
Debt-equity ratio	0.7:1	0.6:1	0.5:1
III. Liquidity & solvency			
(a) % current assets to total net assets	78.2%	81.2%	81.3%
(b) % current assets to current liabilities	268.6%	600.1%	675.6%

	1965	1966	1967
	(Rs. in lakhs)		
IV. Working results			
(a) Profit before tax	0.02	1.36	8.77
(b) Tax provision	0.01	0.98	5.00
(c) Profit after tax	0.01	0.38	3.77
(d) Percentage of profit before tax to sales	0.1%	3.9%	15.8%
V. Cost trends			
(a) Sales	32.23	35.76	55.47
(b) Less Profit before tax	0.02	1.36	8.77
(c) Cost of sales	32.21	33.40	46.70
(d) Percentage of cost of sales to sales	99.9%	96.4%	86%
VI. Inventory & production			
(a) Raw materials	9.58	12.27	12.31
(b) Stores and spares	10.10	12.43	15.28
(c) Goods-in-process	0.06	0.09	0.03
(d) Finished goods	3.08	2.19	0.78
(e) Others	1.07	1.27	1.44
Total	23.89	28.25	29.84
VII. Sundry debtors	6.03	8.20	14.52

13.98 As can be seen from the following table, while profit before tax has been showing a continuous improvement during the three years, 1965 to 1967, cost of sales as a proportion of total sales value also declined. Thus, it would appear that there are bright prospects for the future growth of the industry. But, the restricted size of the local market is likely to be a stumbling block in the continued expansion of the company.

	Years		
	1965	1966	1967
	(Rs. in lakhs)		
(a) Sales	32.23	35.76	55.47
(b) Profit before tax	0.02	1.36	8.77
(c) Cost of sales	32.21	34.40	46.70
(d) Percentage of cost of sales to sales	99.9%	96.4%	86%

Problems.

13.99 Due to the slump in the meter industry in India and due to severe competition the company was not in a position to earn sufficient profit during 1965 and 1966. But during 1967, the company earned a net profit of Rs. 3.77 lakhs (after tax). The main reason for the set back of this industry has been inadequate demand, with the result that the price per meter has been reduced considerably. But the company has

diversified the products and at present the company is manufacturing N. S. D., OSR, ATS and N. D. Motor starters and Polyphase 3 wire and 4 wire meters in addition to single phase meter. Thus the company is able to earn profit during 1967-68.

Suggestions for improvement in the working of the company

13.100. 1 Since the main problem of the company is the restricted size of the local market, efforts should be made to capture new markets outside the State.

2 Due to diversification of the product line the company was able to earn substantial profit during 1967-68. Though further diversification of product line involves difficulties there is no escape from continuous search for new items on the product line.

3 Efforts should also be made to reduce further the cost of production.

Summary of conclusions and recommendations.

1 The performance of public sector undertakings in Kerala, measured in terms of dividend realisations on share capital contributed by the Government and payment of interest on loans, has been very unsatisfactory. (Paragraph 13.3)

2 Instead of becoming an expanding source of additional resources for the Government, public sector enterprises in general have remained as a drag on the State's resources. (Paragraph 13.7)

3 The primary task of the Government should be to ensure that the investments on the public sector undertakings become revenue-generating assets, thereby enabling the Government to raise more non-tax revenues. (Paragraph 13.7)

4 The present system of control of the Government companies through Government directors is completely incompatible with the objective of running them in a co-ordinated manner and on profitable commercial lines. (Paragraph 13.9)

5 The role of financial advisers should be played by persons who are not only experts in the field of financial management, but who have, in addition, adequate experience in industrial management and marketing. Modern financial management should be introduced as a necessary element in the day-to-day management decision-making of the public undertakings, rather than as an "extended arm" of the bureaucratic control mechanism of the Government. (Paragraph 13.10)

6 The Government of Kerala may identify those recommendations of the Administrative Reforms Commission which have relevance to the Government undertakings in the State and initiate appropriate remedial measures. (Paragraph 13.11)

7 There is scope for integrating some of the public sector concerns in Kerala into "sector corporations" in order to bring about maximum operational economics, better personnel management and so on.

(Paragraph 13.12)

8 There is a strong case for setting up a "sector corporation" by integrating the proposed forest corporation, the existing Forest Industries (Travancore) Ltd. and the Plantation Corporation of Kerala.

(Paragraph 13.13)

9 The case studies of twelve Government industrial concerns in Kerala indicate that, in respect of some of the most crucial areas of management action, the present practices are not only conservative but even primitive.

(Paragraph 13.15)

10 It is necessary to detect the causes for the defective working of each public sector undertaking and to take immediate action to rectify the defects so that the performance of the companies could be made more satisfactory.

(Paragraph 13.17)

11 The top management of each company should have qualified experts in fields like finance and accounts, planning and personnel management and labour administration. At least the major public sector undertakings should have the following categories of personnel:—

- (a) Economists and statisticians having specialisation in marketing and operations research.
- (b) Chartered and cost accountants with specialisation in management accounting.
- (c) Personnel managers and labour welfare officers.
- (d) Materials management experts.
- (e) Industrial engineers having knowledge in work study and productivity.

(Paragraph 13.17)

12 A management cadre may be created for running all the commercial and industrial units in which the Government of Kerala has effective control. All officers in the Government administrative services may be given option to join the management cadre. Once they are absorbed in the new cadre, they should not be transferred back to general administration. Recruitments may also be made from industry and trade.

(Paragraph 13.18)

13 The cost of production of vanaspathy in the Hydrogenation unit of Kerala Soaps and Oils Limited, may be reduced, especially by utilisation of full capacity.

(Paragraph 13.30)

14 There is a vital need for improving the sales and marketing organisation of the above company. Also, a research and development section has to be organised.

(Paragraph 13.30)

15 Export possibilities for the products of the above company may be explored.

(Paragraph 13.30)

16 Efforts should be made to introduce product planning in the Kerala Electrical and Allied Engineering Company Limited and to reduce the cost of production of the company's products.

(Paragraph 13.37)

17 It is necessary to improve the quality of inspection at the various stages of production in the above company.

(Paragraph 13.37)

18 The sales organisation of the above company should be improved.

(Paragraph 13.37)

19 The Electricity Board should ensure regular supply of power to the Kerala Ceramics Limited.

(Paragraph 13.42)

20 The imbalance in the working of the above company may be minimised by enhancing the kiln capacity.

(Paragraph 13.42)

21 To improve the quality of the products of the above company, it is necessary to install a ceramic transfer picture manufacturing plant.

(Paragraph 13.42)

22 It is also necessary to modernise the method of mining and washing the china clay.

(Paragraph 13.42)

23 Every effort should be made by the Kerala Ceramics to capture home and foreign markets by adopting modern marketing systems. It is also necessary to improve its products by research and development.

(Paragraph 13.42)

24 The staff requirement of the above company may be assessed properly and steps taken to absorb the surplus personnel in future vacancies.

(Paragraph 13.42)

25 The Travancore Plywood Industries Limited, should utilise its full machine capacity and improve the sales organisation with a view to enlarging the market for the company's products.

(Paragraph 13.49)

26 There is need for substantial improvement in the management practices of the above company, especially in the area of product planning.

(Paragraph 13.49)

27 It is imperative that the Trivandrum Rubber Works Limited, expands the production of cycle rims, as the rim unit of the company is the most profitable one. Attempts should also be made to capture more markets.

(Paragraph 13.54)

28 The pricing policy of the Trivandrum Spinning Mills Limited, should be re-examined with a view to avoiding loss to the company. At the same time efforts should be made to reduce the cost of production by product-planning and increasing the efficiency of the production, function besides improving the sales organisation.

(Paragraph 13.60)

29 The Forest Industries (Travancore) Ltd., should make efforts to diversify its products and to increase production. Every endeavour should also be made to capture more markets.

(Paragraph 13.66)

30 The Pallathra Bricks and Tiles Limited, should try to reduce the cost of production by the application of modern technology and by double shifts, besides popularising its product by intensive publicity and other measures.

(Paragraph 13.70)

31 Attempts have to be made by the Traco Cable Company Limited to capture markets by improving its marketing system.

(Paragraph 13.77)

32 The Government will have to initiate necessary steps to ensure a steady supply of mercury to the Travancore-Cochin Chemicals Limited. The company should bring down the cost of sales by appropriate management and marketing action.

(Paragraph 13.86)

33 The cost of production of titanium dioxide manufactured by the Travancore Titanium Products Ltd. should be reduced by appropriate managerial action. There is also need for a vigorous marketing effort particularly in respect of export sales.

(Paragraph 13.94)

34 The United Electrical Industries Limited should make efforts to capture new markets outside the State.

(Paragraph 13.100)

35 The above company should continuously search for new items on the product line. Efforts should also be made to further reduce the cost of production.

(Paragraph 13.100)

CHAPTER 14

FOREST

History of forest management:

14.1 From very ancient times the timbers of our forests were renowned for their quality and they formed one of the major commodities of export to foreign countries. The wealth of the forests attracted many foreign traders to this country—the Arabs, the Portuguese, the Dutch and lastly the British—and a flourishing timber trade developed with the western countries. Vast forest areas were opened up and trees like teak and rosewood were felled and exported in considerable numbers. The eighteenth century witnessed an unprecedented depletion of our timber resources particularly in the Malabar area which came directly under British rule after the fall of Tippu Sultan. In fact the forests were looked upon as an inexhaustible treasure for meeting the timber requirements of the 'merchant navy'. The damage caused by the irrational extraction of timber was realised only by the beginning of the nineteenth century. By then the stock of valuable trees like teak which took more than half a century to mature was running out. This brought home to the authorities the necessity for conservation of forests on scientific lines. A system of forest management was therefore introduced by the British Government in Malabar District.

14.2 The seeds of the first teak plantation in the country which marked the advent of a new era in Indian forestry were sown in 1842 at Nilambur in Malabar, thanks to the farsightedness of Collector Conolly and the untiring zeal of Chathu Menon his forestry assistant. This is the world's oldest teak plantation. The extraction of timber was done on kuttikanom (permit) system by private persons. Departmental working down of timber was first experimented in Malabar only in 1873. In 1882 the Madras Forest Act was passed on the model of the Indian Forest Act and reservation of forests commenced soon after. The administration of the forests became more systematic and definite schemes of management or working plans were formulated and put through. But many forest areas had fallen into the hands of private individuals. The protection and preservation of these private forests remained a problem which was aggravated with the passage of time. In 1946 the Madras Preservation of Private Forests Act was passed for regulating the management of private forests. But even this enactment was hardly effective in checking the over-exploitation and depletion of the resources of the private forests in Malabar.

14.3 In the former Cochin State, the history of forest management begins from 1813 when a Superintendent of Forests was appointed. Till then the forest areas used to be leased out for exploitation to contractors for specific periods on payment of a lump sum. This had led to a gradual but reckless destruction of forest wealth. The departmental system of extraction of timber was therefore introduced in 1813, but this was confined to teak only.

Some improvements in the system were brought about in 1835. While monopoly trees—teak, ebony and blackwood—were worked down departmentally, permit system was introduced for the extraction of other kinds of timber. The removal of firewood and the collection of minor forest produce were done by contract system. Refinements in the system were introduced over the years. Towards the end of the 19th century planting of teak and other regeneration works were taken up on a limited scale. In 1905 the Cochin Forest Act was passed and the forest administration put on a scientific basis. The system of marking trees for felling by superior officers of the department was introduced. The forests were divided into divisions, and qualified persons were appointed to be in charge of them. In 1907 a tramway was opened from Chalakudy to Parambikulam to facilitate the transport of timber from the interior forest areas. (This was, however, abolished recently.)

14.4 In Travancore the opening of a timber depot at the port of Alleppey towards the close of the 18th century marks the beginning of systematic exploitation of the forest resources by the State. To prevent indiscriminate removal of teak which was a royal tree its extraction was done departmentally. There were no restrictions in regard to the removal of other trees except for the payment of a light river duty when conveyed by water. Later on, seignorage rates were fixed for jungle wood and permits were issued for felling and removing them. Regular planting of teak was first begun at Malayattur and Konni since 1865. Shifts in the policies relating to extraction of timber characterised the latter half of the nineteenth century. It was a period of trials and experiments of various systems—contract system, departmental working, seignorage system—and their permutations and combinations. In 1883 a commission was appointed to suggest measures for better management of forests. Based on the commission's recommendations a Forest Act was enacted in 1887. The administrative set up of the Forest Department was also reorganised on the pattern of the forest administrations in the British Provinces. Since 1920, working plans were drawn up and the forests were put under scientific management.

14.5 During the period of the Second World War there was large-scale felling of timber in all the constituent parts of Kerala State. In Cochin and Travancore extensive forest lands were cleared and leased out for cultivation under the 'Grow More Food Campaign'. This development was to have far-reaching consequences in the years to come, because it paved the way for large-scale encroachments into the reserved forests. The pressure of the growing population on the forest boundaries could not be effectively resisted and the protection of forests has become a difficult problem. The various hydro-electric and irrigation projects undertaken in more recent times, too, did have their share in bringing down the area under forests; not only were large areas submerged under water, but hitherto inaccessible regions were opened up and became centres of human activity.

14.6 Following the integration of the States of Travancore and Cochin, a unified Forest Act was passed in 1952. In 1961, the Kerala Forest Act replaced the Travancore-Cochin Forest Act and the Madras Forest Act in its

application to Malabar. The Madras Protection of Private Forests Act continues to operate in Malabar where the area of private forests exceeds that of Government reserves. The provisions of this Act were not effective enough and the depletion of the private forests continued unabated, with the result that many of the areas are now forests only in name. Because of the existence of private forests, the Government forests in Malabar escaped the onslaught of the land-grabbers unlike in Travancore and Cochin. A scheme for the nationalisation of private forests in Malabar for better management was included in the State's Third Plan but was not implemented. The necessary legislation is on the anvil and the proposal is included in the draft Fourth Plan.

14.7 Nature has endowed Kerala with rich natural evergreen forests which, if scientifically managed and prudently exploited, will provide not only a steady source of Government revenues but also a stable base for the State's industrial and economic development. In point of yield the forests of Kerala occupy a pre-eminent position. According to the Hand Book on Forest Statistics (1961) the average annual yield per acre from the forests of Kerala is Rs. 10.61 as against the all-India average of Rs. 2.77. It is the proverbial hen that lays the golden egg, and it is necessary to curb the tendency for over-exploitation. In other words, the forests will have to be tapped and exploited in the most economic manner so that a steady revenue is assured over the years. This underlines the need for regeneration works to replenish the capital stock.

14.8 Forests have come to be considered as something more than a source of revenue or national wealth. Its role in the control of climatic conditions, in the regulation of water supply to the river systems, in the checking of floods and soil erosion as well as in the protection of watersheds etc. has been recognised. The maintenance of an optimum size of forests has thus become a national necessity. A National Forest Policy for India was therefore evolved in 1952 which envisaged an optimum of 33 1/3 per cent of land under forests. According to the Hand Book on Forest Statistics (1961) published by the Forest Research Institute and Colleges, Dehra Dun, the total forest area including private forests of Malabar is 32.4 per cent as against 24 per cent for all-India. Out of the total forests in Kerala the exploitable forest area is 84.5 per cent and the potentially exploitable area 15.5 per cent.

14.9 The demarcation of forest boundaries after excluding the areas already encroached upon or leased out is under way. We understand that a scheme for selecting arable lands within the reserve forests for allotment for cultivation is under consideration. Thus the indications are that there will be a further shrinkage in the area of the reserve forests. With the high density of population and the low land-man ratio in the State the scope for extensive forestry is limited and the State is left with the only alternative of intensive forest management.

Problems of Forest management.

14.10 Criticisms were made about the policies and practices of forest management by informed persons who gave evidence before us. Suggestions were also made for improvement of the revenue potential of the forests. These may be briefly recapitulated here.

- (i) There is no clear cut policy in regard to the protection of forests. Though official policy declarations have always affirmed the Government's determination to preserve the forests in tact, in actual practice there has been a tendency to condone unauthorised occupations of forest lands, which in turn has stimulated further encroachments by the land-hungry people.
- (ii) The industrial potential of the forest resources has not been properly recognised while drawing up schemes of forest management. The patterns of planting and regeneration works should be designed with an eye on the needs of industries.
- (iii) The wasteful and crude methods adopted for extraction of timber should be replaced by modern techniques.
- (iv) The entire process of felling, transporting and selling timber may be done departmentally.
- (v) The minor forest produce may be collected departmentally and auctioned at the depots.
- (vi) Planting pepper vines and cardamom in suitable forest areas may be done to augment revenues.
- (vii) A fee may be levied on cattle grazing in forest lands.
- (viii) Smuggling and pilferage of forest produce may be effectively checked.

We now proceed to examine the problems of forest management in the light of the above views.

(a) *Conservation of forests.*

14.11 Attempts at controlling the exploitation of forests were made only within the last hundred and fifty years. Till then the forests were treated as no man's land which was 'free-for-all'. When, with the growth of population, the pressure on land increased, enterprising persons turned to the virgin forest lands. Reference has already been made in an earlier paragraph to the circumstances under which the floodgates of encroachments of forest lands have been opened in more recent times. The following extract from the reply to our questionnaire received from the Agriculture (Forest) Department of the Secretariat indicates the order of deforestation that has taken place as a result of various factors.

"During the last two decades, our forests have been subjected to heavy destruction by the land-hungry people. The Grow More Food Campaign started somewhere about 1945 depleted a vast area of rich forests in Kottayam and Malayattur divisions. The areas

allotted for leases became the nuclei for expansion into surrounding forests. The allottees, under the guise of rising food crops, converted major portions of leased areas into coffee, cardamom and rubber plantations. Large areas of forests have been cleared for reservoirs of hydro-electric and irrigation projects..... Though, on paper, the total area constituted as reserve forest is 9,018.49 sq. km., the effective reserve forest at present is only 8,068 sq. km., since 950 sq. km. has already been released and deforested under Grow More Food Scheme, rubber plantations irrigation projects, power projects, encroachments etc. The Special Officer for selecting arable lands within the reserve forests for allotment for cultivation has recommended 3 lakhs acres of our forests to be cleared for cultivation which comes nearly to 1,250 sq. km."

14.12 We find that the problem of encroachment of forests has been engaging the attention of the Government from time to time. Special officers were appointed to report on the measures to be taken. Special staff was appointed to survey and demarcate the boundaries. Even a Parliamentary committee had studied the problem and made recommendations. But, despite the official declarations of policy and the efforts made by the department to implement the policy, there has been no visible improvement in the situation. Unauthorised occupations have continued and are continuing posing a serious threat to the integrity of the forests. We consider that it is high time that Government take a clear stand on the matter, declare its policy in unambiguous terms and adhere to it at all costs. The demarcation of the reserve forests should not be dragged on indefinitely, but should be completed as quickly as possible, especially since there are pockets of habitation within the forests, besides occupations all along the periphery.

(b) *Forest management policy.*

14.13 The policy of forest management since the beginning of the present century has been one of ensuring a sustained yield without destroying the protectional or productional capacity of the forests. Regeneration and replantation activities are carried on with the object of replenishing the stock of timber resources as it gets depleted over the years by the felling programmes. Unlike agriculture forestry involves the cultivation of a long term crop; the yield is not realised in a year or two and often the time-lag between sowing and harvesting is several decades. The management of the forests cannot therefore be left to the individual judgment of frequently changing departmental personnel. There should be continuity of management and it is to ensure such continuity of operation that working plans are prepared for each division. Working plans are formulated for varying periods of time; earlier it covered a twenty-year period. Recently the working plans are prepared for shorter periods of 15 years or 10 years. The working plan gives the history and results of past management and sets forth the programmes for the next ten or fifteen years. According to the type of forests and its suitability for a particular method of management, the

area covered by the working plan is divided into working circles. Areas that can be fully cleared and planted up come under 'conversion working circles' and areas, where only felling of mature trees is called for, come under 'selection working circles'. The working circles are divided into what are known as 'felling series' which comprise a number of coupes, one or more being taken up annually. Thus the working plan is a scheme of management of forests aiming at continuity of policy and treatment.

14.14 Till the advent of the Five Year Plans, all forestry operations were carried out strictly in accordance with the prescriptions contained in the working plans. The large-scale clearance of forest areas for hydel projects was a development not envisaged in any of the working plans. Also, as part of the Five Year Plans, raising of plantations of teak, eucalyptus etc. on a large scale was decided upon, and the areas selected for these plantations had to be cleared up. In these circumstances selection felling and other regeneration works in the normal divisions were either postponed or staggered. The problem of co-ordinating the prescriptions in the working plans with the Five Year Plan schemes is one which is common to all State Forest Departments in India. The possible solution is to prepare a Master Plan for the forestry sector covering a much longer period and when working plans are prepared, the objects and schemes of the management can suitably be altered on the basis of schedules and programmes contained in the Master Plan. The Master Plan should cover all development schemes either directly or indirectly related to forestry operations that had been implemented during the various plan periods and that are likely to be introduced in future. The drawing up of a Master Plan would thus help to carry out forestry operations on more systematic and scientific lines.

14.15 Forest management on "sustained yield basis" implies that only the increment of wood should be exploited annually or periodically leaving the capital stock unexploited. The per capita growing stock is 3.53 cubic metres and per capita wood increment 0.033 cubic metre. So, if our forests are managed according to the above system of management, our requirements of forest produce can never be met. As a matter of fact no survey of our requirements *vis-a-vis* the existing resources has been made so far; nor have any attempts been made to link up forestry policies with industrial programmes. The Department's major preoccupation till recently has been planting teak; a departure from this policy was made only during the Third Plan period when eucalyptus plantations were raised in the grasslands of Peermade. The forests can provide valuable raw materials for a variety of wood-based industries. In the absence of correlation between industrial schemes and forestry programmes, a situation may arise where industries depending on the forest resources may find themselves faced with acute shortage of raw materials like softwood or bamboos, forcing them to close down for short periods or even permanently. The representatives of the industry who met the Committee have expressed their apprehensions of such a situation developing. The plywood factories in the State are even now finding it difficult to get uninterrupted supplies of softwood of the required

type. We would therefore recommend that a comprehensive survey of the existing forest resources with particular reference to the requirements of the industries may be conducted and that the forestry schemes be adapted and attuned to the State's economic and industrial development. Improvement and diversification of the forest stock to cater to the needs of a growing industrial sector should be the guiding principle in the formulation and implementation of forestry policies. This takes us on to the need for research, a field which has been sadly neglected in the past. A properly organised and equipped research wing will impart greater dynamism and develop new orientations in the forest management policies.

(c) *Utilisation of forest resources.*

14.16 It has been pointed out that the methods of extraction of timber are primitive and lead to considerable wastage. Felling of trees and other operations are done by implements operated by hand. As a result the stumps of trees and the chippings of wood go to waste. It is stated that, in case all these operations are mechanised as in the advanced countries of the world, the wastage would be minimised. The departmental representatives with whom we discussed the matter are of the view that the large size and hard quality of the timber as well as the rugged terrain of the forest lands (with a series of ups and downs) make mechanisation of the felling and transporting processes difficult and uneconomical. Moreover conditions in the State are not conducive for such a change involving the displacement of manual labour. In view of these factors we do not suggest the adoption of modern sophisticated techniques at present. At the same time, efforts should be made to put the trimmings and other waste materials to economic utilisation for which the department may devise suitable measures.

14.17 A suggestion has been made that a fee may be levied on cattle grazing in forest lands. It is stated that such a fee is imposed in respect of cattle coming from outside the State to the border forest areas for grazing purposes. While, no doubt, the suggestion would merit consideration on revenue grounds, the adverse consequences such a measure may have on the protectional aspect of forestry cannot be ignored. The levy of a grazing fee would, in effect, mean giving right of access to persons to the forest areas and it will be practically difficult to guard against pilferage of forest produce. We do not therefore consider it advisable to permit grazing in forest territories except in areas containing large stretches of grass lands which can be converted into grazing circles. We therefore suggest that the facilities now provided in this matter should be withdrawn except in grazing circles and that instead a system may be introduced under which grass is cut down under departmental supervision and sold to cattle owners.

14.18 The right of collecting minor forest produce (lac, honey, wax, horns, hides, etc.) is now auctioned. It has been suggested that the same may be collected departmentally and sold in auction at the Government depots. We find that the departmental collection of minor produce would throw considerable responsibilities on the staff even though the quantity and the value of the produce may not be significant. Each of the items collected will have

to be properly accounted for, both in the Range Offices and in the Depots, for which elaborate registers have to be maintained. We consider that, in view of the limited revenue potential, it is not worthwhile to take up this work departmentally. The present system of auctioning the right of collection may, of course, lead to abuses but such abuses should be prevented by the vigilance of the supervisory staff of the department. In areas where there is a concentration of Hill Tribes, the possibility of organising them into co-operative societies, and entrusting the work of collection of minor forest produce to such societies may be explored.

14.19 A proposal has been made that pepper vines and cardamom may be planted in the reserve forests for augmenting revenue. This is an agricultural operation which, if pursued, may lead to deforestation and the opening up of forest areas. Moreover, it is not advisable that the Forest Department which is concerned with silvicultural operations turns to the raising of commercial plantations. Such ventures should be undertaken by a department or body organised on the lines of commercial concerns. There is a Plantation Corporation now functioning in the State. The question of expanding its sphere of work by entrusting to it the planting of pepper, cardamom, oil-palm, etc. may be considered; in the alternative a separate Corporation may be formed for these miscellaneous items.

14.20 Several witnesses have stated that large-scale smuggling and pilferage of forest produce is taking place resulting in leakage of revenue. Some of them have even gone to the extent of saying that these malpractices often take place with the connivance of the departmental staff. There are now checkpoints at key points to detect unauthorised transport of forest produce. Besides, flying squads have been constituted to do surprise checks. There is also the regular beat staff. Thus the Department already has the necessary organisation to discharge its responsibilities in the matter. We would urge that earnest and systematic efforts should be made by the Department to prevent smuggling and pilferage, by tightening up the checking and inspection procedures and by deterrent action against offenders. The Department should be toned up for this purpose.

(d) Extraction of timber.

14.21 The extraction of timber is done through contractors. The departmental officers mark the trees which have to be removed. The work of cutting down the trees, converting them into logs and transporting them to the Government depots is entrusted to contractors. In the Malabar divisions the work was till recently done departmentally by engaging

labourers. There is a view that departmental extraction of timber is more advantageous. The merits and demerits of the departmental system vis-a-vis the contract system are indicated below:—

Merits.

- (i) Maximum utilisable timber can be extracted from each tree. The timber worked down departmentally in accordance with the standard specifications will undoubtedly fetch higher prices. The contractor seldom pays attention to avoiding wastage while converting the tree into logs. His concern is only to reduce the tree to easily transportable sizes.
- (ii) The profit now enjoyed by the contractors will accrue to Government. In some cases the contractors combine themselves into rings or monopolies and bid very high while fixing up contracts for felling and transporting of timber. Such losses which are inherent in the contract system can be avoided by departmental system.
- (iii) Smuggling of timber by the contractors and their employees can be avoided. Access to the interior forest areas by outsiders can be checked.

Demerits.

- (i) The Department may have to engage a team of labourers which may give rise to a whole series of problems. For example, the work may be seasonal, but the burden of employing them all the year round may fall on the Department.
- (ii) The Department may have to maintain elephants as well as lorries for the transport of timber.
- (iii) The checks and balances that exist in the matter of spending money by Government departments may hinder the timely execution of works. The fear of audit criticisms may also inhibit the initiative of the officers.

14.22 The following are the alternatives to the present contract system :

- (a) Departmental working may be adopted at all stages of extraction and transport of timber.
- (b) Felling of trees and their conversion into logs may be done departmentally, while transportation may be entrusted to contractors.

- (c) Different contracts may be fixed up for felling and dressing operations and for transportation so that the two stages of the work may not invariably fall on the same contractor.
- (d) A public corporation may be formed in which case not only the extraction works but the sales too can be entrusted to it.

14.23 On a careful consideration of the various implications, we feel that departmental working will not be a significant improvement over the present system and has to be ruled out on practical considerations also. The constraints inherent in departmental spending combined with the lack of business expertise in the department may actually result in greater expenditure and losses. The second and third alternatives mentioned above are only slight variations of the existing contract system and would not be a remedy to all its defects. In these circumstances, we are inclined to recommend the last alternative, viz., the formation of a public corporation for the exploitation of forest resources. Such a corporation can be entrusted with the whole range of activities from collection of forest produce of all kinds to their disposal. We understand that the Government has already taken a decision to organise a corporation for this purpose. The success of the corporation depends on the way in which it functions, which in turn is related to personnel selections. While organising the corporation, it has to be ensured that competent personnel are drawn to it from different fields of work so that the corporation on the whole would have technical know-how in forestry operations, business acumen, knowledge of marketing and sales techniques, and managerial skill.

Summary of conclusions and recommendations.—

1 It is high time that Government takes a clear stand on the question of encroachments of forest lands, declare their policy in unambiguous terms and adhere to it faithfully. The demarcation of reserve forests should be completed as quickly as possible.

(paragraph 14. 12)

2 A Master Plan for forest management may be drawn up so that the prescriptions in the working plans can be related to the schedules and programmes contained in the Master Plan and co-ordinated with the Five Year Plan Schemes.

(paragraph 14.14)

3 The forestry schemes should be oriented to the requirements of the industry; a comprehensive survey of the existing forest resources vis-a-vis the needs of the industries may be undertaken. Improvement and diversification of the forest stock to cater to the needs of a growing industrial sector should

motivate the formulation and implementation of forestry policies. A properly organised research wing will impart greater dynamism in the forest management policies.

(paragraph 14.15)

4 Efforts should be made to put to economic utilisation the trimmings and other waste materials arising out of the extraction of timber.

(paragraph 14.16)

5 It is not advisable to permit grazing of cattle in the forest except in areas which can be converted into grazing circles. At other places the system of cutting grass under departmental supervision and selling it outside the forest areas may be followed.

(paragraph 14.17)

6 It is not worthwhile to introduce the system of departmental collection of minor forest produce. Any abuses in the present system of auctioning should be prevented by the vigilance of the departmental staff. In areas where there is a concentration of Hill Tribes the possibility of organising them into co-operative societies and entrusting the collection of minor forest produce to such societies may be explored.

(paragraph 14.18)

7 The Forest Department should not be burdened with purely agricultural operations like the raising of pepper and cardamom plantations. The proper course would be to demarcate the areas suitable for such plantations and entrust the work to a public corporation. Either the existing Plantation Corporation of Kerala Ltd. may be entrusted with these items also, or a new public corporation may be formed for the planting of pepper, cardamom, oil palms, etc.

(paragraph 14.19)

8 The department should be toned up with a view to check effectively smuggling and pilferage of forest produce.

(paragraph 14.20)

9 A public corporation may be formed for the exploitation of forest resources. While organising the corporation it has to be ensured that it is manned by competent personnel having not only technical know-how in forestry operations, but business acumen, knowledge of marketing and sales techniques and managerial skills. The whole range of activities from collection of forest produce to their disposal may be entrusted to the Corporation.

(paragraph 14.23)

E: LOCAL GOVERNMENT FINANCE

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CHAPTER 15

LOCAL GOVERNMENT FINANCE

Historical perspective

15.1 Local government had deep roots in India from early times. Municipal administration flourished in the cities of ancient India while the Panchayat form of administration existed in some rural parts. Local government as is known today was first introduced in the city of Madras in 1687. Bombay and Calcutta followed suit. But only in 1793 was a statutory backing given to municipal administration. The administrative set-up and powers of local taxation were mainly modelled after the British municipal system. A comprehensive legislation for the introduction of municipal administration throughout India was passed in 1850.

15.2 Local government passed through a series of reforms till Indian independence. The first major change was brought about by Lord May's resolution of 1870 which increased the number and usefulness of municipalities. The next phase was initiated by the Resolution of Lord Ripon dated May 18, 1882, which laid the foundations of local government as it exists today. The Taxation Enquiry Commission (1953-54) observed that "it was Lord Ripon's resolution of 1882 that paved the way for the development of Local Self-Government specially in urban areas with the accent on Government".

15.3 The Royal Commission on Decentralisation (1907-08) made several far-reaching recommendations for the reform of local government. This eventually led to the passing of the Government of India resolution of 1915 and the consequent reforms of 1919, which made local government a transferred subject. Under the 1919 Act, the "Local List" comprised the following taxes:—

- (i) Tolls
- (ii) Tax on land and land values
- (iii) Tax on buildings
- (iv) Tax on vehicles and boats
- (v) Tax on menial and domestic servants
- (vi) Tax on animals
- (vii) Octroi duty
- (viii) Terminal tax
- (ix) Tax on trade, profession and callings
- (x) Tax on private markets
- (xi) Tax in return for services rendered, such as:
 - (a) water rate;
 - (b) lighting rate;
 - (c) drainage rate;
 - (d) fees for the use of markets; and
 - (e) fees for other public conveniences.

15.4 The next major development was ushered in by the Government of India Act, 1935, which introduced provincial autonomy. This Act provided for three lists: the Federal List, the Provincial List and the Concurrent List. The powers of local bodies were not shown separately from the Provincial List. In this matter the Constitution of India (1950) has strictly adhered to the pattern of the 1935 Act.

15.5 Since the independence of India, the Local Finance Enquiry Committee (1949-50), the Taxation Enquiry Commission (1953-54) the Study Team on Panchayati Raj Finances (1963), the Committee of Ministers constituted by the Central Council of Local Self Government (1963) and the Rural-Urban Relationship Committee (1965-66) at the national level and many committees and study teams at the States' level have gone into the various aspects of the problem of local government finances in considerable detail and have made many valuable recommendations. But it is disappointing to note that sufficient follow-up action has not been taken by the State Governments on these recommendations.

15.6 The local bodies which we have in Kerala consist of city corporations, municipalities and panchayats, besides a township. There are three corporations, twenty-five municipalities, one township and 931 panchayats in the State. The corporations are governed by the Kerala Municipal Corporations Act (Act 30) of 1961, the municipalities by the Kerala Municipalities Act 1960 (Act 32) and the panchayats by the Kerala Panchayats Act of 1960 (Act 14). The Guruvayoor township follows mainly the provisions of the Municipal Act. The municipalities are divided into two categories: those having revenues exceeding rupees five lakhs (major municipalities) and those below rupees five lakhs (minor municipalities).

15.7 The Panchayats Act enables the panchayats to function effectively as units of local self-government in matters embracing generally all aspects of village life including activities relating to economic development, social service, social welfare and community development. Based on their income the panchayats are categorised into four broad groups as follows:

(i) Special grade	.. above Rs. 1,00,000
(ii) First grade	.. above Rs. 50,000 but below Rs. 1,00,000
(iii) Second grade	.. above Rs. 20,000 but below Rs. 50,000
(iv) Third grade	.. below Rs. 20,000

15.8 The local bodies are elected organs. Each local body for the purpose of election of members is divided into wards. The term of office of the elected members is usually five years.

Need for strengthening the financial position of local bodies

15.9 It is unfortunate that, even when interest in local Government has grown enormously, the interest in local finances as such has not grown *pari passu*. The fact remains that finance is the crux of Indian local governments in all levels. Things have come to such a head owing to a variety of

historical circumstances. Constitutionally, local bodies have no independent existence. The States have to create them and give them a status, and it has never been possible for the State Governments to provide local bodies with as much resources as they need. The heads of revenue allocated to them are extremely inelastic and inflexible and even on these sources State Governments have been encroaching on occasion. Again, there has been taking place a systematic merger of local finances with State finances—just as in the case of State finances with the Central finances. This has happened because of the enlarged governmental functions in respect of the economy, the impact of expanded trade etc., which have necessitated the growing integration of the tax system having regard to the advantages of levying and collecting important sources of revenue at as broad a base as possible. These trends have led to a curious phenomenon in the area of local finance: centralisation of resources and decentralisation of expenditure—just as in the case of State finances. In other words, the situation that has emerged is that there has been some delegation of executive powers to local bodies, but the resources devolved on them are not sufficient even to discharge these limited powers. The need has, therefore, arisen to correct this imbalance by a suitable matching of powers and finances, providing, at the same time, for the fulfilment of national priorities on the one hand and for a measure of local initiative on the other.

Recommendations of All India Committees

15.10 This aspect of local government has been examined ever and anon by many All India Committees, who have not hesitated to come out strongly against the existing anomalies. Thus, the Local Finance Enquiry Committee (1949-50) says: "As finance is correlated with function, it is necessary to state what functions are assigned to local bodies in order to see whether the financial resources placed at their disposal for the discharge of those functions are, or not, adequate". It further subjoins, "the State Government while investing local bodies with wider responsibilities must also place at their disposal adequate funds to supplement their revenue". The Taxation Enquiry Commission (1953-54) observed that, apart from growth and development, the crux of the problem of the local bodies is finance. Again, the Study Team on Panchayati Raj Finances (1963) observes: "We cannot help wishing that when the acts were passed by the legislatures, an attempt had been made to estimate a maximum cost of fulfilling the obligatory functions and to provide the resources for the purpose. The actual resources often vary inversely to the number and extent of obligatory functions".

15.11 It has, however, at once to be agreed that there can be no accurate, fine and exactly purposeful balancing of powers and finances because of the vast numbers of local bodies spread over different 'layers' under varying conditions. This is not to deny the gravity of the problem. At the outset, it is clear that the basis of the solution of the problem lies in attaching due importance to the resources that can be locally raised. This becomes more important in the context of Panchayati Raj administration where local resources include not only receipts from local taxes and enterprises, but also

contributions from the public in money, kind or labour. This aspect, however, should not be over-emphasised because local resources by way of taxes, duties and fees, however efficiently collected, will be limited indeed and are likely, in any case, to fall far short of the needs of the local bodies. One of the reasons for this situation is that, by and large, even today local bodies are levying more or less the same taxes that used to be collected in Lord Ripon's time. And in spite of the recommendations by expert bodies we have sadly to admit that even now sufficient resources have not been made available to local bodies; nor has there been any conscious effort to match the resources of the local bodies with their functions.

15.12 It is for the State Government to earmark the sources of revenue to be exploited by the local bodies. Both the Local Finance Enquiry Committee (1949-50) and the Taxation Enquiry Commission (1953-54) have emphasised the need for allocating definite sources of revenue to the local bodies. The taxes recommended by the Local Finance Enquiry Committee for the benefit of local bodies were the following:

- (i) Taxes from lands and buildings (entry 49 of List II of the Seventh Schedule to the Constitution);
- (ii) Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development (entry 50 of list II);
- (iii) Taxes on the entry of goods into a local area for consumption, use or sale therein (entry 52 of List II);
- (iv) Taxes on the sale or the consumption of electricity (entry 53 of List II);
- (v) Taxes on advertisements other than advertisements published in the newspapers (entry 55 of List II);
- (vi) Taxes on goods and passengers carried by road or inland waterways (entry 56 of List II);
- (vii) Taxes on vehicles other than those mechanically propelled (entry 57 of List II);
- (viii) Taxes on animals and boats (entry 58 of List II);
- (ix) Tolls (entry 59 of List II);
- (x) Taxes on professions, trades, callings and employments (entry 60 of List II);
- (xi) Capitation taxes (entry 61 of List II); and
- (xii) Taxes on entertainments including amusements (entry 62 of List II).

In addition to these items; the Committee suggested that the Centre should pass on to local bodies the net proceeds from terminal taxes on goods or passengers carried by railway, sea or air (entry 89 of List I in the Seventh Schedule of the Constitution).

15.13 The Taxation Enquiry Commission (1953-54) reviewed the position and recommended the following taxes only for "exclusive utilisation by or for local bodies":

- (i) Taxes on lands and buildings;
- (ii) Taxes on the entry of goods into the area of local authority for consumption, use or sale therein, popularly known as octroi;
- (iii) Taxes on vehicles other than those mechanically propelled;
- (iv) Taxes on animals and boats;
- (v) Taxes on professions, trades, callings and employments;
- (vi) Taxes on advertisements other than advertisements published in the newspapers;
- (vii) Theatre or show tax;
- (viii) Duty on transfer of property levied along with stamp duty collected by the Government;
- (ix) Taxes on goods and passengers carried by road or inland waterways to be imposed as a complementary levy by those local bodies for whose benefit the terminal taxes on goods and passengers carried by railway, sea or air are levied by the Union Government; and
- (x) Tolls in respect of new bridges on which expenditure has been incurred by the local body.

Existing local resources

15.14 The following are the taxes that have been earmarked for the local bodies in Kerala by means of State legislations:—

- (i) Building tax for panchayats; property tax for other local bodies;
- (ii) Surcharge on building tax (for panchayats only);
- (iii) Profession tax;
- (iv) Vehicle tax (other than motor vehicles tax);
- (v) Taxes on animals, birds and vessels (except for panchayats);
- (vi) Cess on land (for panchayats only);
- (vii) Service taxes (in the case of urban local bodies, service taxes form part of the property tax);
- (viii) Duty on transfer of property;
- (ix) Show tax;
- (x) Entertainment tax;
- (xi) Basic tax grant (for panchayats only);
- (xii) Tax on timber brought into the city (for municipal corporations only); and
- (xiii) Tax on advertisements (except for panchayats);

15.15 It will be seen from the list given above that most of the taxes recommended by the Taxation Enquiry Commission have been made available by the Government to the local bodies. Land tax, taxes on passengers and goods and tolls have, however, been kept outside the purview of local taxation.

15.16 In the case of land tax there is provision in the Panchayats Act for payment of about three-fourths of the basic tax collected by the Government to the respective panchayats in the form of grants, and for the distribution of the balance in the basic tax collection among the panchayats "in such proportion as may be fixed by the Government having regard to the area, population, available resources and the needs of development of the panchayats and the cost of the panchayat administration". This provision has not been implemented yet; but the quantum of grant-in-aid to panchayats has been substantially increased from 1967-68 onwards. (Against a total grant of Rs. 40.72 lakhs paid in 1966-67 the budget estimate for the current financial year (1968-69) is Rs. 97.38 lakhs). In any case the Government's intention to make the entire proceeds from basic land tax available to the panchayats is clear from the statutory provision referred to above.

15.17 In so far as taxes on goods and passengers are concerned, the Taxation Enquiry Commission recommended it as a complementary levy by those local bodies for whose benefit terminal taxes on goods or passengers carried by railway, sea or air are levied by the Union Government. No such tax has so far been levied by the Union Government for the benefit of any local body in Kerala. Therefore, the question of implementing this recommendation has not arisen so far. The State Government is, however, levying a tax on passengers and goods carried by buses and lorries, the proceeds of which form part of the general revenues of the Government.

15.18 No major bridges have so far been constructed in the State at the cost of local bodies and hence there is no question of levying tolls by the local bodies.

15.19 Thus, by and large, the recommendations of the Taxation Enquiry Commission in regard to the exclusive utilisation of certain tax sources by local bodies have been implemented in substance by the State Government. In fact, entertainment tax which has not been suggested by the Taxation Enquiry Commission in this context is being levied in Kerala by local bodies with great advantage.

The following non-tax sources of revenue are also at the disposal of local bodies in Kerala:—

- (i) Contributions from persons having control over places of pilgrimage etc;
- (ii) Market fee from public markets;
- (iii) Licence fee from Private markets;
- (iv) Fee from public landing places and cart stands etc.;
- (v) Fee for the use of public slaughter houses;

- (vi) Licence fee for private slaughter houses;
- (vii) Licence fee for slaughtering of animals;
- (viii) Licence fee for private cart stands;
- (ix) Licence fee for plumbers and fitters;
- (x) Fee for the use of burial and burning grounds and crematoria (except for panchayats);
- (xi) Licence fee for grave diggers (except for panchayats);
- (xii) Licence fee for milk trade (except for panchayats);
- (xiii) Licence fee for dogs and pigs (for panchayats only); and
- (xiv) Rents and fees for using public bathing and washing houses (for corporations only).

15.20 Though the overall financial position of the local bodies in the State is not very satisfactory, there has been a marked improvement in their revenues in recent years, and there is further scope for improvement in the years to come when they begin to get the basic tax grant from the Government and could start collecting a cess on land besides exploiting the various untapped sources of non-tax revenues available to them.

Gap between needs and resources

15.21 There is evidence to show that, with the existing local resources including governmental assistance, the local bodies have not been able to function satisfactorily. The Kerala Panchayat Association has also brought this to our notice. The legislations regarding the local bodies have specified their obligatory and discretionary functions, according to which they have to find funds for public works, street lighting, public health and sanitation, rural libraries and reading rooms, educational, cultural and social activities and so on, besides administrative expenses. We have seen that most of the taxes recommended by the Taxation Enquiry Commission (1953-54) have already been placed at the disposal of the local bodies in Kerala. Governmental aid has also been increasing with the passage of time. Even so, the existing resources together with governmental aid have not enabled the local bodies to achieve the desired level of efficiency in the discharge of their functions. Nor has there been a conscious effort towards matching their resources with their needs, except in the case of corporations and municipalities. For this purpose, it is necessary to assess the minimum level of local services that ought to be provided by various classes of local bodies and the finances required for them. An assessment on these lines was attempted in the case of corporations and municipalities in the State by the Municipal Grants Enquiry Committee (1963-64), which made some useful recommendations with a view to closing the gap between the needs and resources of urban local bodies. With the acceptance of these recommendations by the Government the finances of the urban local bodies have been considerably strengthened; but it is necessary to review the position periodically as the decisions once taken would be largely out-of-date in the course of, say, five years.

15.22 A four-fold approach is necessary for strengthening the financial position of local bodies to enable them to meet their obligations fully. First, the local bodies should be prepared to exploit to the fullest possible extent the tax surces placed at their disposal. Second the State Government should devolve adequate sources of revenue to them. This can be done by allowing them the full utilisation of certain earmarked taxes and also allocating to them certain other taxes, the proceeds of which might be distributed according to acceptable principles. Third, there should be a well-conceived system of grants-in-aid to meet the remaining gap in the resources of local bodies. And finally, a suitable system of loan finance to meet their needs of development has to be designed.

Maximisation of collection from existing sources.

15.23 Before considering new measures for strengthening the finances of local bodies, we have examined how far they have made use of the powers of taxation already bestowed on them. All committees that have studied this problem have observed that the local bodies in general are somewhat indifferent in the matter of collection of revenue. There are not only large arrears in the collection of taxes at the rates decided upon by the local bodies, but there is also considerable reluctance on their part to avail themselves of opportunities to raise the tax rates in accordance with their needs even though the relevant statutes enable them to do so. Some data regarding the incomes of panchayats and municipalities are given in the statements at the end of the chapter. It is disappointing to observe that the percentage of collection of revenue to the total demand in the case of panchayats was only 72.6 in 1965-66, 78.6 in 1966-67 and 78.5 in 1967-68. It is however, gratifying to note that some panchayats succeeded in realising cent per cent collection in 1967-68. In the case of municipalities the figures of collection in relation to demand for the years 1965-66 and 1966-67 were 81.9 per cent and 85 per cent respectively. We feel that the local bodies should be able to collect at least 95 per cent of the tax demand for each year; in cases of failure to realise this, the reviewing officers should try to find out the reasons for such failure and take remedial action.

15.24 We shall now proceed to examine how far the local bodies could have augmented their revenues if only they were prepared to utilise the powers already conferred upon them by the Acts passed by the State Legislature. In the same context, we shall also indicate the extent to which the Government might help them in maximizing the yield from their existing sources of revenue.

Property tax/building tax

15.25 The corporations and municipalities in the State are empowered by law to levy property tax (including service taxes) at rates varying between ten and twenty-five per cent of the annual rental value. Both buildings and lands come within the scope of this tax. There is no near-uniformity in the

rate of tax actually levied by these local bodies, as may be seen from the following statement:—

<i>Number of corporations and municipalities.</i>	<i>Rate (percentage) at which property tax is levied.</i>
13	10
2	11
1	12
1	12½
1	13
2	14
1	14½
1	15
1	16
1	18
1	21
1	21½
1	21¾
1	22½
<hr/> 28	

It may be seen from the above figures that, out of the three corporations and twenty-five municipalities, as many as thirteen (ie. nearly 50 per cent) levy property tax only at the minimum of ten per cent. There are, at the same time, one corporation and three municipalities, all of them in the Malabar area, which levy tax above twenty per cent. The average rate works out to only about twelve and a half per cent. There is obviously scope for enhancing the rate in the case of many municipalities, and we would recommend that the urban local bodies should immediately review the position and appropriately raise the rate of property tax by gradual stages in order to mobilise additional sources.

15.26 Under the provisions of the Kerala Panchayats Act the panchayats are empowered to levy a building tax subject to a minimum of four per cent and a maximum of ten per cent of the annual rental value. Though we have asked all the panchayats to give us information regarding the rate at which the tax is being actually collected we have got the information only from 192 panchayats. An analysis of the data furnished by them shows the following position:—

<i>Number of Panchayats</i>	<i>Rate (Percentage) at which building tax is levied</i>
128	4
2	4½
42	5
15	6
1	7
1	7½
1	9
2	10
<hr/> 192	

The above statement would show that, out of 192 panchayats regarding which information is available, 128 panchayats (ie. 66.7 per cent) levy tax at the minimum rate of four per cent only, and that as many as 187 panchayats (ie. 97.4 per cent) levy tax at rates not exceeding six per cent. It is clear from these facts that the panchayats can, if they really want, raise the collection from building tax by enhancing the rate by means of the powers conferred on them by the existing law itself. We would accordingly recommend that they should take urgent steps to raise the rate by gradual stages to an appropriate extent.

15.27. A more serious problem in regard to the levy of property tax, which has attracted world-wide attention, is that the machinery usually employed for valuation is unequal to the task. Since the tax is levied as a percentage of the annual rental value the tax potential largely depends upon the manner in which the valuation is made. Officials and non-officials alike who gave evidence before us have stated that, while on the one hand there is lack of equity and uniformity in the methods employed for the quinquennial re-assessment of the rental value of properties, on the other hand the valuation is considerably under-pitched in most cases. The present system of valuation has been a matter for criticism by all the Committees and Commissions that have gone into the problem. Many eminent writers on the subject (e. g. L. Golding and U. K. Hicks) have also referred to this matter. The Municipal Grants Enquiry Committee appointed by the Government of Kerala recommended that a central valuation agency should be employed for the quinquennial valuation for revising property tax in urban local bodies. We understand that, though the Government have accepted this recommendation in principle, the machinery is still to be constituted. The Committee of Ministers constituted by the Central Council of Local Self-Government in 1963 and the Rural-urban Relationship Committee of the Ministry of Health and Family Planning (1965) have also made out a strong case for appointing such a central machinery. According to us a central agency is required not only for the valuation of properties within the jurisdiction of urban local bodies but also for the valuation of buildings in panchayat areas. We have recommended elsewhere that the present land tax system may be replaced by a levy on land on the basis of its capital value, and that a non-recurring tax may be imposed on buildings newly constructed. Under our scheme the local tax will be confined to buildings in both urban and rural areas. We have also indicated the need for employing a machinery for the valuation of lands and buildings for the introduction of the new scheme of taxation. The same machinery can be utilised, with advantage, for the quinquennial reassessment of the rental value of buildings for the purpose of local taxation. This is perhaps the best way of ensuring proper valuation of buildings, which will no doubt bring about a marked improvement in the resources position of local bodies. We would accordingly recommend that, instead of appointing a central valuation agency for urban local bodies on the lines recommended by the Municipal Grants Enquiry Committee, the valuation machinery to be employed for the assessment of the capital value of lands and building under the new scheme of taxation suggested by us may be utilised for the

quinquennial valuation of buildings for the purpose of local taxation. It may happen that a realistic valuation by a central agency as suggested here results in an unduly large increase in the tax burden in certain local bodies. In such cases, it is for the concerned local body to suitably reduce the rate of levy.

15.28 The exemption given to properties of the Union Government from State taxation, and thus from local taxation, has adversely affected the resources of local bodies. The Taxation Enquiry Commission (1953-54) had recommended that, in the case of railway properties and other properties of the Central Government used for commercial or semi-commercial or industrial purposes, the Central Government should pay to local bodies contributions equal to the amounts which would have been paid, had the general and service taxes been levied in full. In respect of other properties of the Central Government the Commission recommended that the principles adopted by the Central Government for making payments in respect of service charges might be liberally interpreted and applied. The Committee of Ministers constituted by the Central Council of Local Self-Government, however, saw no justification for discriminating between commercial and non-commercial Departments, of the Central Government and recommended that "all Central Government properties should be made liable to levy of full taxes by the local bodies in the same manner in which State Government properties are or for that matter any private property is liable". The Rural-Urban Relationship Committee appointed by the Union Ministry of Health and Family Planning has also held that the decision in regard to the taxation of Union properties is most unsatisfactory. We would urge that the Government of India may be moved to implement, as early as possible, the recommendations of the Committee of Ministers constituted by the Central Council of Local Self-Government.

Profession Tax

15.29 The Constitution has imposed a severe limitation on the States in the matter of levying profession tax. According to Article 276, the maximum amount of profession tax leviable annually on any individual or company is Rs. 250. Since, however, the amounts that were actually collected prior to the coming into force of the Constitution were allowed to continue by means of a proviso to the article referred to above, larger amounts are still being collected in the Travancore-Cochin area from some individuals and companies. But the municipalities in the Travancore-Cochin area established after the commencement of the Constitution and all the municipalities in the Malabar area are bound by the ceiling of Rs. 250 per year imposed by Constitution. It may be mentioned here that, before the Constitution came into force, the maximum amount of profession tax leviable was Rs. 50 under the Government of India Act, 1935, and the Profession Tax Limitation Act, 1941. The enhancement of this amount to Rs. 250 was considered adequate by the framers of the Constitution. All the committees that have examined the finances of local bodies have advocated the enhancement of the limit fixed by the Constitution. As early as in 1951 the Local Finance Enquiry Committee

recommended that the ceiling on the profession tax on companies might be raised to Rs. 1,000. The Taxation Enquiry Commission in 1954 recommended that the maximum limit for profession tax in the case of individuals should be increased to Rs. 500 per annum. The Committee of Ministers referred to earlier has recommended that the maximum limit of profession tax should be raised to Rs. 500 in the case of individuals and to Rs. 2,000 in the case of companies. We recommend that the Government of India might be moved to implement this recommendation as early as possible by suitably amending Article 276 of the Constitution.

15.30 Transfer of employees in large organisations from place to place is one of the bottlenecks in the collection of profession tax. An appropriate solution to this problem appears to be the centralisation of collection, say, at the source of income, just as in the case of income-tax. Thus, the heads of all offices can be made responsible for the recovery of profession tax from the pay bills to be drawn after the issue of the demand notice, and for passing on the amount to the local body. Necessary rules may be issued for the purpose under the relevant Acts. If necessary, concurrence of the Government of India may also be taken in regard to the employees of the Central Government and of institutions under its control.

Duty on transfer of property:

15.31 There is some scope for augmenting the collections from the duty on transfer of property imposed exclusively for the benefits of local bodies. This duty is levied along with the stamp duty collected by the Government, and suitable arrangements have been made for passing on the proceeds to the concerned local bodies. The maximum rates of duty prescribed in the statutes are five per cent for corporations and municipalities and four per cent for panchayats. Only one corporation (Calicut) is levying the maximum rate while all others (whether corporations, municipalities or panchayats) are levying only three per cent. In Chapter 9 regarding stamp duties and court fees we have recommended that the stamp duty proper on conveyances might be raised to seven and a half per cent of the consideration in specified urban areas and to five per cent in other areas. Considering the phenomenal rise in the value of lands and buildings, especially in urban areas, we consider that there is justification for collecting in addition the local duty on transfer of property at the maximum rate provided for in the Acts, i.e. five per cent in corporations and municipalities and four per cent in panchayats. The Kerala Panchayat Association has stated in its memorandum that the Government has limited by rules the rate of duty leviable by panchayats to three per cent. In its opinion there is even justification to enhance the rate to seven per cent. We, however, consider that, in view of the increase suggested in regard to stamp duty proper, an enhancement of the local duty beyond four per cent may not be justified in the present context.

15.32 The Association has also brought to our notice the practice of avoiding the payment of full duty by under-stating the value of property in the instrument of conveyance, and has suggested that the duty should be imposed on "the current market value of the property prevailing in each panchayat

area as declared by the panchayat from time to time". We have recommended elsewhere that the existing system of taxation of land may be replaced by a tax on the capital value of land, and that for the purpose of stamp duty also the capital value assessed in connection with the proposed system of land tax might be adopted as the basis. If that recommendation is accepted the problem posed by the Association would automatically disappear.

Tax on Entertainments.

15.33 Entertainments can bear a higher tax burden than at present. The rates of tax prevailing in Kerala are much lower than those in the neighbouring States of Madras and Mysore (for comparative rates see Annexure I). Thus in Madras the incidence of entertainment tax for a ticket having the value of more than Rs. 1.50 comes to Rs. 1.20 approximately, whereas in Kerala such incidence for tickets of similar value works out to Re. 0.57 only even if the maximum rate prescribed is applied. There is, therefore, justification for a substantial increase in the rates of entertainment tax. According to the Kerala Local Authorities Entertainment Tax Act entertainment tax is leviable by local bodies at a rate between ten and twenty-five per cent of each payment for admission. But only very few local bodies actually levy tax at the maximum rate. If only the tax is imposed at the maximum rate permissible under the Act the collections from this source would go up by 30 to 35 per cent.

15.34 So far about the maximum utilisation of the sources of revenue placed at the disposal of the local bodies at present. We shall now come to the second point, viz., in what ways the State Government should enable the local bodies to augment their revenues.

Taxes on land and buildings.

15.35 Both the Local Finance Enquiry Committee (1949-50) and the Taxation Enquiry Commission (1953-54) have recommended that taxes on land and buildings should be exclusively placed at the disposal of local bodies. In Kerala urban local bodies are empowered to levy a property tax on land and buildings and the panchayats a tax on buildings. The Kerala Panchayats Act has also provided for the imposition of a cess for the benefit of panchayats at the rate of two paise per annum for every five cents of land or part thereof. This cess is, however, not being collected owing to legal impediments. The principal sources of revenue from land are the basic tax and the plantation tax which remain with the State Government. The Panchayat Act has, however, provided for the allocation and distribution of the proceeds of basic tax among the panchayats; but this provision has not been implemented yet. In the meantime the decision of the State Government to exempt land holdings up to two acres in extent from basic tax has substantially reduced the proceeds from this source. The Kerala Panchayat Association has pointed out that the abolition of land tax would adversely affect the resources of the panchayats and has suggested that, if the Government is bent upon abolition of the basic tax, either the

proceeds of agricultural income-tax might be given to the panchayats in lieu of land tax collections, or the panchayats might be empowered to make "a substitute 'levy on lands', having regard to the nature and fertility and the improvements effected to individual holdings". We have, in an earlier chapter, recommended the introduction of a new system of tax on land based on its capital value. We consider that the entire proceeds from this tax might be apportioned among the local bodies on the basis of well-conceived principles. In addition to this the proceeds of the non-recurring tax on new buildings based on their capital value, recommended by us, may also be allocated to the local bodies. As these taxes form a source of substantial revenue with a degree of flexibility built into the system we consider that the existing gap between the resources and needs of local bodies would be largely reduced if our proposal is accepted.

15.36. Along with the introduction of the new system of land tax the property tax being levied by urban local bodies might be converted into a building tax (recurring) based on the annual rental value of buildings, as in panchayats. The revenue from this tax will, of course, be an addition to the amount distributed among local bodies out of the proceeds of the taxes on lands and buildings referred to in the paragraph above.

Surcharges for State on local taxes.

15.37 It has been mentioned earlier that the State Government has encroached upon the domain of local bodies in certain areas of taxation. Though the local bodies have been empowered by law to levy taxes on entertainments and on professions, the State Government has imposed an additional tax on entertainments and surcharges on show tax and profession tax, the proceeds of which, after allowing to the local bodies a margin towards collection charges (two per cent), are appropriated by the Government. The representatives of local bodies who gave evidence before us were highly critical of these encroachments made by the State Government on local taxation. The Kerala Panchayat Association has also referred to this matter in its memorandum submitted to the Committee and has emphasised the need for transferring the proceeds of the additional tax and surcharges mentioned above to the local bodies. The amount actually credited to the Government from these sources in 1967-68 is given below:—

	(Rs. lakhs)
(a) Additional tax on entertainments	35.68
(b) Surcharge on show tax	3.33
(c) Surcharge on profession tax	N.A.*
	39.01

Thus, while the State Government's encroachment on the tax powers of local bodies has not helped the exchequer to any significant extent, the action of the Government has hampered the local bodies to some extent from

*N. A. Not available. The surcharge on profession tax credited to Government in 1966 amounted to Rs. 1.03 lakhs.

raising the rates or quantum of the taxes in question. We consider that, as a rule, the State Government should not impose any surcharges or additional rates on the taxes given over to the local bodies. In the case of entertainment tax, show tax and profession tax the State Government may withdraw the measures mentioned above when the local bodies suitably enhance their rates to absorb the levies made by the State Government.

15.38 While suggesting that the State Government should refrain from entering the domain of local bodies in the matter of taxation, it is necessary to treat the tax on land on a different footing. Since the Government has assumed full responsibility in the areas of education and health we consider that it should have the freedom to impose suitable cesses on land to raise a part of the resources needed for the provision of education and health services to the people.

Taxes on Motor Vehicles

15.39 Representations have been made before us that the local bodies should be given a substantially larger share than at present from the proceeds of the motor vehicles tax. The Motor Vehicles Tax Act (India), 1939, deprived the local bodies of the power to levy taxes on the mechanically propelled vehicles. Most State Governments, however, are paying compensation to make up the loss incurred by the local bodies in this regard. Normally, this amount is fixed on the basis of the average recovery for the three preceding years.

15.40 The Kerala Motor Vehicles Taxation Act, 1963, lays down (section 18) that, from the proceeds of the tax collected under the Act every year, each local body should be paid such compensation as fixed by the Government having due regard to the length of roads maintained by the local authorities and the volume of motor traffic making use of such roads. To determine the quantum of annual compensation which should be fixed in advance for every five-year period the Act provides for the appointment of a committee by the Government periodically, the decision of the Government in the matter being final.

15.41 The first committee thus appointed was asked to make recommendations for the payment of vehicle tax compensation to local bodies for the period July 1, 1963 to March 31, 1968. This committee obtained data regarding the length of roads maintained by the various local bodies under four categories: lowest type roads, metalled roads, black-topped roads and concrete roads. Applying certain formulae the committee worked out the road units under the maintenance of the P. W. D. and the local bodies respectively. In proportion to these units the compensation payable to the local bodies for the period mentioned above was determined as 4.797 per cent of the net annual proceeds from vehicle tax. Details of the recommendations of the Committee are given in Annexure II. We consider that the existing system of determining the compensation payable to the local bodies out of the proceeds of motor vehicles tax is, by and large, scientific and fair, and accordingly do not feel the necessity for changing it.

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Non-tax revenues.

15.42 Efforts to raise non-tax revenues by local bodies have largely been confined to receipts from markets, slaughter houses, fairs, ground rents, licence fees, etc. Some new non-tax sources may be thought of here. Section 149 of the Kerala Panchayats Act provides for the beneficial and remunerative use of the poramboke lands by the panchayats in the State. If the poramboke lands are placed at the disposal of the panchayats they may be able to develop them for remunerative purposes like agricultural production, which in course of time might be a steady source of income to the local bodies. The representatives of some local bodies have complained that, inspite of the provision in the Act, all sorts of impediments are made by the revenue authorities in the matter of leaving poramboke lands to the care of panchayats. We consider that the Government should prescribe some guidelines in this matter. The lands that are not required by the Government for *specific* objects can, in our view, be immediately handed over to the local bodies, subject, however, to the condition that such lands should be returned to the Government whenever they are required for any specific purpose.

15.43 It would be a worthwhile proposition to entrust to the local bodies the protection of avenue trees on the highways and other P. W. D. roads, besides trees growing on public places and compounds. They would certainly be in a better position to protect them, and the usufructs of the trees will also be a source of revenue to them.

15.44 In the search for new avenues for resource mobilisation, local bodies, especially corporations and municipalities, may hereafter think of starting commercial enterprises like cinemas, hotels and so on. Though it is possible to organise transport services in municipal areas it is advisable to let the Road Transport Corporation to nationalise road transport in accordance with its plan. About the advisability of entrusting the distribution of electricity to local bodies those who gave evidence before us expressed different views. While one section among them strongly held that corporations and municipalities would be able to offer better services to the public, another section felt that the quality of service would deteriorate in such an event. There was, however, no doubt that such a course would strengthen the financial position of the local bodies, as evidenced by the results of the running of the Trichur electricity distribution system by the municipality. We are of the view that representatives of the people would be able to take better care of local needs than the Electricity Board. It is true that only those local bodies which could build up an efficient organisation to take over such a responsibility will be able to render proper service. We would recommend that, whenever corporations and municipalities come forward with definite proposals for taking over the distribution of electricity within the limits of their jurisdiction, they should be sympathetically considered; this function may be entrusted to them on suitable terms provided the Electricity Board, after due investigation, finds that they are able to run the system efficiently.

15·45. The local bodies would require large amounts of money for undertaking remunerative enterprises of the kinds mentioned above. We shall deal with this problem towards the end of this chapter.

Development of urban land sites.

15·46 Development of land sites in urban areas, whether for residential purposes or otherwise, is a very legitimate activity which the local bodies can undertake. This should be based on a plan of land development prepared by a suitable agency after careful survey and study of the area. The main objectives of the land-use plan should be (i) to bring about planned development of the area; (ii) to check unhealthy speculation and competition in investment on lands; (iii) to regulate transfers of lands with a view to bringing about an equitable distribution; and (iv) to serve as an additional source of income to the local bodies. The scheme broadly envisages acquisition and development of land sites by local bodies well in advance, and sale of the sites for various purposes in accordance with the land-use plan referred to, thus ensuring planned development.

15·47 The details of the scheme are as follows: A reasonable ceiling may be fixed on the extent of land that an individual may possess for his residential purpose. This size may vary from one area to another. The surplus lands may be taken over under the provisions of the Land Acquisition Act and/or a special enactment for the purpose. Suitable compensation will have to be paid. The lands thus acquired may be improved either for residential purposes or for other declared objectives. Residential plots may be re-allotted to persons who do not own any house or land. The local body will have to determine the sale value after adding a reasonable margin to the costs of acquisition and development.

15·48 Here the main problem is that of funds in the initial stages for payment of compensation and land development. For this a revolving fund will have to be set up to which the Government should contribute a significant share. The possibility of getting substantial contributions from the Life Insurance Corporation and other financing institutions, besides commercial banks, may also be explored. As the scheme progresses successfully, the revolving fund would also get gradually replenished. For instance, it might be mentioned that the Delhi Development Authority with a 'revolving fund' of Rs. 3 crores in 1961 has been able to develop land worth Rs. 120 crores out of the fund.

Grants-in-aid.

15·49 Now we come to the third aspect of strengthening the finances of the local bodies, i. e., there should be a well-conceived system of grants-in-aid to meet the remaining gap in resources of the local bodies. One of the most important recommendations of the Taxation Enquiry Commission was that the State Governments should devise a grant-in-aid system for local bodies adopting the following principles:—

- “(1) There should be a basic ‘general purposes’ grant for each local body other than the bigger municipalities and corporations;

- “(2) The local bodies eligible for such grant within each category (Municipality,, Panchayat, etc.) should be classified into a few simple divisions based on population, area, resources, etc., and the grant itself related to these factors as well as to the size of the normal budget of the local bodies;
- “(3) The basic grant should be such that, after taking into account its own resources, the local body will have fairly adequate finance for discharging its obligatory and executive functions;
- “(4) The basic grant should be assured over a reasonable period of years—say, three or five—and, save for exceptional reasons, should not be, subject to alterations from year to year within that period; and
- “(5) There should, in addition, be specific grants (annual and other) which, as at present, will be for particular items and services. These should be conditional on (a) the particular service being maintained at a prescribed level of efficiency, and (b) the local body exploiting its own resources to the extent indicated by Government from time to time.”

15·50 The Government of Kerala taking the cue from the Taxation Enquiry Commission appointed a special committee [Municipal Grants Enquiry Committee (1963-64)] to go into the question of grants-in-aid to urban local bodies. This committee for the first time attempted to make an assessment of the minimum requirements of the finances of Corporations and Municipalities in the State. It estimated on the basis of a sample (6%) that the minimum financial resources needed by the urban local bodies of the State for maintaining essential civic amenities would be Rs 325 lakhs in a year, against which the resources computed came to Rs. 167 lakhs only. Thus the deficit in resources was of the order of Rs. 158 lakhs. Making due allowances for additional resource mobilisation by the municipalities, the committee estimated the gap at Rs. 125 lakhs. In order to make good this gap to the utmost extent possible, the committee recommended a scheme of grants-in-aid comprising a general purpose grant and specific purpose grants. The general purpose grant was to be determined on a per capita basis at the rate of Re. 1 for major Municipalities and Corporations and Rs. 1·50 for minor Municipalities. Grants for specific purposes equivalent to 50% of the expenditure in the case of Corporations and major Municipalities and 66 2/3% in the case of minor Municipalities were also recommended. All these recommendations have been accepted by the Government except the rate of 66 2/3% of expenditure in the case of minor Municipalities which was reduced to 50%. Apart from these, the Corporations and Municipalities are also entitled to vehicles tax compensation as indicated earlier. Grants are also given for urban improvement schemes.

15·51 This system is certainly a great improvement on the previous practices; and Kerala is one of the very few States having such a code of Municipal grants. It may, however, be pointed out that grants based on population alone, though it helps considerably to meet the local needs, is not very

scientific. For instance, the per capita grants to Corporations and Municipalities recommended by the committee referred to above have been fixed very generally, based on a sample study. This pattern might have created inequities as among individual Corporations and Municipalities.

15.52. Here a few general principles of grants-in-aid to local bodies may be enunciated. In giving grants, it has to be ensured that Local Bodies exploit their sources of revenue to the maximum and provide a reasonable standard of services and amenities to the people. Thus grants have to be correlated with the services rendered. The principle of matching grants should be fully exploited so that they may be an inducement to maximise collections by Local Bodies. Further, linking the grants with the levels of taxation and expenditure performance may also be a useful device. In the case of poorer local bodies which may stand to lose under such conditions, they may be given general purpose block grants. General purpose grants for strengthening the administrative structure of the Local Bodies and capital grants for development purposes are also necessary.

15.53 The resources position as well as the needs of individual local bodies are constantly and rapidly changing. For instance, according to the Municipal Grants Enquiry Committee the annual requirements of the corporations and Municipalities were assessed at Rs. 325 lakhs per year. The position has changed since then with a sharp rise in revenues (to Rs. 450 lakhs in 1967-68) as well as expenditures consequent on rapid urbanisation. The same is the case with the Panchayats. So far as rural local bodies in general are concerned a clear picture would emerge only after the passing of the Panchayati Raj Act. In any case, with growing popular demand for local services and amenities, the responsibilities of the local bodies are bound to increase necessitating larger outlays for their needs. Therefore, there is imperative need for a periodical review of the finances of local bodies, so that the extent of devolution from State revenues and the grants-in-aid required by each local body over a period of, say, five years can be rationally determined after making a comprehensive study of all aspects of the question.

15.54 The need for undertaking a periodical review of the finances of local bodies with a view to ensuring the provision of adequate resources to them to meet the cost of their essential services has been emphasised by the Rural-Urban Relationship Committee, which recommended the constitution of a Municipal Finance Commission. Considering the extensive powers and responsibilities that may be devolved on the rural local bodies under the proposed Panchayati Raj Act, we are of the view that there is need for a permanent Local Bodies Finance Commission in Kerala to make a comprehensive review of the financial position of all local bodies, both rural and urban, from time to time, and to make recommendations regarding (a) the allocation and distribution of land-tax among the local bodies, and (b) the grants-in-aid to be given to individual local bodies having regard to the revenues that could be raised locally with best efforts and their requirements for providing a minimum level of services and amenities to the people.

As no such comprehensive study of the finances of local bodies has been attempted so far, it may be necessary to appoint a special officer soon after the passing of the Panchayati Raj Act, for collecting and collating all the requisite information. Such a strengthening of the data-base would facilitate the work of the Local Bodies Finance Commission.

Loan finance.

15.55 Finally, local bodies require substantial amounts of capital to finance their development works such as water supply, drainage, markets, roads, commercial undertakings and so on. By and large they depend for this purpose on loans from the Government under Plan Schemes. But the allocations for these schemes by the State Government are meagre.

15.56 The local bodies derive their powers of borrowing from the Local Authorities Loans Act, 1914. Under section 3 of the Act, they are allowed to borrow money either from the State Government or from non-governmental sources with the permission of the State Government. Although this is the case, except for big cities like Bombay, Calcutta and Madras, the sources of meeting the loan requirements of local bodies are limited, and so they have to depend exclusively upon the State Governments for loans. Since the State Governments themselves are in severe financial straits, they may not be able to provide adequate finances out of the State ex-chequer.

15.57 In this context, we may re-call the suggestion made by the Rural-Urban Relationship Committee (1966) appointed by the Ministry of Health and Family Planning for the creation of a Municipal Finance Corporation, and would recommend instead the establishment of a Kerala Local Finance Corporation for advancing loans to all local bodies, whether urban or rural, for meeting the capital (mostly remunerative) requirements of their enterprises (transport, markets, cinemas, hotels, etc.). The authorised capital of the Corporation may be subscribed to by the local bodies, the Central and State Governments, financial institutions like the Life Insurance Corporation and the Unit Trust of India, and some of the Commercial Banks. In order to replenish its own resources, it is necessary that this corporation should work on purely commercial lines and have powers to issue debentures and to raise market loans guaranteed by the State Government.

Summary of conclusions and recommendations.

1. The imbalance between the obligations and resources of local bodies has to be corrected by a suitable matching of powers and finances, providing, at the same time, for the fulfilment of national priorities on the one hand and for a measure of local initiative on the other.

(Paragraph 15.9)

2. A four-fold approach is necessary for strengthening the financial position of local bodies to enable them to meet their obligations fully. First, the local bodies should be prepared to exploit to the fullest possible extent the tax sources placed at their disposal. Second, the State Government should

devolve adequate sources of revenue to them. Third, there should be a well-conceived system of grants-in-aid to meet the remaining gap in their resources. And finally, a suitable system of loan finance to meet their needs of development has to be designed.

(Paragraph 15·22)

3. The local bodies should be able to collect at least ninety-five per cent of the tax demand for each year; in cases of failure to realise this, the reviewing officers should try to find out the reasons for such failure and take remedial action.

(Paragraph 15·23)

4. There is scope for raising the rate of property tax in urban local bodies within the maximum of twenty-five per cent laid down in the Acts. They should immediately review the position and appropriately raise the rate by gradual stages.

(Paragraph 15·25)

5. Most panchayats are even now levying building tax at the minimum rate (four per cent) only. They should take urgent steps to raise the rate by gradual stages to an appropriate extent.

(Paragraph 15·26)

6. Instead of appointing a central valuation agency for urban local bodies on the lines recommended by the Municipal Grants Enquiry Committee (1963-64), the valuation machinery to be employed for the assessment of the capital value of lands and buildings may be utilised for the quinquennial valuation of buildings for the purpose of local taxation. The local body may suitably reduce the rate of levy in case it is found that the general increase in the tax burden would create hardship to the people at large.

(Paragraph 15·27)

7. The Government of India may be moved to implement, as early as possible, the recommendations of the Committee of Ministers constituted by the Central Council of Local Self-Government that "all Central Government properties should be made liable to levy of full taxes by the local bodies in the same manner in which the State Government properties are or for that matter any private property is liable".

(Paragraph 15·28)

8. The Government of India may also be moved to implement the recommendation of the Committee of Ministers referred to above to raise the maximum limit of profession tax to Rs. 500 in the case of individuals and Rs. 1,200 in the case of companies by suitably amending article 276 of the Constitution.

(Paragraph 15·29)

9. Collection of profession tax may be centralised just as in the case of income-tax. Thus, the heads of all offices may be made responsible for the recovery of profession tax from the pay bills of the employees and for passing

on the amount to the local body. Appropriate rules may be issued for the purpose under the relevant Acts. If necessary, concurrence of the Government of India may also be taken in regard to the employees of the Central Government and of institutions under its control.

(Paragraph 15.30)

10. The local duty on transfer of property may be raised to the maximum provided for in the Acts, i. e. five per cent in Corporations, and Municipalities and four per cent in Panchayats. In view of the increase suggested separately in regard to the stamp duty proper an enhancement of the local duty beyond four per cent in rural areas may not be justified in the present context.

(Paragraph 15.31)

11. There is justification for a substantial increase in the maximum rate of entertainment tax leviable under the Kerala Local Authorities Entertainment Tax Act. Since most of the local bodies are not even levying the tax at the maximum rate of twenty-five per cent already provided for in the Act, there is scope for augmenting the revenue from this source even within the limits set by the existing law itself.

(Paragraph 15.33)

12. The entire proceeds of the proposed tax on land based on its capital value may be apportioned among local bodies on the basis of well-conceived principles. In addition, the proceeds of the non-recurring tax on new buildings may also be allocated to them.

(Paragraph 15.35)

13. With the introduction of the new system of land tax the property tax being levied by urban local bodies might be converted into a building tax (recurring) based on the annual rental value.

(Paragraph 15.36)

14. As a rule the State Government should not impose any surcharge or additional rate on the taxes given over to local bodies. In the case of entertainment tax, show tax and profession tax, the additional tax and surcharges already imposed may be withdrawn when the local bodies suitably enhance their rates. The tax on land may, however, be treated on a different footing. Since the Government has assumed full responsibility in the areas of education and health, it should have the freedom to impose suitable cesses on land to raise a part of the resources needed for the provision of education and health services to the people.

(Paragraphs 15.37 and 15.38)

15. The existing system of determining the compensation payable to local bodies out of the proceeds of motor vehicles tax is, by and large, scientific and fair, and accordingly there is no need for changing it.

(Paragraph 15.41)

16. Guide-lines may be prescribed for the transfer of poramboke lands to panchayats. The lands that are not required by the Government for specific objects can be immediately handed over to the local bodies, subject, however, to the condition that such lands should be restored to the Government whenever they are required for any specific purpose.

(Paragraph 15.42)

17. The duty of protecting avenue trees on the highways and other P. W. D. roads, besides trees growing on public places and compounds, may be entrusted with the local bodies.

(Paragraph 15.43)

18. In the search for new avenues for resource mobilisation, local bodies, especially corporations and municipalities, may hereafter think of starting commercial enterprises like cinemas, hotels and so on. Whenever corporations and municipalities come forward with definite proposals for taking over the distribution of electricity within the limits of their jurisdiction, they should be sympathetically considered; this function may be entrusted to them on suitable terms provided the Electricity Board, after due investigation, finds that they are able to run the system efficiently.

(Paragraph 15.44)

19. Based on a detailed plan of land development, surplus land available in urban areas over a ceiling to be fixed by appropriate authority may be taken over under the provisions of the Land Acquisition Act and / or a special enactment for the purpose; such lands may be improved either for residential purposes or for other declared objects. Residential plots may be reallocated to persons who do not own any house or land, the sale value being determined after adding a reasonable margin to the costs of acquisition and development. A revolving fund will have to be set up for this purpose, to which the Government should contribute a significant share. The possibility of getting substantial contributions from the Life Insurance Corporation and other financing institutions, besides commercial banks, may also be explored.

(Paragraphs 15.46 15.47 and 15.48)

20. The following principles may be followed in regard to grants-in-aid to local bodies:—

- (a) it has to be ensured that local bodies exploit their sources of revenue to the maximum and provide a reasonable standard of services and amenities to the people;
- (b) as an inducement to maximise collections the principle of matching grants may be adopted;
- (c) grants may be linked with the levels of taxation and expenditure performance;
- (d) poorer local bodies which may stand to lose under the conditions indicated above may be given general purpose block grants;

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- (c) general purpose grants for strengthening the administrative structure of local bodies and capital grants for development purposes are also necessary.

(Paragraph 15.52)

21. There is need for a permanent Local Bodies Finance Commission in Kerala to make a comprehensive review of the financial position of all local bodies, both rural and urban, from time to time, and to make recommendations regarding (a) the allocation and distribution of land tax among the local bodies, and (b) the grants-in-aid to be given to individual local bodies. To begin with, i. e., soon after the passing of the Panchayati Raj Act, a special officer may be appointed for collecting and collating all the requisite information which would facilitate the work of the Commission.

(Paragraph 15.54).

22. A Kerala Local Finance Corporation may be established similar to the Municipal Finance Corporation recommended by the Rural-Urban Relationship Committee appointed by the Ministry of Health and Family Planning. The authorised capital of the Corporation may be subscribed to by the local bodies, the Central and State Governments, financial institutions like the Life Insurance Corporation and Unit Trust of India, and some of the commercial banks. It should have powers to issue debentures and to raise market loans under the State Government's guarantee

(paragraph 15.57).

Annexure I

COMPARATIVE RATES OF ENTERTAINMENT TAX

Kerala

The rate of entertainment tax leviable by the local bodies in Kerala varies from ten to twenty-five per cent on each payment for admission to any entertainment. Besides, an additional tax on entertainments is levied for and on behalf of the State Government at the following rates:—

	<i>Rate of tax</i>
Where such payment (inclusive of the entertainment tax levied) is—	
(i) below 50 paise	5 paise
(ii) 50 paise and above but does not exceed Re. 1	10 paise
(iii) over Re. 1	20 paise

The tax is collected by the concerned local authorities along with the entertainment tax and made over to the Government after deducting two per cent towards collection charges.

Madras

The Madras Entertainment Tax Act, 1939, provides for the levy of a tax on each payment for admission to any entertainment at the following rates:—

	<i>Rate of tax</i>
Where such payment is—	
(i) not more than 30 paise	One-fourth of such payment
(ii) more than 30 paise but not more than Rs. 1.50	One-third of such payment
(iii) more than Rs. 1.50	Two-fifths of such payment.

Ninety per cent of the collection is passed on to the local authorities concerned and the balance of ten per cent is retained by the Government.

In addition to the Madras Entertainment Tax Act, 1939, the State Legislature has passed a law called "Madras Local Authorities Finance Act, 1961" empowering the local authorities, i. e. corporation of Madras, municipal councils, township committees and panchayat union councils, to levy a surcharge on entertainment tax and on show tax to augment their finances.

The Act came into force on 1st April 1962 and provides for levying a surcharge at such rate, not exceeding the rate of tax indicated in the paragraph above, as the local authority may determine. The power to fix the actual rate (within the maximum rate prescribed in the Act) is vested in the local body concerned. The entire proceeds from the surcharge are passed on to the local authorities concerned.

Mysore

The rates of entertainment tax levied by the State Government are:—

Where the payment (excluding the amount of tax)	<i>Rate of tax</i>
(i) does not exceed fifty paise	Twenty per cent of such payment
(ii) exceeds fifty paise but does not exceed one rupee and fifty paise	Twenty-five per cent of such payment
(iii) exceeds one rupee and fifty paise but does not exceed three rupees	Thirty per cent of such payment
(iv) exceeds three rupees	Thirty-five per cent of such payment

In addition to the entertainment tax, the State Government is also levying a surcharge of fifty per cent of the tax.

ANNEXURE II

Recommendations of the Committee appointed under Section 18 of the Kerala Motor Vehicles Taxation Act, 1963, in regard to the payment of compensation to Local Bodies.

(a) The motor vehicle tax compensation to local bodies for each of the years from 1-7-1963 to 31-3-1968 may be paid on the basis of the percentage of the net vehicle tax revenue each year as indicated below:—

	<i>Total road units</i>	<i>Percentage of net vehicle tax revenue to be paid as compensation</i>
Municipalities and Corporations	8575	3.987
Panchayats	1606	0.745
Cannanore Cantonment Board	80	0.037
Guruvayoor Township	61	0.023
	<hr/>	<hr/>
	10322	4.797
	<hr/>	<hr/>

(The remaining 205690 road units are under the maintenance of the P.W.D. with funds provided from General Revenues and hence the payment of compensation does not arise.)

(b) As the Kerala Motor Vehicles Taxation Act came into force only on 1-7-1963, vehicle tax compensation to the various local bodies in the above proportion for the year 1963-64 may only be 75 per cent of the amounts so arrived at.

(c) The share of vehicle tax compensation payable to each of the corporations, municipalities and panchayats during every year should be worked out on the basis of the units of road length maintained by, each calculated according to the principles mentioned.

(d) Local bodies which are at present getting ad hoc amounts of compensation which are in excess of those payable according to the above rates may continue to get the amount which they are now getting till 31-3-1963.

(e) 90 per cent of the vehicle tax compensation paid to the local bodies during the previous year may be paid to them in July every year and the balance amount may be paid before January after getting final figures from the Accountant General.

(f) Grants for maintenance of non-motorable roads maintained by panchayats may be continued to be given by the Government.

(g) While making the payment of vehicle tax compensation in accordance with the recommendations of the committee detailed above, the ad hoc compensation already paid to the local bodies for the period in question has to be deducted.

The Government accepted the recommendations of the committee, subject to the following conditions:—

(a) Any other grant paid to the corporations and municipalities for maintenance of roads only (not capital expenditure or dustless surfacing, etc.) should be merged with the grants sanctioned on the basis of recommendations of the committee. This would not, however, be necessary in the case of panchayats as recommended by the committee, since the compensation to them is very small and as, in their case, the number of units of roads computed for payment of compensation is only in respect of motorable roads which form only a small fraction of the total roads maintained by them.

(b) While sanctioning disbursements of compensation the fact that there are certain Government dues outstanding against some municipalities, etc., should also be considered.

STATEMENT I

Income of panchayats for the year 1967-68

	Rs.
House Tax ..	61,02,005.42
Service Tax ..	2,79,644.51
Profession Tax ..	27,91,838.22
Vehicle Tax ..	4,70,573.26
Entertainment Tax ..	18,29,476.03
Show Tax ..	2,80,213.82
Income from Markets ..	14,84,425.68
Land Cess ..	1,72,863.83
Licence Fees ..	15,11,554.38
Duty on Transfer of property ..	1,03,49,246.79
Surcharge on Building Tax ..	21,852.12
Miscellaneous Receipts ..	1,28,01,120.51
Total ..	3,80,94,824.57
Grants ..	84,56,712.00
Total including Grants ..	4,65,51,536.57

STATEMENT II

**Details of taxes collected by the panchayats for and
on behalf of the State Government
1967-68**

<i>District</i>	<i>Surcharge on profession tax</i>	<i>Additional tax on entertainment</i>	<i>Surcharge on show tax</i>
(1)	(2)	(3)	(4)
Trivandrum	1,488.52	1,35,239.08	5,208.39
Quilon	5,358.32	1,92,283.17	7,278.82
Alleppey	4,275.58	1,20,987.87	3,886.13
Kottayam	15,468.81	2,02,069.69	8,120.82
Ernakulam	7,773.17	3,20,285.17	10,193.20
Trichur	11,918.74	2,53,409.12	11,534.26
Palghat	8,555.85	1,97,923.97	8,937.27
Kozhikode	6,123.01	2,95,982.90	7,465.45
Cannanore	4,602.79	1,78,085.80	4,760.01
Total	65,564.79	18,96,266.77	67,384.35

STATEMENT III

**Demand, collection and balance statement of panchayats
1967-68**

<i>District</i>	<i>Total demand</i>	<i>Total collection</i>	<i>Balance</i>
(1)	(2)	(3)	(4)
	Rs.	Rs.	Rs.
Trivandrum	38,75,864.62	28,08,640.14	10,67,224.48
Quilon	59,56,877.13	48,25,461.71	11,31,415.42
Alleppey	39,43,134.84	34,62,117.48	4,81,017.36
Kottayam	52,48,567.84	45,21,940.55	7,26,627.29
Ernakulam	51,25,969.14	34,09,067.55	17,16,901.59
Trichur	31,05,064.60	25,27,650.61	5,77,413.99
Palghat	60,00,415.23	44,60,882.19	15,39,533.04
Kozhikode	64,30,418.06	49,96,879.77	14,33,538.29
Cannanore	44,34,610.69	36,03,189.02	8,31,421.67
Total	4,41,20,922.15	3,46,15,829.02	95,05,093.13

Percentage of collection to demand=78.5%.

STATEMENT IV

Grants received by Municipalities* in 1966-67

	Rs.
General purpose Grant ..	14,35,034.00
Special Dearness Allowance Grant ..	62,176.00
Vehicles Tax Compensation ..	24,91,796.00
Special Project Grant ..	7,47,369.00
Total ..	<u>47,36,375.00</u>

Government revenue collected by Municipal Councils* during the year 1966-67

	Rs.
Additional Entertainment Tax ..	17,04,147.00
Surcharge on Show Tax ..	32,865.00
Surcharge on Profession Tax ..	27,589.00
Total ..	<u>17,64,601.00</u>

Demand, Collection and Balance Statement of Municipalities*

	<i>Demand</i>	<i>Collection</i>	<i>Rs. in lakhs</i> <i>Balance</i>
1965-66	299.38	245.03	53.91
1966-67	401.82	341.46	55.82

Percentage of collection to demand in

1965-66=81.9

1966-67=85

* Corporations not included.

F. CONCLUSION

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16.4 As a result, this State has become one of the heavily taxed units of the Indian Union. In a State where taxation with reference to the potential has already reached almost saturation levels, the task of discovering fresh avenues of taxation is indeed difficult. This situation has imposed severe restrictions on our efforts at locating possible sources of additional resource mobilisation. More significant than the revenue potential revealed by our analysis is the change in the overall approach indicated in our Report. We have attempted to design a new scheme of land taxation, rationalise and simplify the structure of some of the major taxes like sales tax and agricultural income-tax, and rectify the imbalances and inequities in the structure and content of most of the State taxes. We have also felt the need for streamlining the working of the public sector undertakings and increasing their productivity and profitability. Thus, an integrated, systematic and sustained effort is called for to realise the full benefit of the scheme of taxation outlined in the Report.

16.5 As evident from our recommendations the focus of our attention has been on rationalisation rather than on enhanced rates. This is done partly to temper the extreme inequities visible in the existing system and structure of taxation and partly to augment the revenues through the tightening of the tax machinery. As such the full impact of the scheme cannot be felt in the immediate present. For instance, land taxation based on the capital value of the land will take time to materialise. Similarly toning up of tax administration cannot be done all at once. Even subsidies which have lost their promotional significance can be withdrawn only by stages. At the same time equity considerations as applied to commodity taxation and personal agricultural income-tax have rendered these sources less attractive. Adjustments made in the rates and fees are also moderate. But exemptions can be withdrawn forthwith; measures to tighten the tax machinery may be generated without delay. Even the rationalisation of rates and tariff could be undertaken at an early date. Thus, if a synchronised movement in all the directions could be initiated immediately their full fiscal impact could be felt in a couple of years. What is important, therefore, is a carefully phased programme of implementation. Our estimate of additional resources is based on such an assumption.

A. Estimate of additional taxation for the Fourth Plan.

16.6 On the basis of our recommendations, the additional resources that can be raised during the Fourth Plan period (1969-74) is estimated at Rs. 35.48 crores. A statement showing the additional revenue anticipated in each year under the various items is given in the Annexure to this chapter. The assumptions underlying our estimations are briefly indicated below:—

Taxes on lands and buildings.

16.7 The scheme of taxation of land based on capital value is a highly productive and flexible source of revenue. The yield can, however, be estimated with any degree of accuracy only after a complete valuation of lands and the determination of the rate of tax. If a machinery could be created

without delay it could reasonably be expected to complete valuation of land throughout the State within a period of 3 years. During this period, expenditure may have to be incurred for the valuation of lands and other administrative arrangements. In that case the new scheme of land taxation can come into operation from 1972-73. A minimum net increase of Rs. 1 crore per annum may be targeted for the last two years of the Fourth Plan period. From this, the administrative costs incurred during the first three years, estimated to be Rs. 50 lakhs in all, may be deducted. The net additional revenue from land tax for the Fourth Plan is therefore placed at Rs. 1.5 crores.

16.8 The yield from the non-recurring tax on new buildings is assumed to be Rs. 25 lakhs a year from 1970-71 onwards. No collection is expected during 1969-70, as some time will be taken for passing the necessary legislation and for issuing rules etc.

Agricultural income-tax.

16.9 The rationalisation of the rates suggested by us may result in an increase of Rs. 36 lakhs a year in the tax revenue from companies and a reduction of Rs. 6 lakhs a year in the revenue from others (individuals, Hindu undivided families etc.); the net result is an increase of Rs. 30 lakhs a year. Credit for this amount is taken in 1969-70, with a five per cent growth rate in the subsequent years.

Sales tax.

16.10 Based on the turnover for 1966-67 an increase of Rs. 75 lakhs a year is anticipated in sales tax revenue as a result of our recommendations regarding changes in the rates. The effect of the exemption of foodgrains and firewood has also been taken into account in the above calculation. The yield for the subsequent years has been estimated to grow at seven per cent per annum.

Taxes on motor vehicles.

16.11 The additional revenue consequent on the proposed increase in the seating capacity of stage carriages is estimated at Rs. 102 lakhs. For the existing vehicles, time till March 1970 may be necessary for effecting the change. Hence the full financial effect of the proposal may be felt only from 1970-71 onwards. Credit has also been taken for the increase in revenue from vehicles newly registered (about 400 a year on an average) during the Fourth Plan period.

16.12 We have also recommended revision of the rates of fees for certain services. It is estimated that there will be an increase in revenue to the extent of Rs. 4 lakhs per annum on this account.

State excise duties.

16.13 The introduction of auction system in the case of wholesale foreign liquor shops and the levy of differential rates of luxury tax in the case of restaurants and clubs may bring in an additional revenue of Rs. 5 lakhs per annum.

Stamp duties, court fees and registration fees.

16.14 On an approximate estimation, the additional yield consequent on the revision of the rates of stamp duties, court fees and registration fees recommended by us would be about Rs. 75 lakhs during 1969-70. A five per cent increase in the subsequent years of the Fourth Plan period is also assumed. The withdrawal of the exemptions suggested by us is expected to increase the revenue by Rs. 5 lakhs a year. The check evasion of stamp duty on conveyances relating to landed property, we have suggested that the duty may be levied on the basis of the value of the property. This reform can be brought into force only when the valuation of lands for purposes of land tax is completed. Accordingly from 1972-73 onwards, credit for an additional revenue of Rs. 20 lakhs under stamp duties and registration fees together is taken in our estimations.

Electricity tariffs.

16.15 We have suggested a scheme for the rationalisation and revision of electricity tariffs to be made operative from April 1970. Based on the likely utilisation of power during the remaining years of the Fourth Plan, the additional revenue from revision of tariffs is estimated to be Rs. 12.08 crores during the above period. There will be corresponding increase in the duty which works out to Rs. 2.02 crores for the same period.

16.16 Administrative measures to improve the yield from the existing taxes and duties have been suggested by us in a number of cases. These measures include toning up of the departmental machinery, tightening of the procedures for levy and collection of tax, and plugging of loopholes for evasion. It is not possible to estimate even approximately the additional revenue that might accrue by such measures. In the case of agricultural income-tax, our studies have revealed that a large number of people deriving agricultural incomes escape taxation and that, even in the case of those who are within the net, their tax liability is not often realistically determined. Systematic efforts at a fuller exploitation of this source will result in a significant increase in the revenue. We have also suggested the desirability of aggregating agricultural and non-agricultural incomes and imposing an additional tax on the basis of such aggregation. This measure can be implemented only if the Government of India passes necessary legislation and authorises the State to make the levy. There is no doubt that in case this proposal comes through, the yield from agricultural income-tax will increase further. Under sales tax, we have recommended a higher rate for bigger hotels and catering establishments; we have also pointed out the areas where considerable evasion of tax is taking place. Succession duties and wealth tax on agricultural land are other prospective sources which can, however, be tapped only if the Centre is prepared to exploit them for the benefit of the States; this is a matter to be decided by Centre-State and inter-State consultations. The suggestions made for the more economic and fuller utilisation of forest resources if implemented may increase the yield from the forests. The State's total investment in Government commercial and industrial undertakings in Kerala is Rs. 16.72 crores and the dividend ratio during the last

three years has been less than 1 per cent. We have indicated the directions in which efforts should be made to increase their profitability. If concerted attempts are made, there is no reason why higher returns cannot be secured in the coming years. These are some of the potential sources of additional revenue which we have not taken into account while estimating the resources for the Fourth Plan.

B. Additional resources for the local bodies.

16.17 Our recommendations on the subject of local government finance have been designed to strengthen the fiscal base of the local bodies in the State, apart from increased transfers of resources from the State Government by way of grants and loans. Thus we have suggested raising the rates of property tax (building tax) and entertainment tax within the existing statutory ceilings. The duty on transfer of property can similarly be enhanced to the maxima prescribed in the Acts. The additional yield from these three items is estimated as follows:—

(i) Property tax (levied by the Corporations and Municipalities).

The maximum limits prescribed in the Act is 25 per cent of the rental value. The average rate of actual collection works out to 12.5 per cent only. The amount collected in 1966-67 was of the order of Rs. 83 lakhs. Even on a modest estimation, a fifty per cent increase over the present collections can be taken into account. The additional revenue on this basis will be Rs. 41.5 lakhs a year.

(ii) Building tax (levied by Panchayats).

The statutory ceiling is 10 per cent of the rental value. The average rate of collection is below 6 per cent; the amount collected in 1966-67 was about Rs. 61 lakhs. Assuming a minimum of fifty per cent increase over the present yield, the additional revenue can be placed at Rs. 30.5 lakhs.

(iii) Entertainment tax.

As stated in para 15.33, an increase of 30 to 35 per cent over the present collections can be anticipated if our proposal to raise the rates to the maximum permissible under the Act is given effect to. The collections from entertainment tax in all the local bodies in the State came to Rs. 45 lakhs in 1966-67. A thirty per cent average increase in the rate would fetch Rs. 13.5 lakhs a year.

(iv) Duty on transfer of property.

Panchayats now levy this duty at 3 per cent against the maximum rate of 4 per cent prescribed in the Act. Except one Corporation, all other local bodies also levy the duty at 3 per cent though the statutory ceiling in their case is 5 per cent. If our recommendation to levy the duty at the maximum rates is implemented, an additional revenue of Rs. 40 lakhs a year can be expected.

Thus, the total improvement in the finances of the local bodies under the above specified items will be Rs. 1.25 crores a year or Rs. 6.25 crores over the Fourth Plan period.

16.18. In regard to profession tax, we have suggested methods to improve collections; the enhancement of the ceilings prescribed in the Constitution suggested by us will also go a long way to augmenting the yield from this source. Incidental to the increase in the yield from motor vehicles tax as a result of our recommendations in chapter 7, there will be corresponding increase in the share of the local bodies. The suggested creation of a central valuation machinery to assess the rental values of buildings would, besides solving one of the most vexed problems facing the local bodies, increase the revenue from building tax. We have also tried to locate new potential areas of resource-mobilisation. The scheme for taking over urban lands in excess of certain limits for development and re-distribution is an instance in point. If poramboke lands are entrusted to local bodies for management as proposed by us, it will constitute another source of income for them, particularly for the panchayats. The starting of commercial enterprises like cinemas, hotels etc. is another activity that can usefully be taken up by local bodies. The distribution of electricity is yet another field of operation which can be exploited with advantage by those corporations and municipalities that can build up the necessary administrative and technical organisation. We have no doubt that, if the local bodies put forth determined efforts in these directions, they will be able to achieve a greater degree of self-reliance and fiscal stability.

C. Progress in revenue collections.

16.19. Attempts at resource mobilisation would be rendered largely infructuous if a substantial portion of the taxes and duties leviable under the existing laws is left uncollected. Side by side with the efforts for raising additional resources by means of new measures, vigorous steps have to be taken for the collection of arrears of revenue. The total revenue collected and the arrears of revenue pending collection as at the end of each of the 5 years from 1962-63 to 1966-67 were as shown below:—

Year	Total revenue collected	Arrears pending collection at the end of March	Percentage of (3) to (2)
(1)	(2)	(3)	(4)
(Rs. in crores)			
1962-63	66.02	10.98	16.63
1963-64	72.26	10.20	14.12
1964-65	80.88	10.37	12.82
1965-66	82.10	10.69	13.02
1966-67	108.69	11.64	10.71

The details of the amounts outstanding as on 31st March 1967 are:

<i>Source of revenue</i>	<i>Amount pending collection</i> (Rs. in lakhs)
1. Sales tax	483·63
2. Forest	134·19
3. Land revenue	124·51
4. Agricultural income-tax	105·64
5. Taxes on vehicles	60·26
6. Public Health Engineering	58·99
7. Irrigation	38·84
8. Police	35·05
9. State excise	30·37
10. Geological Department	27·32
11. Other sources of revenue	65·03
Total	1163·83

(Source: Audit Report for 1968)

The amounts shown above include arrears more than 10 years old. The State Finance Department has been conducting half-yearly reviews of revenue collections and urging the Departments to expedite the collection of the arrears. A review of the progress in arrear collections till the end of March 1967 conducted by that department disclosed that, except in four departments, the percentage of arrear collections was low, ranging between 2 per cent and 30 per cent.

16·20. As remarked by the Public Accounts Committee * most of the arrears could be collected if the departments undertake a comprehensive and co-ordinated drive to realise the amounts. The Heads of Departments and other supervisory officers should keep a close watch over the progress achieved in the collection of arrears and any laxity on the part of the field staff should be guarded against. Allied to this is the question of raising demands properly within the frame of the existing tax laws. In several cases (e g. assessments of sales tax, agricultural income-tax, etc), the determination of the tax liability is largely conditioned by the individual judgements of the departmental officers and hence their qualities of efficiency, competence and

* Para 12·17 of the Third Report Vol. I of the Public Accounts Committee (1967-68).

devotion to work assume importance. Leakages in revenue can to a large extent be prevented by building up the departmental organisation and developing a proper esprit decorps among the staff. The tempo of tax collections is thus linked with personnel management and administrative efficiency, with the recruitment and training procedures, with the exercise of proper supervision and vigilance by the higher officers, and above all with the attitudes and orientation of the field staff.

D. *Economy in expenditure.*

16·21. One way of improving the State's finances is by avoiding infructuous expenditure and by enforcing financial discipline. In a State like Kerala, where taxation has reached fairly high levels, recourse to economies and reduction of expenditure is of utmost importance. The need for economy in expenditure has been highlighted by the Administrative Reorganisation and Economy Committee (1965-67) thus:—

“With the implementation of the Five Year Plans, there has been a phenomenal increase in the expenditure of Government. Year after year, increasingly large outlays are provided for various schemes aimed at social and economic development. During the Fourth Plan period, the demands on the State exchequer are bound to grow still further. The need for avoiding all infructuous and wasteful expenditure is therefore greater than ever before”

16·22. We understand that steps for enforcing financial discipline and economy have been taken in the past. These measures include restricting tours outside the State, curbing expenditure on works, imposing cuts on provision for travelling allowances, banning creation of new postes, restricting the use of departmental vehicles, and so on. Government also took certain decisions on the reports of the Special Officer for Economy Measures during 1963 and 1964, involving changes in the organisation of some of the departments and reduction of staff. More recently Government ordered reduction of staff in certain cadres and reorganised certain departments on the basis of the recommendations of the Administrative Reorganisation and Economy Committee (1965-67). Action on many of the recommendations of this Committee has not, however, been completed. We need hardly reiterate that the Government should effect utmost economy in public spending without impairing the pace of development and standards of administrative efficiency. We are, however, aware of the limitations in pursuing austerity measures to their logical end. For one thing, it may result in retrenchment of staff which would aggravate the problem of unemployment. Secondly, the pursuit of economy may sometimes lead to a fall in standards of efficiency and affect the quality of the social overheads. Education and public health including medical facilities account for about 40 per cent of the total current expenditure of Government. It is common knowledge that the facilities provided in these fields are far from satisfactory and to ensure reasonable

standards in educational and medical services larger outlays are called for. Thus the areas of expenditure where economy is practicable are limited.

16·23. Operating within these constraints, the Government has to be more vigilant in the matter of financial discipline. Economy does not mean arbitrary cuts in expenditures here and there; it is more a positive virtue that should guide and influence the decisions and actions of all Departmental Officers. Maximum service with minimum outlay is a desirable motto in public spending. In other words, maximum benefit should be derived from each unit of money spent. We have no doubt that proper attention to financial discipline would pay good dividends by eliminating wastage and conserving valuable resources. Areas where large spending (eg., public works) takes place may be singled out for work studies by specialists with a view to find out whether the systems and procedures can be rationalised and whether the operational costs can be kept down. Subsidy is another aspect of expenditure which has to be kept under constant review. The object of the subsidy is to stimulate action in certain desirable directions. In certain sectors like agriculture, co-operation, cottage and small industries, several types of financial assistance are offered as an inducement to greater productive efforts. But they should be withdrawn, when once the productive processes reach the self-sustaining stage. Except in cases where they are given on purely compassionate grounds, aids and subsidies should not be given on a permanent basis. The subsidy schemes should, therefore, be reviewed from time to time and suitable action taken to reduce the aid by stages so that they do not constitute an all-time liability on the tax-payer.

Summary of conclusions and recommendations.

1. Resource mobilisation is possible not merely by recourse to additional taxation but also by prompt collection of current taxes and economy in expenditure.

(Paragraph 16·1)

2. An integrated, systematic and sustained effort is called for, to realise the full benefit of the scheme of taxation outlined in this Report. The estimate of additional resources is based on the assumption that a synchronised movement in all the directions indicated in this Report would be initiated immediately and that a carefully phased programme of implementation would be adopted by the Government.

(Paragraphs 16·4 and 16·5)

3. The additional resources estimated are Rs. 35·48 crores for the Fourth Plan period (1969-74). This estimate does not take into account the possible yield from certain potential sources of additional revenue which have been indicated in this Report. Improvement in revenue can be brought about by administrative measures aimed at toning up the Departments, tightening the procedures for collection and plugging loopholes for evasion. A fuller exploitation of agricultural income-tax and the levy of additional tax by aggregating agricultural and non-agricultural incomes will lead to significant increase in the revenue from agricultural income-tax. Succession duties and wealth tax on agricultural lands are two prospective sources to be tapped. The streamlining of the working of the commercial undertakings and the adoption of improved management and marketing techniques may bring in enhanced returns on the States investments in the industrial sector.

(Paragraphs 16·6 to 16·16)

4. The additional revenue that would accrue to the local bodies by implementing the recommendations regarding property tax, building tax, entertainment tax and duty on transfer of property will be Rs. 6·25 crores for the Fourth Plan period. The implementation of these recommendations together with the adoption of certain other measures suggested in this Report will go a long way towards ensuring a greater degree of self-reliance and fiscal stability to the local bodies.

(Paragraphs 16·17 and 16·18)

5. Heads of Departments and other Supervisory Officers should keep a close watch over the progress in the collection of arrears of revenue.

(Paragraph 16·20)

6. One way of improving the State's finances is by avoiding infructuous expenditure and enforcing financial discipline. Economy does not mean arbitrary cuts in expenditure. It is a positive virtue that should guide and influence the actions of all Departmental Officers.

(Paragraph 16·23)

7. Areas where large spending takes place may be singled out for work studies by specialists with a view to find out methods of bringing down expenditure.

(Paragraph 16·23)

8. Subsidy schemes should be reviewed from time to time and suitable action taken to reduce the aid by stages so that they do not constitute an all-time liability on the tax-payer.

(Paragraph 16·23)

Annexure

ADDITIONAL RESOURCES FOR THE FOURTH PLAN

(Rs. in lakhs)

	1969-70	1970-71	1971-72	1972-73	1973-74	Total 1969-74
1. TAXES ON LANDS AND BUILDINGS— (Chapter 4)						
(i) Land Tax based on capital value	-10	-15	-25	100	100	150
(ii) Non-recurring tax on new buildings	..	25	25	25	25	100
	-10	10	..	125	125	250
2 AGRICULTURAL INCOME-TAX— (Chapter 5)						
Rationalisation of the rates	30	32	34	36	38	170
3. SALES-TAX— (Chapter 6)						
Rationalisation of the rates	92	98	105	112	120	527
4. TAXES ON MOTOR VEHICLES— (Chapter 7)						
(i) Additional revenue due to increase in the seating capacity of carriages—						
from existing vehicles	30	102	102	102	102	
from new registrations—1969-70	9	18	18	18	18	
Do. 1970-71	..	9	18	18	18	
Do. 1971-72	..	..	9	18	18	
Do. 1972-73	..	..	..	9	18	
Do. 1973-74	..	..	..	..	9	
	39	129	147	165	183	663
(ii) Revision of fees under the Kerala Motor Vehicles Rules	4	4	4	4	4	20
	43	133	151	169	187	683
5. EXCISE DUTIES— (Chapter 8)						
Auctioning of wholesale foreign liquor shops and levy of differential luxury tax on restaurants and clubs	5	5	5	5	5	25

(Rs. in lakhs)

	1969-70	1970-71	1971-72	1972-73	1973-74	Total 1969-74	
6. STAMP DUTIES, COURT FEES AND REGISTRATION FEES—(Chapter 9)							
(i) Revision of rates	75	79	83	88	93	418	
(ii) Withdrawal of exemptions	5	5	5	5	5	25	
(iii) Levy of stamp duties and registration fees on conveyances, on the basis of the value of the property	..	..		20	20	40
	80	84	88	113	118	483	
7. ELECTRICITY TARIFFS AND DUTY—(Chapter 11)							
(i) Tariff	..	269	291	313	335	1208	
(ii) Duty	..	45	49	52	56	202	
	..	314	340	365	391	1410	
Grand Total	..	240	676	723	925	984	3548

CHAPTER 17

SUMMARY OF RECOMMENDATIONS

17.1 The various recommendations arising from the foregoing chapters are summarised in this chapter. These recommendations have been suitably classified with reference to the nature of action called for. For example, those involving Constitutional amendments are listed out in one category. Recommendations which require legislation by the Union or action by the Government of India are enumerated in the second category. Proposals necessitating inter-State consultation and joint or concerted action by the States form the third category. The next group consists of recommendations on which the State Government has to initiate action. There are also a few suggestions which have to be acted upon by the local bodies and others. These are given as the last category.

17.2 In chapter 1 we have explained our approach to the problems of State taxation. Our recommendations should be viewed against the background of the principles and objectives enunciated therein. A shift from Commodity-oriented to income and property-oriented scheme of taxation in so far as it is practicable within the Constitutional limitations and without undue sacrifice of revenue has been one of our main objectives. Thus our proposals in regard to State taxes are inter-related and should be viewed in their totality. Partial or piecemeal approach to the implementation of this Report would sometimes distort the scheme of taxation and disturb the basic changes in the overall pattern and structure of taxation envisaged in the Report. We would therefore reiterate the need for integrated and carefully phased programme of implementation on the entire set of recommendations contained in this Report.

A. Recommendations involving Constitutional amendments.

1. Corporate tax should be included in the divisible pool.

(Paragraph 2.55)

2. The Finance Commission should be made a permanent body with a permanent Secretariat.

(Paragraph 2.56)

3. The recommendation of the Committee of Ministers constituted by the Central Council of Local Self-Government to raise the maximum limit of profession tax to Rs. 500 in the case of individuals and Rs. 2,000 in the case of companies by suitably amending Article 276 of the Constitution may be implemented.

(Paragraph 15.29)

B. Other Recommendations in respect of which the Government of India has to be moved for taking action.

1. The Centre should take the requisite initiative in exploiting for the benefit of the States all the taxes enumerated in Article 269 of the Constitution.

(Paragraph 2.15)

2. The existing provisions in the Estate Duty Act regarding exemptions may be so amended that the gifts for charitable purposes made during a period of one year and other gifts made during a period of five years before the death of a person are brought within the scope of the tax.

(Paragraph 10.9)

3. Succession duties may be levied on all properties after obtaining the requisite concurrence of the States in respect of agricultural land. Until the existing difficulties in the matter of imposing succession duty could be satisfactorily solved, the main objective behind this levy can be achieved by introducing a higher degree of progressivity in estate duty.

(Paragraphs 10.7 and 10.8)

4. The States may be authorised by suitable Central legislation to levy wealth tax on agricultural land.

(Paragraph 10.6)

5. The commodities already handed over to the Centre for levy of additional excise duty, may be brought back to the ambit of State sales taxation. Till this is done, the Centre should tap more intensively the additional excise duty on these commodities.

(Paragraphs 6.24 and 2.16)

6. The Centre has made occasional inroads into the divisible pool of taxes; this practice should be given up.

(Paragraph 2.17)

7. Meeting a substantial portion of the revenue component of the State Plan (about 75 per cent) besides balancing the non-plan revenue account should be the basic principle of devolution of taxes.

(Paragraph 2.55)

8. If properly strengthened and developed, the National Development Council would be the most convenient forum for high level decision-making on all issues of national importance in planning and policy-making for development. Other outstanding inter-State or Centre-State problems could be handled by a National Consultative Council which may be constituted under Article 263 of the Constitution.

(Paragraph 2.60)

9. It is desirable that a high-powered commission be set up to review the various constitutional issues and practices affecting Centre-State relations.

(Paragraph 2.62)

10. The Centre should write-off the unremunerative portion of the outstanding debt of the States and should confine loan financing to productive schemes. The entire amounts of the postal and small savings collections from a State should be allowed to be used by that State for financing productive schemes. There should be more liberal terms of borrowing by the States from the Life Insurance Corporation and from the Unit Trust of India.

(Paragraph 2.63)

11. To enable State Governments to collect an additional tax by aggregating agricultural and non-agricultural incomes, suitable legislation may be passed by Parliament exercising the residuary powers under Entry 97 of the Union List.

(Paragraph 5.25)

12. The Indian Income Tax Act may be amended with a view to reducing the time limit for completing assessment to general income-tax from four years to three years.

(Paragraph 5.31)

13. The definition of 'agricultural income' in the Indian Income Tax Act may be amended for removing the constraint that only lands assessed to land revenue or a local rate could be subjected to the levy of agricultural income-tax.

(Paragraph 5.49)

14. The removal of the difficulties experienced by the exporters of marine products requires the concerted efforts of the Central and State Governments in respect of production, marketing and finances.

(Paragraph 6.32)

15. The Central contribution for the development of road transport in the State may be enhanced in view of the State's special needs and the higher proportion of Central contribution made available to other State Corporations.

(Paragraph 12.11)

16. The appropriate procedure of releasing Central assistance for road transport development is to route it through the Ministry of the Government of India dealing with road transport, the allocations being determined by the Ministry of Finance in conformity with the general patterns and principles of Central assistance for development.

(Paragraph 12.12)

17. The recommendation of the Committee of Ministers constituted by the Central Council of Local Self-Government that "all Central Government properties should be made liable to levy of full taxes by the local bodies in the same manner in which the State Government properties are, or for that matter any private property is, liable", may be implemented.

(Paragraph 15.26)

G. Recommendations involving inter-State Co-operation and consultation.

1. To find a solution to the problems arising out of the disparities in sales tax rates in Madras and Kerala in regard to petrol and diesel oil, efforts may be made to come to an agreement between States through inter-State consultations.

(Paragraph 6.34)

2. The problem of avoidance of sale tax by means of branch or depot transfers inter-State may be examined in consultation with other States. It may be possible to solve this problem by suitably amending the provisions of the relevant Central Acts.

(Paragraph 6.48)

3. The suggestion for the abolition of the tax on passengers and goods and the corresponding enhancement of the rates of motor vehicles tax might operate to the disadvantage of owners of transport vehicles registered in Kerala and plying in inter-State routes. To avoid such a situation, it is necessary to come to a suitable agreement with the neighbouring States.

(Paragraph 7.18)

4. For persuading the Government of India to pass suitable legislation authorising the States to levy wealth tax on agricultural land, the Government should enlist the support of other State Governments.

(Paragraph 10.6)

D. Recommendations involving action on the part of the State Government.

1. A tax based on capital value may be levied on all lands irrespective of whether they are put to productive use or not and irrespective of the purpose to which they are put to use. The rate of land tax may be expressed as a percentage of the capital value determined from time to time subject to a ceiling of one per cent.

(Paragraph 4.38)

2. There should be a valuation machinery to determine the value of lands throughout the State. The values once fixed may be in force normally for a period of five years. There should be arrangement for quinquennial revision. There should also be provision to revalue lands even during this five-year period in exceptional cases where a substantial alteration in the value has been brought about by unforeseen circumstances.

(Paragraph 4.38)

3. As an incentive for development of lands by self-efforts, a rebate on increases in value due to private investment may be given.

(Paragraph 4.38)

4. With the imposition of this tax, the basic land tax and the plantation tax that are now levied by the State Government and the property tax except on buildings that is levied by the local bodies may be discontinued. The proposal for the levy of a tax on non-agricultural lands need not also be pursued.

(Paragraph 4.39)

5. Early action should be taken to unify the laws relating to the levy of irrigation cess. The rates of irrigation cess may also be suitably revised keeping in view the objectives indicated in paragraph 4·47. Before starting collection of water cess, a detailed survey of the lands benefited by each irrigation project should be undertaken, so as to ensure that the burden of the cess falls only on those who are actually benefited by each scheme.

(Paragraph 4·47)

6. Betterment levy on lands benefited by irrigation schemes may be discontinued as the increase in capital value consequent on the advent of irrigation will be duly taken care of by the taxation of land based on capital value.

(Paragraph 4·50)

7. A non-recurring tax on buildings may be levied based on their capital value. The rates of tax may be as suggested in paragraph 4·52.

(Paragraph 4·52)

8. Consistent with the 'ability to pay' of the different income groups, the present rate structure of agricultural income-tax may be revised as indicated below:—

- (i) The exemption limit may be raised from Rs. 3,600 to Rs. 4,000 in the case of individuals and from Rs. 6,000 to Rs. 7,000 in the case of Hindu undivided families and others mentioned in Part I of the schedule to the Agricultural Income Tax Act.
- (ii) The upper limit of the zero-tax slab may be raised from Rs. 1,500 to Rs. 2,000.
- (iii) The facility for compounding may be extended to incomes not exceeding Rs. 10,000.
- (iv) Supertax may be integrated with the basic agricultural income-tax.
- (v) The schedule of rates of agricultural income-tax in respect of assesses other than companies may be revised as proposed in paragraph 5·16. This would lessen the tax burden of those in the lower income groups and ensure a greater degree of progressivity.
- (vi) On the analogy of the Central Income-tax laws, foreign and domestic companies may be taxed at different rates, the tax rate being higher in the case of foreign companies. The rate structure may be as suggested in paragraph 5·18.

(Paragraphs 5·15 to 5·18)

9. It is desirable to prescribe separate forms of return of agricultural income for companies and for other assesses.

(Paragraph 5·20)

10. The agricultural income-tax wing may be separated from the sales-tax administration and retained as a separate department and put under the control of the Member in charge of land revenue in the Board of Revenue. Suitable instructions may also be issued by the Board of Revenue to ensure maximum co-operation between the personnel of the Land Revenue and Agricultural Income-tax Departments.

(Paragraph 5·34)

11. The strength required under the different cadres forming the new Agricultural Income-tax Department may be fixed and then the posts may be filled up after ascertaining the willingness of the personnel belonging to the existing Agricultural Income-tax and Sales-tax Department. If sufficient number of persons are not opting for the new service the remaining post may be filled up by following the usual recruitment procedures.

(Paragraph 5·35)

12. In the new set up two additional posts of Appellate Assistant Commissioners and one post of Deputy Commissioner at the State headquarters, who may also function as exofficio Additional Secretary to the Board of Revenue, may be created. The Sales Tax Appellate Tribunal may continue to deal with second appeals as at present.

(Paragraphs 5·37 & 5·38)

13. It should be ensured that every plot is inspected thoroughly before it is assessed to agricultural income tax for the first time. Provision of departmental vehicles will greatly facilitate the work of the assessing officers. When an assessee specifically asks for an inspection of his holdings, his request should be complied with.

(Paragraph 5·41)

14. Under estimation of expenses is equally unjustified as under-assessment of incomes; while incomes should be assessed strictly, cultivation expenses should also be allowed on a more realistic basis.

(Paragraph 5·42)

15. The workload of the Agricultural Income Tax Officers may be reduced from the existing norm of 450 assessments to 300. Junior Agricultural Income Tax Officers may be invested with powers of assessment of incomes not exceeding Rs. 7,000 as against the existing limit of Rs. 5,000.

(Paragraph 5·45)

16. It may be examined whether suitable restrictions on the lines provided in the Indian Income Tax Act may not be imposed to prevent the abuse of the existing provisions regarding exemption of incomes from properties held under trust or other legal obligations. A complete review may be undertaken on the question of exempting incomes from lands held under trust for religious or charitable purposes.

(Paragraph 5·51)

17. A systematic survey of agricultural holdings throughout the State may be undertaken with the object of bringing under the tax net all those who have so far escaped taxation.

(Paragraph 5·54)

18. In order to achieve a greater degree of rationalisation in the sales tax structure, the following changes may be effected:—

- (i) The sales tax on luxury goods may be raised from twelve per cent to fifteen per cent.
- (ii) Low priced radios and transistors may be taken out of the list of luxury articles and the tax thereon reduced to five per cent (single point).
- (iii) bullion and specie, precious stones and ornaments made of gold and silver may be classed as luxury articles and taxed accordingly.
- (iv) The tax structure and rates in respect of some other commodities may be modified on the lines suggested in paragraph 6·27.

(Paragraph 6·27)

19. Food grains and firewood, being articles of mass consumption, may be exempted from sales tax.

(Paragraphs 6·29 & 6·30)

20. The removal of the difficulties experienced by the exporters of marine products requires the concerted efforts of the Central and State Governments in respect of production, marketing and finances.

(Paragraph 6·32)

21. While increasing the purchase tax on cocoanut and copra from two to three per cent, relief may be given to the Oil millers in the State by adopting the more feasible and practicable of the following alternatives:—

- (i) Foregoing the existing one per cent tax on sale of oil and cake;
- (ii) Collecting tax on sales at one per cent as at present and refunding the purchase tax on cocoanut and copra to the extent of two per cent;
- (iii) Increasing the tax on sales turnover from one per cent to two per cent and refunding the entire purchase tax at three per cent.

(Paragraph 6·37)

22. Among the measures that may be adopted to reduce the scope of evasion of sales tax are simplification of the tax system, drafting the laws and rules in precise and clear terms and enumeration of the taxable and non-taxable goods without vagueness and ambiguity. A constant search may be made to find out the loopholes in the laws and systems and to plug them effectively.

(Paragraph 6·45)

23. Trends of trade and channels of marketing may be studied from time to time, and suitable precautions taken to guard against suppression of turnovers and omission of transactions in the accounts of the assessees.

(Paragraph 6·45)

24. Estimates of production of all important agricultural commodities may be compiled and, after making allowances for seed and wastage, non-monetised consumption, etc., may be compared with the actual turnover assessed to tax with the object of finding out the probable extent of evasion.

(Paragraph 6·46)

25. Arrangements may be made in consultation with the railways, port authorities and the airlines, for checking goods (to be notified for this purpose) entering the State at the railway stations, ports, airports and road checkpoints along the State borders, the consignments being released only upon production of permits issued by the appropriate sales tax authority or railway receipts countersigned by such authority.

(Paragraph 6·47)

26. The feasibility of introducing double-point taxation in the case of commodities which are now taxed only at the last purchase point, such as rubber with a view to solving the problem of avoidance of tax by the sale of goods inter-State directly by the producers, may be considered. If this is feasible, the following alternative rate-structure may be considered in regard to rubber;

- (a) two per cent at the first sale point and three per cent at the last purchase point;
- (b) three per cent at the first sale point and two per cent at the last purchase point.

(Paragraph 6·49)

27. The Board of Revenue should issue stringent instructions to ensure that appeals relating to sales tax assessments are taken up in their chronological order, whether they are simple or complicated; while reviewing the progress of disposals against the prescribed norms some weightage should be given to the more complex cases.

(Paragraph 6·56)

28. All the appeal cases not yet posted for hearing as on a particular date may be segregated and disposed of by appointing special Appellate Assistant Commissioners.

(Paragraph 6·56)

29. A time-limit of six months may be fixed for disposing of fresh appeal cases; cases that are delayed beyond this period should be separately reviewed by the Board of Revenue and suitable remedial action taken.

(Paragraph 6·56)

30 It is not necessary to appoint Judicial Officers as Appellate Assistant Commissioners. But in selecting officers to the cadre of Appellate Assistant Commissioners preference should be given to persons having legal qualifications; senior officers may be posted for appellate work so that they would not only be able to maintain high standards of detachment, impartiality and justice but also inspire confidence in the public.

(Paragraphs 6·57 & 6·58)

31. An officer selected for placement as Appellate Assistant Commissioner may, before he starts functioning as appellate authority, be given training for, say, three months by attaching him to the Presiding Officer of a Civil Court, so that he may develop a judicial frame of mind.

(Paragraph 6·58)

32. There should be properly equipped reference libraries in the offices of the Appellate Assistant Commissioners and the Tribunal.

(Paragraph 6·58)

33. Prompt action should be taken on the decisions in appeal cases. Whether an order in appeal should be further appealed against should be decided within fifteen days in normal cases. Even in complicated cases the matter should be accorded a high priority at all levels.

(Paragraph 6·60)

34. Refunds arising out of the decisions of appellate authorities should be given promptly; complaints of delay in this matter should receive serious attention.

(Paragraph 6·61)

35. Decisions of appellate authorities and High Court having a bearing on future assessments should be quickly brought to the notice of all assessing officers. The Board of Revenue should also issue suitable clarifications and instructions based on judicial verdicts for the guidance of the assessing authority.

(Paragraph 6·62)

36. Formal application for compounding tax need not be insisted upon; all dealers whose turnover is within the prescribed limits may be enabled to pay tax at compounded rates without further formalities. Necessary amendments may be made in the Act and Rules for this purpose.

(Paragraph 6·63)

37. The taxable turnover, and not the total turnover, may be the basis for allowing composition of tax.

(Paragraph 6·64)

38. As in the case of dealers in cooked food the compounded rates may be expressed in terms of fixed sums in the case of other dealers also. The rates suggested in paragraph 6·64 may be adopted for this purpose.

(Paragraph 6·64)

39. As it appears that there is a good deal of evasion of tax by the proprietors of hotels and restaurants, the sales tax department may take steps to pay more attention to this sector, so that all those who have escaped tax are brought into the net.

(Paragraph 6-68)

40. Cases of hardship arising out of the assessments made in respect of small bakeries while biscuits and cakes were liable to single-point sales tax may be viewed with sympathy and appropriate relief given by way of partial remission of the tax due.

(Paragraph 6-69)

41. Food served in hotels with an annual turnover of not less than Rs. 2 lakhs may be taxed at a higher rate of ten per cent.

(Paragraph 6-70)

42. A committee may be constituted in the sales tax department to examine all the existing forms and registers and to make recommendations to simplify them to the extent possible and to eliminate those which do not serve any useful purpose.

(Paragraph 6-71)

43. The Board of Revenue may issue a set of instructions to the subordinate officers for improving the relations between the public and the sales tax department.

(Paragraph 6-74)

44. Important decisions taken by the Government or the Department which are of interest to the dealers may be published from time to time.

(Paragraph 6-74)

45. Senior officers in the Board of Revenue should, in the course of their tours, contact representatives of trade and commerce, and devise [and implement measures by which an atmosphere of co-operation could be established between the department and the dealers.

(Paragraph 6-74)

46. The sales tax department may issue bulletins or start a regular journal for the benefit of the dealers, who may be enlisted as subscribers to the journal. Authoritative interpretations of law, useful summaries of judicial verdicts and of departmental instructions may be given in the journal.

(Paragraph 6-75)

47. The Sales Tax Advisory Committee may be revived as early as possible.

(Paragraph 6-76)

48. The tax on passengers and goods may be abolished and the rates of motor vehicles tax correspondingly enhanced.

(Paragraph 7-17)

49. The proposal submitted by the Motor Vehicles Department to the Government for revision of the seating capacity of vehicles of different wheel-bases may be accepted. Time till the end of March, 1970 may be allowed to the operators for completing the conversion of existing vehicles fitting them into the new seating pattern. In the case of transport vehicles to be newly put on the road, provision of seats under the revised formula can be insisted upon as a condition precedent to registration.

(Paragraphs 7.24 & 7.25)

50. The fees prescribed under the Kerala Motor Vehicles Rules may be revised as recommended in the Annexure to Chapter 7.

(Paragraph 7.26)

51. Early steps may be taken to fix suitable norms of workload and to strengthen the clerical and other staff of the Motor Vehicles Department to the extent found necessary on the basis of such norms.

(Paragraph 7.28)

52. While agreeing that the decisions to dispense with the system of maintenance of D. C. B. accounts in respect of all non-transport vehicles is a step in the right direction, it is considered necessary to adopt other appropriate measures, like periodical checking of such vehicles enroute, to ensure that taxes are being paid without default by their owners.

(Paragraph 7.29)

53. An accounts branch may be organised in each of the Regional Transport offices under a Head Accountant.

(Paragraph 7.29)

54. It is desirable to have a properly organised Planning and Development Wing at the headquarters of the department so as to make a systematic study of taxation and the problems relating to transport development.

(Paragraph 7.30)

55. Suitable arrangements may be made in the Motor Vehicles Department to ensure proper supervision over the work done by the subordinate officers.

(Paragraph 7.31)

56. Effective measures may be taken to counter the tendency on the part of certain excise contractors to monopolise the auctions; new contractors may be inducted into those areas where monopoly has been established. In this connection the question of giving the right of vend to tappers' co-operative societies on suitable terms, in places where such a course of action is feasible may also be carefully considered. The problem has in any case to be tackled from a long term point of view.

(Paragraph 8.10)

57. Systematic and continuous efforts should be made to root-out illicit distillation, smuggling and misuse of medicinal and toilet preparations or industrial alcohol. The department should be geared for this purpose by strengthening the staff or providing adequate vehicles or by other suitable measures.

(Paragraph 8.12)

58. The proposal for the establishment of a Government distillery may be taken up when the supply position of molasses improves.

(Paragraph 8.13)

59. The system of licensing wholesale foreign liquor shops may be discontinued and these shops may be sold in auction.

(Paragraph 8.15)

60. Differential rates of luxury tax based on the turnover in the case of restaurants and on the number of members in the case of clubs, may be adopted in the place of the existing flat rates. The rates indicated in paragraph 8.16 may be followed.

(Paragraph 8.16)

61. Stamp duties (non-judicial stamps) may be rationalised and simplified on the lines indicated in the Schedule to Chapter 9.

(Paragraphs 9.10 to 9.14)

62. Most of the existing exemptions from stamp duty are in the nature of hidden subsidy, and can therefore be withdrawn. Only those exemptions which are listed at the end of Chapter 9 need be continued.

(Paragraph 9.16)

63. The most effective method of dealing with evasion of stamp duty will be to relate the duty on conveyance of immovable properties to their capital value.

(Paragraph 9.19)

64. The Court fees payable in certain cases may be revised as indicated in paragraph 9.24. The value of properties determined for levying land tax based on capital value under the new scheme proposed in Chapter 4 can be prescribed as the basis for determining court fee also.

(Paragraphs 9.24 & 9.26)

65. The fees for registration of documents may be enhanced as indicated in paragraphs 9.29, 9.31, 9.32, 9.34 and 9.35. Exemptions may be withdrawn to the extent suggested in paragraphs 9.30 and 9.33.

(Paragraphs 9.29 to 9.35)

66. For detecting evasion of stamp duty, there is need for a systematic check of the documents after registration; this can be done by the internal audit wing recently created in the Registration Department.

(Paragraph 9.36)

67. The promulgation of a unified law to regulate the conduct of chitties and kuries in the whole State may be expedited.

(Paragraph 9.37)

68. The Government of Kerala and the State Electricity Board should impress upon the Planning Commission, the Government of India and the State Governments in the southern region about the efficiency of investments in the power sector in Kerala and the possibility of power supply at relatively cheap rates provided the neighbouring States agree to make large-scale purchases of power from Kerala.

(Paragraph 11.28)

69. A more balanced investment pattern is required in respect of power generation capacity on the one hand and the transmission and distribution system on the other.

(Paragraph 11.35)

70. There is need for a detailed and scientific enquiry into the structure of electricity tariffs in Kerala with a view not only to making the Electricity Board a growing and profitable concern but also to ensuring that the rate-structure performs the role of promoting economic development in the various sectors of industry and agriculture.

(Paragraph 11.46)

71. The wrong policy of long term contractual obligations as in the case of the present special rates of power tariff should be clearly avoided in the future. Special rates negotiated in individual cases wherever new industrial ventures are involved should take into account the relative economics of the particular industrial venture.

(Paragraph 11.47)

72. Entrepreneurs wishing to start new industries in the State may be given a suitable rebate in the power rates for an initial period of three to five years.

(Paragraph 11.57)

73. The scheme of nationalising all long-and medium-distance routes alone during the Fourth Plan period is found more practicable than a scheme of complete nationalisation.

(Paragraph 12.10)

74. The primary task of the Government should be to ensure that the investments on the public sector undertakings become revenue-generating assets, thereby enabling the Government to raise more non-tax revenues.

(Paragraph 13.7)

75. The financial advisers of Government industrial concerns should not only be experts in the field of financial management but should have adequate experience in industrial management and marketing. Modern financial management should be introduced as a necessary element in the day-to-day management decision-making of the public undertakings, rather than as an extended arm of the bureaucratic control mechanism of the Government.

(Paragraph 13.10)

76. The recommendations of the Administrative Reforms Commission which have relevance to the Government undertakings in the State may be identified and appropriate remedial measures initiated.

(Paragraph 13.11)

77. There is scope for integrating some of the public sector concerns in Kerala into 'sector corporations' in order to bring about maximum operational economics, better personnel management and so on.

(Paragraph 13.12)

78. A sector corporation may be formed by integrating the proposed forest corporation, the existing Forest Industries (Travancore) Limited and the Plantation Corporation of Kerala.

(Paragraph 13.13)

79. It is necessary to detect the causes for the defective working of each public sector undertaking and to take immediate action to rectify the defects so that the performance of the companies can be made more satisfactory.

(Paragraph 13.17)

80. A management cadre may be created for running all the commercial and industrial units in which the Government of Kerala has effective control. All officers in the Government administrative services may be given option to join the management cadre. Once they are absorbed in the new cadre, they should not be transferred back to general administration. Recruitments may also be made from industry and trade.

(Paragraph 13.18)

81. Necessary steps may be taken to ensure a steady supply of mercury to the Travancore-Cochin Chemicals Limited.

(Paragraph 13.86)

82. It is high time that the Government takes a clear stand on the question of encroachments of forest lands, declare their policy in unambiguous terms and adhere to it faithfully. The demarcation of reserve forests should be completed as quickly as possible.

(Paragraph 14.12)

83. A Master Plan for forest management may be drawn up so that the prescriptions in the working plans can be related to the schedules and programmes contained in the Master Plan and co-ordinated with the Five Year Plan Schemes.

(Paragraph 14.14)

84. The forestry schemes should be oriented to the requirements of the industry; a comprehensive survey of the existing forest resources vis-a-vis the needs of the industries may be undertaken. Improvement and diversification of the forest stock to cater to the needs of a growing industrial sector should motivate the formulation and implementation of forestry policies. A properly organised research wing will impart greater dynamism in the forest management policies.

(Paragraph 14.15)

85. Efforts should be made to put to economic utilisation the trimmings and other waste materials arising out of the extraction of timber.

(Paragraph 14·16)

86. It is not advisable to permit grazing of cattle in the forest except in areas which can be converted into grazing circles. At other places the system of cutting grass under departmental supervision and selling it outside the forest areas may be followed.

(Paragraph 14·17)

87. It is not worthwhile to introduce the system of departmental collection of minor forest produce. Any abuses in the present system of auctioning should be prevented by the vigilance of the departmental staff. In areas where there is a concentration of Hill Tribes the possibility of organising them into co-operative societies and entrusting the collection of minor forests produce to such societies may be explored.

(Paragraph 14·18)

88. The Forest Department should not be burdened with purely agricultural operations like the raising of pepper and cardamom plantations. The proper course would be to demarcate the areas suitable for such plantations and entrust the work to a public corporation. Either the existing Plantation Corporation of Kerala Limited may be entrusted with these items also, or a new public corporation may be formed for the planting of pepper, cardamom, oil palms, etc.

(Paragraph 14·19)

89. The department should be toned up with a view to check effectively smuggling and pilferage of forest produce.

(Paragraph 14·20)

90. A public corporation may be formed for the exploitation of forest resources. While organising the corporation it has to be ensured that it is manned by competent personnel having not only technical know-how in forestry operations, but business acumen, knowledge of marketing and sales techniques and managerial skills. The whole range of activities from collection of forest produce to their disposal may be entrusted to the Corporation.

(Paragraph 14·23)

91. The imbalance between the obligations and resources of local bodies has to be corrected by a suitable matching of powers and finances providing at the same time for the fulfilment of national priorities on the one hand and for a measure of local initiative on the other.

(Paragraph 15·9)

92. A four-fold approach is necessary for strengthening the financial position of local bodies to enable them to meet their obligations fully. First, the local bodies should be prepared to exploit to the fullest possible extent the tax sources placed at their disposal. Second, the State Government should devolve adequate sources of revenue to them. Third, there should be a well-conceived system of grants-in-aid to meet the remaining gap in their resources. And finally, a suitable system of loan finance to meet their needs of development has to be designed.

(Paragraph 15·22)

93. Collection of profession tax may be centralised just as in the case of income-tax. Thus, the heads of all offices may be made responsible for the recovery of profession tax from the pay bills of the employees and for passing on the amount to the local body. Appropriate rules may be issued for the purpose under the relevant Acts. If necessary, concurrence of the Government of India may also be taken in regard to the employees of the Central Government and of institutions under its control.

(Paragraph 15.30)

94. The local duty on transfer of property in panchayat areas may be raised to the maximum provided for in the Kerala Panchayats Act, 1960 viz. 4 per cent.

(Paragraph 15.31)

95. The entire proceeds of the proposed tax on land based on its capital value may be apportioned among local bodies on the basis of well-conceived principles. In addition, the proceeds of the non-recurring tax on new buildings may also be allocated to them.

(Paragraph 15.35)

96. With the introduction of the new system of land tax, the property tax being levied by urban local bodies might be converted into a building tax (recurring) based on the annual rental value.

(Paragraph 15.36)

97. As a rule the State Government should not impose any surcharge or additional rate on the taxes given over to local bodies. In the case of entertainment tax, show tax and profession tax, the additional tax and surcharges already imposed may be withdrawn when the local bodies suitably enhance their rates. The tax on land may, however, be treated on a different footing. Since the Government has assumed full responsibility in the areas of education and health, it should have the freedom to impose suitable cesses on land to raise a part of the resources needed for the provision of education and health services to the people.

(Paragraphs 15.37 and 15.38)

98. Guide-lines may be prescribed for the transfer of poramboke lands to panchayats. The lands that are not required by the Government for specific objects can be immediately handed over to the local bodies, subject, however, to the condition that such lands should be restored to the Government whenever they are required for any specific purpose.

(Paragraph 15.42)

99. The duty of protecting avenue trees on the highways and other P. W. D. roads, besides trees growing on public places and compounds may be entrusted with the local bodies.

(Paragraph 15.43)

100. Whenever corporations and municipalities come forward with definite proposals for taking over the distribution of electricity within the limits of their jurisdiction, such requests should be sympathetically considered; this function may be entrusted to them on suitable terms provided the Electricity Board, after due investigation, finds that they are able to run the system efficiently.

(Paragraph 15.44)

101. Based on a detailed plan of land development, surplus land available in urban areas over a ceiling to be fixed by appropriate authority may be taken over under the provisions of the Land Acquisition Act, and/or a special enactment for the purpose; such lands may be improved either for residential purposes or for other declared objects. Residential plots may be reallocated to persons who do not own any house or land, the sale value being determined after adding a reasonable margin to the costs of acquisition and development. A revolving fund will have to be set up for this purpose, to which the Government should contribute a significant share. The possibility of getting substantial contributions from the Life Insurance Corporation and other financing institutions, besides commercial banks, may also be explored.

(Paragraphs 15.46, 15.47 and 15.48)

102. The following principles may be followed in regard to grants-in-aid to local bodies:

- (a) it has to be ensured that local bodies exploit their sources of revenue to the maximum and provide a reasonable standard of services and amenities to the people;
- (b) as an inducement to maximise collections the principle of matching grants may be adopted;
- (c) grants may be linked with the levels of taxation and expenditure performance;
- (d) poorer local bodies which may stand to lose under the conditions indicated above may be given general purpose block grants;
- (e) general purpose grants for strengthening the administrative structure of local bodies and capital grants for development purposes are also necessary.

(Paragraph 15.52)

103. There is need for a permanent Local Bodies Finance Commission in Kerala to make a comprehensive review of the financial position of all local bodies, both rural and urban, from time to time, and to make recommendations regarding (a) the allocation and distribution of land tax among the local bodies, and (b) the grants-in-aid to be given to individual local bodies. To begin with, i. e., soon after the passing of the Panchayati Raj Act, a special officer may be appointed for collecting and collating all the requisite information which would facilitate the work of the Commission.

(Paragraph 15.54)

104. A Kerala Local Finance Corporation may be established similar to the Municipal Finance Corporation recommended by the Rural-Urban Relationship Committee appointed by the Ministry of Health and Family Planning. The authorised capital of the Corporation may be subscribed to by the local bodies, the Central and State Governments, Financial institutions like the Life Insurance Corporation and Unit Trust of India, and some of the commercial banks. It should have powers to issue debentures and to raise market loans under the State Government's guarantee.

(Paragraph 15.57)

105. Resource mobilisation is possible not merely by recourse to additional taxation but also by prompt collection of current taxes and economy in expenditure.

(Paragraph 16·1)

106. Heads of Departments and other supervisory officers should keep a close watch over the progress in the collection of arrears of revenue.

(Paragraph 16·20)

107. Areas where large spending takes place may be singled out for work studies by specialists with a view to find out methods of bringing down expenditure.

(Paragraph 16·23)

108. Subsidy schemes should be reviewed from time to time and suitable action taken to reduce the aid by stages so that they do not constitute an all-time liability on the tax-payer.

(Paragraph 16·23)

109. An integrated, systematic and sustained effort is called for, to realise the full benefit of the scheme of taxation outlined in this Report. The estimate of additional resources is based on the assumption that a synchronised movement in all the directions indicated in this Report would be initiated immediately and that a carefully phased programme of implementation would be adopted by the Government.

(Paragraphs 16·4&16·5)

E. Recommendations on which action has to be taken by others.

I. Kerala State Electricity Board.

1. All efforts have to be made by the Electricity Board to achieve a return of 9·5 per cent (excluding proceeds from electricity duty) on the capital base by the year 1970-71.

(Paragraphs 11·11&11·19)

2. The Government of Kerala and the State Electricity Board should impress upon the Planning Commission, the Government of India and the State Governments in the southern region about the efficiency of investments in the power sector in Kerala and the possibility of power supply at relatively cheap rates provided the neighbouring States agree to make large-scale purchases of power from Kerala. The Electricity Board should also evolve a price strategy based essentially on the principle of 'incremental costing' so that additional sales can be effected, thereby making at least marginal contributions to profitability.

(Paragraph 11·28)

3. The primary objective of the Electricity Board should be the attainment of a desired "sales effort" identified in terms of very clearly laid down sales targets.

(Paragraph 11·29)

4. The outlook of every power engineer should be so re-oriented as to encourage him to look out for fields of developing power loads. The achievement of the engineers should be measured in terms of load development and consequent increases in revenue in his area.

(Paragraph 11·30)

5. The existing minimum guarantee system needs to be reviewed; a liberalisation of the terms of minimum guarantee with a view to expand the consumption of power supply is necessary in the present context.

(Paragraph 11·31)

6. The Electricity Board should evolve suitable work norms for various categories of personnel and improve managerial techniques at all levels with a view to ensuring maximum productivity. The special study currently being made by the National Productivity Council should be given all the importance it deserves, so that full advantage is taken of its considered recommendations for achieving maximum economy in the utilisation of personnel.

(Paragraph 11·32)

7. In the present situation of increasing unemployment in the country, productivity techniques should aim at reducing cost per unit of output or service through better organisation of productive operations and by cutting down unnecessary overhead expenses and avoidable waste, and not by labour-saving devices like mechanisation or computerisation.

(Paragraph 11·33)

8. The procedure of purchase and provisioning of stores has to be rationalised so that only essential items are purchased and stocked for the minimum period necessary. In the matter of training for inventory control, the Board should take full advantage of the specialised assistance provided by the Indian Statistical Institute.

(Paragraph 11·34)

9. A more balanced investment pattern is required in respect of power generation capacity on the one hand and the transmission and distribution system on the other.

(Paragraph 11·35)

10. As a norm it may be stipulated that the losses of electricity in transmission should be kept below 15 per cent.

(Paragraph 11·36)

11. Unless the present set-up of the Board, with distorted emphasis on the production function to the utter neglect of the marketing functions, is remodelled on modern lines, the quest for profitability has no chance of success. The senior and middle management of the Board should be given the necessary reorientation in such diverse fields as marketing, marketing research, operation research, network techniques and modern management practices in general.

(Paragraph 11·37)

12. Since the attempts to increase the profitability of the Electricity Board should be concentrated on the marketing or selling effort, it is not proper to enhance Electricity rates across the line for covering 'anticipated' revenue deficits. However, there is some scope for revising certain rates upwards as a supplementary measure.

(Paragraph 11.38)

13. There is need for a detailed and scientific enquiry into the structure of electricity tariffs in Kerala with a view to not only making the Electricity Board a growing and profitable concern, but also to ensure that the rate-structure performs the role of promoting economic development in the various sectors of industry and agriculture.

(Paragraph 11.46)

14. The wrong policy of long-term contractual obligations as in the case of the present special rates should be clearly avoided in the future. Special rates negotiated in individual cases, wherever new industrial ventures are involved, should take into account the relative economics of the particular industrial venture. Though it is not possible to lay down rigid rules in this regard, it is advisable and even necessary to formulate general guide-lines for administrative action and tariff negotiations.]

(Paragraph 11.47)

15. A market survey may be conducted to determine the demand pattern and the rate structure conducive to promoting sales in respect of combined lighting and power loads (all-electric homes). If such studies would indicate the relative insensitivity of the consumers to changes in power rates, there will be a good case for raising the rates relating to this category of consumers.

(Paragraph 11.59)

16. Electricity tariffs may be revised as suggested in paragraphs 11.60, 11.61, 11.62, 11.65, 11.66 and 11.67. The revision may be implemented from the beginning of the financial year 1970-71.

(Paragraphs 11.60 to 11.62
and 11.65 to 11.68)

17. Entrepreneurs wishing to start new industries in the State may be given a suitable rebate in the power rates for an initial period of three to five years.

(Paragraph 11.67)

18. A regular supply of power to the Kerala Ceramics Ltd. should be ensured in view of the fact that its efficient working is largely dependent on firm power supply.

(Paragraph 13.42)

II. Kerala State Road Transport Corporation.

1. A new tyre retreading unit may be set up at central place in the State. It should be ensured that tyres are withdrawn as and when they are due for retreading, so that their life can be prolonged.

(Paragraph 12.14)

2. The inventory policies should be so designed that, while ensuring that capital is not unnecessarily locked up, sufficient stock is maintained to meet the requirements for a reasonable period. Utmost economy has to be exercised in the use of spare parts; necessary safeguards should be taken to ensure that opportunities for pilferage and malpractices are reduced.

(Paragraph 12.15)

3. The Corporation should build up the expertise and technical know-how to fabricate and improvise spare parts. A system of incentives and awards may be introduced to tap the available talent. Reconditioning of old parts may be resorted to, wherever possible, before new parts are fitted up in vehicles.

(Paragraph 12.15)

4. Considering the size of the wage bill in relation to the total working expenses, it is necessary to ensure that the existing man-power is deployed and utilised to the best advantage. Over a period of time it should be possible to bring down the expenditure by curtailing the growth of staff.

(Paragraph 12.16)

5. Special studies of the working of the city services may be undertaken and sustained efforts made to streamline the system so as to make them more remunerative.

(Paragraph 12.17)

6. The Corporation should address itself to the tasks of training and shaping the human resources, building up the necessary operational skills, so as to enable it to face up to the responsibilities that should devolve on it consequent on the nationalisation of road transport services throughout the State.

(Paragraph 12.19)

III. Government Industrial Concerns.

1. The role of financial advisers should be played by persons who are not only experts in the field of financial management, but who have, in addition, adequate experience in industrial management and marketing. Modern financial management should be introduced as a necessary element in the day-to-day management decision-making of the public undertakings, rather than as an "extended arm" of the bureaucratic control mechanism of the Government.

(Paragraph 13.10)

2. It is necessary to detect the causes for the defective working of each public sector undertaking and to take immediate action to rectify the defects so that the performance of the companies could be made more satisfactory.

(Paragraph 13.17)

3. The top management of each company should have qualified experts in fields like finance and accounts, planning and personnel management and labour administration. At least the major public sector undertakings should have the following categories of personnel:—

- (a) Economics and statisticians having specialisation in marketing and operations research.
- (b) Chartered and cost accountants with specialisation in management accounting.
- (c) Personnel managers and labour welfare officers.
- (d) Materials management experts.
- (e) Industrial engineers having knowledge in work study and productivity.

(Paragraph 13.17)

4. Improvements in the working in the Kerala Soaps and Oils Limited may be made with a view to increase its profitability. The cost of production of Vanaspathy in the Hydrogenation unit may be reduced by utilising its full capacity; the sales and marketing organisation of the company may be improved; a research and development section may be organised; and export possibilities for the products may be explored.

(Paragraph 13.30)

5. Efforts should be made to introduce product planning in the Kerala Electrical and Allied Engineering Company Ltd. and to reduce the cost of production. It is necessary to improve the quality of inspection at the various stages of production. The sales organisation also requires attention.

(Paragraph 13.37)

6. The imbalance in the working of the Kerala Ceramics Limited may be minimised by enhancing the kiln capacity. To improve the quality of the products a ceramic transfer picture manufacturing plant may be installed. It is also necessary to modernise the method of mining and washing china clay. Efforts should be made to capture domestic and foreign markets by adopting modern marketing methods. It is also necessary to improve its products by research. A proper assessment of the staff requirement may be made and steps taken to absorb the surplus personnel in future vacancies.

(Paragraph 13.42)

7. The Travancore Plywood Industries Limited should utilise its full machine capacity and improve the sales organisation. There is need for substantial improvement in the management practices of the company especially in the area of product-planning.

(Paragraph 13.49)

8. It is imperative that the Trivandrum Rubber Works Ltd., expands the production of cycle rims, as the rim unit of the company is the most profitable one. Attempts should also be made to capture more markets.

(Paragraph 13.54)

9. The pricing policy of the Trivandrum Spinning Mills, Ltd., should be re-examined with a view to avoiding loss to the company. At the same time efforts should be made to reduce the cost of production by product-planning and increasing the efficiency of the production function, besides improving the sales organisation.

(Paragraph 13.60)

10. The Forest Industries (Travancore), Ltd., should make efforts to diversify its products and to increase production. Every endeavour should also be made to capture more markets.

(Paragraph 13.66)

11. The Pallathra Bricks and Tiles, Ltd., should try to reduce the cost of production by the application of modern technology and by double shifts, besides popularising its product by intensive publicity and other measures.

(Paragraph 13.70)

12. Attempts have to be made by the Traco Cable Co. Ltd., to capture markets by improving its marketing system.

(Paragraph 13.77)

13. The Travancore Cochin Chemicals Limited, should bring down the cost of sales by appropriate management and marketing action.

(Paragraph 13.86)

14. The cost of production of titanium dioxide manufactured by the Travancore Titanium Products Ltd., should be reduced by appropriate managerial action. There is also need for vigorous marketing efforts particularly in respect of export sales.

(Paragraph 13.94)

15. The United Electrical Industries Limited, should make efforts to capture new markets outside the State. The company should continuously search for new items on the product line. Efforts should also be made to reduce further the cost of production.

(Paragraph 13.100)

IV. Local Bodies

1. The local bodies should be able to collect at least ninety-five per cent of the tax demand for each year; in cases of failure to realise this, the reviewing officers should try to find out the reasons for such failure and take remedial action.

(Paragraph 15.23)

2. There is scope for raising the rate of property tax in urban local bodies within the maximum of twenty-five per cent laid down in the Acts. They should immediately review the position and appropriately raise the rate by gradual stages.

(Paragraph 15.25)

3. Most Fanchayats are even now levying building tax at the minimum rate (four per cent) only. They should take urgent steps to raise the rate by gradual stages to an appropriate extent.

(Paragraph 15.26)

4. Instead of appointing a central valuation agency for urban local bodies on the lines recommended by the Municipal Grants Enquiry Committee (1963-64), the valuation machinery to be employed for the assessment of the capital value of lands and buildings may be utilised for the quinquennial valuation of buildings for the purpose of local taxation. The local body may suitably reduce the rate of levy in case it is found that the general increase in the tax burden would create hardship to the people at large.

(Paragraph 15.27)

5. The local duty on transfer of property may be raised to the maximum provided for in the Acts, i. e., five per cent in Corporations and Municipalities.

(Paragraph 15.31)

6. There is justification for a substantial increase in the maximum rate of entertainment tax leviable under the Kerala Local Authorities Entertainment Tax Act. Since most of the local bodies are not even levying the tax at the maximum rate of twenty-five per cent already provided for in the Act, there is scope for augmenting the revenue from this source even within the limits set by the existing law itself.

(Paragraph 15.33)

7. In the search for new avenues for resource-mobilisation local bodies especially corporations and municipalities may think of starting commercial enterprises like cinemas, hotels and so on.

(Paragraph 15.44)

M. J. K. Thavaraj, Chairman

(Sd.)

C. Achutha Menon, Member

(Sd.)

R. Sankar, Member

K. Chandrasekharan, Member

(Sd.)

T. Abdulla, Member

(Sd.)

P. Velayudhan Nair, Member

(Sd.)

K. Mathew Kurian, Member

(Sd.)

P. K. Gopalakrishnan, Member

(Sd.)

K. V. Thomas, Member-Secretary

(Sd.)

Shri R. Sankar did not attend any of the meetings of the Committee in which the draft of the Report was considered and he did not sign the Report.

APPENDICES

APPENDICES

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APPENDIX I

Government Order Constituting the Committee

[G.O (P) No. 549/67/Fin. dated, Trivandrum, 19th December 1967]

ORDER

The question of constituting a Taxation Enquiry Committee to make a comprehensive study of the taxation structure in the State and to suggest fresh avenues of revenue for raising the additional resources required for the implementation of the Five Year Plan Schemes has been engaging the attention of the Government. The Minister for Finance, while presenting the final budget for 1967-68 announced the decision of the Government to constitute a Taxation Committee to advise them on the ways and means to raise resources. Having considered the matter in detail, Government are now pleased to order the constitution of a Taxation Enquiry Committee consisting of the following persons:—

1. Dr. M. J. K. Thavaraj, Indian Institute of Public Administration, New Delhi .. Chairman
 2. Shri C. Achutha Menon .. Member
 3. Shri R. Sankar .. Member
 4. Shri K. Chandrasekharan, M.P. .. Member
 5. Shri T. Abdulla, Professor of Commerce, Farook College, Calicut .. Member
 6. Shri N. Chandrabhanu, Special Secretary (Finance) .. Member
 7. Dr. Mathew Kurian, Economic Adviser, Planning Board .. Member
 8. Dr. P. K. Gopalakrishnan, Director, Bureau of Economics and Statistics .. Member
 9. Shri K. V. Thomas, Joint Secretary (Finance) .. Member-Secretary
2. The terms of reference to the Committee will be:—
- (i) to examine the State tax laws with particular reference to the incidence of the levy on the various classes of people in the State and the declared objectives of State policy and to suggest such modifications as are necessary by way of additional taxation, abolition of any of the existing taxes and alterations in the rates thereof, etc.;
 - (ii) to examine whether the field of State taxation as defined and demarcated in the Constitution has been fully exploited and make necessary proposals to raise revenues keeping in view the developmental needs of the State;

- (iii) to review the existing machinery for the collection of State taxes and suggest ways and means for improving its efficiency, while keeping the collection charges at the optimum level;
- (iv) to examine how far the State Government has been able to raise resources from non-tax revenues and to suggest new measures that might be introduced in this field;
- (v) to review the existing pattern of distribution of resources between the State Government and the local bodies and to re-define their respective tax-jurisdictions to the extent necessary, keeping in view the requirements of the local bodies under the Panchayati-raj; and
- (vi) to review the Constitutional provisions relating to taxes and allocation of resources between the Centre and the States and advise the Government about the lines on which the Government of India should be moved for making changes to the existing pattern.

The Committee will conduct a comprehensive enquiry into these matters and submit its report to Government within a period of six months. It will also submit an interim report containing proposals (for mobilisation of additional resources) which would be useful for framing the budget for 1968-69.

By order of the Governor,
M. GOPAL MENON,
Chief Secretary.

[G.O. (Ms) No. 215/68/Fin. dated, Trivandrum, 14th May 1968]

ORDER

Government are pleased to nominate Shri V. Ramachandran, Secretary to Government (Finance and Planning) as a member of the Taxation Enquiry Committee vice Shri N. Chandrabhanu posted as Special Secretary (Health).

By order of the Governor,
A. BHASKARAN NAIR,
Deputy Secretary.

[G.O. (Ms) No. 402/68/Fin. dated, Trivandrum, 27th July, 1968]

ORDER

Government are pleased to nominate Shri P. Velayudhan Nair, Finance Secretary to Government as a member of the Taxation Enquiry Committee vice Shri V. Ramachandran who has relinquished charge as Finance Secretary.

By order of the Governor,
K. RAMAN NAIR,
Deputy Secretary.

**Government Order Constituting the Sub-Committee on
Electricity Tariff**

[G.O. (Ms) No. 478/SS/68/Fin. dated, Trivandrum, 2nd September, 1968.]

ORDER

The Taxation Enquiry Committee has moved Government for constituting a Sub-Committee for making a comprehensive study of the electricity tariff rates in this State with a view to finding out whether there is scope for the rationalization of the tariff structure. The Committee has also pointed out that even though the State Government have given an assurance to the Government of India that steps would be taken to increase the returns from the electricity undertaking in gradual stages, so that by 1970-71 the returns would be 11% of the capital base, actually the returns show a downward trend.

2. In the circumstances, Government are pleased to constitute a Sub-Committee consisting of the following personnel as recommended by the Taxation Enquiry Committee:

- | | | |
|--|----|----------|
| 1. Dr. Mathew Kurian, Member, Taxation Enquiry Committee | .. | Chairman |
| 2. Shri. G. Ramachandran, Accounts Member, Kerala State Electricity Board | .. | Member |
| 3. Shri K. Madhavankutty Menon, Chief Engineer (Electricity), Kerala State Electricity Board | .. | Member |
| 4. Shri K. V. Thomas, Member-Secretary, Taxation Enquiry Committee | .. | Convener |

3. The Sub-Committee will also consider the tariff rates prevailing in other States in India for domestic, agricultural and industrial consumers and submit its report to the Taxation Enquiry Committee by the end of October, 1968.

4. The whole-time services of a Deputy Chief Accountant of the Board are stated to be necessary to collect and work out the data required for the Sub-Committee. Since rationalization of tariff structure will be in the interests of the Board also, Government consider that the expenditure on this account should be met from the funds of the Board.

By order of the Governor,
P. VELAYUDHAN NAIR,
Finance Secretary.

APPENDIX II

General questionnaire issued by the Committee

The Taxation Enquiry Committee has been set up by the Government of Kerala "to make a comprehensive study of the taxation structure in the State and to suggest fresh avenues of revenue for raising the additional resources required for the implementation of the Five Year Plans". The terms of reference to the Committee are extracted below:

- (i) To examine the State tax laws with particular reference to the incidence of the levy on the various classes of people in the State and the declared objectives of State policy and to suggest such modifications as are necessary by way of additional taxation, abolition of any of the existing taxes and alterations in the rates thereof etc.;
- (ii) to examine whether the field of State taxation as defined and demarcated in the Constitution has been fully exploited and make necessary proposals to raise revenues keeping in view the developmental needs of the State;
- (iii) to review the existing machinery for the collection of State taxes and suggest ways and means for improving its efficiency, while keeping the collection charges at the optimum level;
- (iv) to examine how far the State Government has been able to raise resources from non-tax revenues and to suggest new measures that might be introduced in this field;
- (v) to review the existing pattern of distribution of resources between the State Government and the local bodies and to re-define their respective tax-jurisdictions to the extent necessary, keeping in view the requirements of the local bodies under the Panchayati-raj; and
- (vi) to review the Constitutional provisions relating to taxes and allocation of resources between the Centre and the States and advise the Government about the lines on which the Government of India should be moved for making changes to the existing pattern.

2. The following table shows the growth of the revenues and the expenditure met from revenues of the Government of Kerala since 1957-58.

		<i>(Rs. in lakhs)</i>				
					1966-67	1967-68
		1957-58	1961-62	1965-66	<i>(Revised Estimate)</i>	<i>(Budget Estimate)</i>
		(1)	(2)	(3)	(4)	(5)
A. REVENUES						
1. Tax revenues (State)						
Index		1329 (100)	2303 (173)	3856 (290)	4301 (324)	5086 (383)

	(Rs. in lakhs)				
	1957-58	1961-62	1965-66	1966-67 1967-68	
				(Revised Estimate)	(Budget Estimate)
	(1)	(2)	(3)	(4)	(5)
2. Non-tax revenues	972	1611	1715	1799	2195
Index	(100)	(166)	(176)	(185)	(226)
3. Share of Central taxes and duties	427	627	1160	1464	1592
Index	(100)	(147)	(272)	(343)	(373)
4. Grants-in-aid	422	752	1479	2975	3476
Index	(100)	(178)	(350)	(705)	(824)
Total	3150	5293	8210	10539	12349
Index	(100)	(168)	(261)	(335)	(392)
B. EXPENDITURE MET FROM REVENUE					
1. Tax collection expenses	131	176	246	292	359
Index	(100)	(134)	(187)	(223)	(274)
2. Administrative Services	433	613	801	882	989
Index	(100)	(142)	(185)	(204)	(228)
3. Social & Developmental services	2282	4389	5871	7297	8645
Index	(100)	(192)	(257)	(320)	(379)
4. Debt servicing charges	201	393	830	1080	1478
Index	(100)	(195)	(413)	(537)	(735)
5. Other Miscellaneous heads	244	363	435	569	743
Index	(100)	(149)	(178)	(233)	(304)
Total	3291	5934	8183	10120	12214
Index	(100)	(180)	(249)	(307)	(371)

3. The tax heads assigned to the States under the Constitution are listed out in List II, Seventh Schedule of the Constitution. No specific items have been assigned to the local bodies. It is for the State Government to assign some of the tax heads in the State List to the local bodies in accordance with their needs. The devolution of resources from the Centre to the States is Governed by Articles 268, 269, 270, 271, 272, 274, 275, 279, 280, 281 and 282 of the Constitution.

4. Kerala is one of the highly taxed States of the Indian Union. The per capita tax rate in Kerala is Rs. 22.3 against the all State average of Rs. 18.9. This high level of taxation has been necessitated mainly by the increasing demands on social overheads. Kerala's expenditure on social and developmental services (education, health, agriculture, minor public works etc.) is Rs. 37.8 per capita, the corresponding all State average being Rs. 24.1. The task of raising resources to cope with the demands of development and welfare responsibilities poses a challenge.

QUESTIONNAIRE

A. GENERAL

- (i) What is your assessment of the developments in the finances of the Kerala State? What is your out look for the future?
- (ii) What reforms would you suggest to rationalise the financial structure in relation to the declared objectives and policies towards rapid economic development and social justice?
- (iii) What is your evaluation of the pattern of the allocation of resources in terms of the benefits accruing from them to the community? Which of the expenditures would you consider as wasteful from the point of view of a more rational utilisation of resources?

B. STATE TAXES

(a) Policy

- (i) Do you think that the State taxes are in conformity with the declared objective of State policy, such as; (1) inducing savings and investment; (2) promoting economic development; (3) reduction of economic and social disparities; (4) other relevant objectives? What basic changes would you suggest by way of introduction of new taxes and abolition and alteration of the existing ones to achieve the above objectives?
- (ii) Do you consider that all the tax heads allotted to the States under the Constitution—vide Appendix—have been fully tapped by the Kerala Government? If not, please indicate areas and methods of designing new taxes.
- (iii) Have you any comments on the structure of the basic rates and surcharges of the various taxes, duties etc.? Please outline your suggestions in terms of each specific tax, such as (1) Land tax (2) Agricultural income-tax (3) Sales tax (4) Excise duties (5) Motor vehicles tax (6) Others.

(b) Incidence:

- (iv) Do you consider that the incidence of any tax is unduly heavy on any particular section or income-group of the community? Do you consider that the tax-burdens on some sections are relatively

lighter? What specific changes are called for in the tax policies, patterns and rates of the taxes to make the tax system more equitable and progressive?

- (v) Do you consider that there is uneven distribution of tax burdens as between the agricultural and non-agricultural sectors of the State economy? If imbalances exist what measures would you suggest to correct them?

(c) *Administration*

- (vi) Do you consider that an overhaul of the tax machinery is called for on grounds of efficiency and/or economy? If so, please give concrete proposals.
- (vii) Are the collection expenses of any tax unduly high? If so, what steps, in your opinion should be taken to bring down the expenditure?
- (viii) Do you think that there is corruption in the departments administering the tax laws? If you think so, could you identify the departments, levels at which it occurs, the type of corruption you are aware of and the ways and methods by which it is practised? Indicate the administrative measures needed to eradicate corruption.
- (ix) Is there any need or scope for simplifying the rules and procedures in force in regard to assessment and collection of taxes, rates etc.? In other words, are the methods of levy and collection needlessly elaborate and complicated leading to avoidable harassments to the public? What changes could be adopted to bring about the needed simplification?
- (x) Are the existing laws, rules and procedures adequate to guard against tax evasion? If not, please illustrate the possible ways of plugging the loopholes.
- (xi) Do you think that there is evasion of taxes under any tax head? What in your opinion, are the reasons for such evasion apart from the loopholes in the tax laws mention under (x) above; and what steps would you suggest to deal with tax evasion?

C. NON-TAX REVENUES

The major items of non-tax revenues of the State are revenues from Forests, receipts from the Kerala State Electricity Board, Kerala State Road Transport Corporation, interest on loans issued to individuals and bodies, dividends on investments in Government owned and other commercial concerns, fees from educational institutions and other departmental receipts. The Government are now venturing into new areas like lotteries and chitties to mobilise resources.

- (i) Do you hold that non-tax revenues are being adequately tapped?
- (ii) What are the measures that you would suggest for stepping up the yield from the present sources of non-tax revenues?
- (iii) What sources of new non-tax revenues would you suggest?

- (iv) What is your assessment of the working of the Kerala State Electricity Board and the Kerala State Road Transport Corporation, and other Commercial concerns owned controlled or managed by Government? What measures would you suggest to improve their Planning and programming, organisation and operation with a view to enhance their productivity and profitability?
- (v) Do you have any specific suggestions on the principles and method of determining water and electricity rates?
- (vi) What long and short term measures would you suggest towards the development and more economic utilisation of our forest resources?
- (vii) What measures would you suggest to make lotteries and chitties more effective?
- (viii) What in your opinion are the directions to which Government can fruitfully turn for augmenting its non-tax revenues?

D. TAXATION BY LOCAL BODIES

- (i) Are the tax heads assigned to the local bodies adequate to their present requirements? If not, have you any suggestions regarding the realignment of the respective tax-jurisdiction of the State Government and local bodies?
- (ii) When additional responsibilities and functions devolve on the local bodies with the ushering in of the Panchayati-raj, how should corresponding resources be transferred to them (a) by substantial increases in the grants-in-aid or (b) by the assignment or sharing of some of the State tax heads or (c) by both? Please give concrete proposals explaining their implications on the State Governments' finances.

E. DEVOLUTION OF RESOURCES FROM THE CENTRE

- (i) What are your views on the present scheme of devolution of resources from the Centre on account of (a) sharing of taxes (b) grants-in-aid under Article 275 (1) and (c) Grants under Article 282?
- (ii) Is there need for integrating the various agencies now dealing with the transfer of Central resources to the States and if so, what suggestions would you make?
- (iii) Do you consider that the growing preponderance of the grant element in the quantum of revenues transferred to the States a healthy trend in the Centre-State financial relations? If so, how in your view can the imbalances in the present scheme be corrected?
- (iv) What amendments would you suggest to the constitutional provisions and to the central statutes to augment the resources of the States?

[Note:—The reply to the questionnaire should be sent to the Member-Secretary, Taxation Enquiry Committee, "Neelakantabhavan", Kumarapuram, Trivandrum-11, not later than 29-2-1968. The answers may be as comprehensive as possible. Supporting data may be furnished wherever available. It is open to any person to answer the questions item-wise or send a self-contained memorandum on the various issues relating to each section. He may also indicate his desire to give oral evidence.

APPENDIX

1. Land revenue, including the assessment and collection of revenue.
2. Taxes on agricultural income.
3. Duties in respect of succession to agricultural land.
4. Estate duty in respect of agricultural land.
5. Taxes on lands and buildings.
6. Taxes on mineral rights subject to any limitation imposed by Parliament by law relating to mineral development.
7. Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India:—
 - (a) alcoholic liquors for human consumption;
 - (b) Opium, Indian hemp and other narcotic drugs and narcotics; but not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.
8. Taxes on the entry of goods into a local area for consumption, use or sale therein.
9. Taxes on the consumption or sale of electricity.
10. Taxes on the sale or purchase of goods other than newspapers.
11. Taxes on advertisements other than advertisements published in the newspapers.
12. Taxes on goods and passengers carried by road or on inland waterways.
13. Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars.
14. Taxes on animals and boat.
15. Tolls.
16. Taxes on professions, trades, callings and employments.
17. Capitation taxes.
18. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.
19. Rates of stamp duty in respect of documents other than those specified in the provisions of list I (Union list) with regard to rates of stamp duty.

APPENDIX III

Departmental Questionnaire issued by the Committee**(i) Agricultural Income-tax and Sales-tax.**

1. What is your assessment of the working of the Department?
2. Do you think that the work load of the assessing, appellate and revisional authorities in the department is equitably distributed? If not, give your suggestions to rectify the imbalances. Supporting data should be furnished.
3. Are there any norms of work-load for the various assessing appellate and revisional authorities laid down by the Department? How far are these norms adhered to? Do you consider that these norms are realistic? If they require any modification, please give concrete suggestions.
4. Is there any need for decentralization of powers to the officers of the department at lower levels? Please give concrete proposals.
5. What is your assessment of the field work done by the departmental officers viz., inspection of shops and agricultural holdings? What steps should be taken to make it more effective?
6. Do you consider that the procedures adopted for collection are effective? If not, what are your suggestions to achieve better results?
7. Have any cases of difficulty in filling up the returns and statements to be furnished to the assessing authorities been brought to your notice? If so, what are those difficulties and how could they be overcome?
8. Do you think that the registers prescribed under the Agricultural Income-tax and Sales-tax Acts and Rules for enabling assessment and collection require any modifications? If necessary put forth your suggestions for modifications.
9. Have you any suggestions to simplify the procedure relating to the assessments of Sales-tax and Agricultural Income-tax?
10. What is the *modus operandi* employed for evasion of taxes? Please enumerate the checks and safeguards now in existence against evasion and other malpractices. Do you think that those checks and safeguards are adequate and effective enough?
11. How far have the check posts been able to check evasions? Do you favour the establishment of more check posts or would you suggest their abolition?
12. Do you consider that the Intelligence Wing of the department has been fully effective? If not, indicate the measures to be taken for strengthening and streamlining this branch.
13. Are you in favour of all or any of the exemptions and exclusions provided in the Agricultural Income-tax and Sales-tax Acts and Rules? If not, what suggestions would you make to enlarge or curtail the list of exemptions and exclusions?

14. Do you think it necessary to enhance or modify the rates of Sales-tax prevailing now on any of the commodities falling under the single point taxation system? If so, mention such goods and the rates of tax that you propose?
15. Is there a case for bringing any of the goods subject to single point levy under the multi-point system or vice versa? If so, specify the commodities, the rates of tax to be levied and the financial effects?
16. Do you consider that the minimum limit of turnover liable to sales-tax fixed at present is reasonable? If not, what are your suggestions? The financial effects of the suggested modifications may be indicated.
17. Do you consider it desirable to effect any modifications in respect of the composition of tax under the Sales tax Act? If so, put forth your suggestions.
18. Do you think that any modifications are called for in the existing rates of Agricultural Income-tax? If so, what are they?
19. What comments have you to offer on the present methods of estimating agricultural income for purposes of assessment and levy of tax? Do you think that the present system results in the application of different standards at different places? If so, what steps should be taken to achieve equity and justice in the assessment of income?
20. Do you think that the allowances now made for cultivation expenses in the computation of agricultural income are reasonable? If not what are your suggestions?
21. Are you in favour of making a provision in Agricultural Income Tax Act for assessing the income accruing the other States? If so, please indicate the procedure to be followed.
22. Do you consider that the minimum limit of agricultural income liable to taxation, fixed at present, is reasonable? If not, what are your suggestions? The financial effects of the suggested modifications may also be indicated.
23. Have instances of corruption on the part of the Departmental Officers come to your notice? If so, what administrative measures have been taken to prevent their occurrence? Can you suggest more effective measures?
24. Do you consider that the Officers under you are adequately equipped for their jobs? Do you think that any modifications in the method of recruitment and training of the various levels of officers are needed in order to make them more efficient?
25. Do you have any specific suggestions for toning up the administration of your department?

(ii) *Land Revenue*

1. What are the taxes, rates and duties collected by the Land Revenue Department?

2. What is your view about the system of land tax prevalent in this State? Do you have any suggestions for altering the existing system?
3. What are the implications of the recent policy decision of the Kerala Government to exempt all persons holding land below two acres from the payment of land tax?
4. Do you subscribe to the theory that land tax as such as ultimately to be abolished. If so, what measures would you suggest to make good the loss consequent on the abolition of land tax?
5. Do you consider that the agricultural sector is adequately taxed? Your views in the matter be substantiated with facts and figures. If you consider that the agricultural sector is not adequately taxed, what steps would you suggest to get from this sector a reasonable contribution to the State Exchequer?
6. Are you in favour of reviving the system of settlement that was in existence prior to the introduction of Basic Tax in the State and do you consider that there will be substantial increase in the yield from land revenue by adopting the settlement levy? If you are in favour of re-introducing the settlement levy, the administrative and financial implications thereof and the time required for completing the settlement may also be spelt out in detail.
7. Briefly trace the procedure for the assessment, levy and collection of plantation tax. Are you in favour of (a) raising or (b) reducing the limit of plantations now exempted from the levy of the tax?
8. Have you come across any practical difficulties in the collection of plantation tax? If so, what measures should be adopted to get over these difficulties?
9. Do you consider that there is scope for a substantial increase in the yield from plantation tax? If so, please explain how this can be achieved.
10. What is your opinion about the feasibility of introducing a tax on non-agricultural lands concerning which a Bill has already been introduced in the Legislature and is now under review? Please make your comments as exhaustive as possible with reference to the provisions in the draft Bill.
11. What is your estimate of the yield from the proposed tax on non-agricultural lands? What suggestions would you make to improve the yield from this source?
12. The Constitution confers the right to tax buildings on the State Government. The Act imposing tax on buildings has however been struck down by the Kerala High Court. Do you consider that, having regard to the observations of the High Court while striking down the Act, a new legislation in a different form could be enacted for levying a tax on buildings? Your suggestions may be given in detail.
13. What part of the staff of the Land Revenue Department is engaged in the collection of land tax and other taxes? In view of the decision

- to exempt all holdings upto two acres from basic tax, do you consider that some retrenchment can be made in the Land Revenue Establishment? In the event of the abolition of land tax altogether will it be possible to reduce the cost of the establishment appreciably by retrenching the entire staff engaged in collection work? Please specify the savings possible in either case with details of the staff that could be retrenched.
14. Will abolition of land tax, in your opinion, create any problems in the maintenance of land records by the Land Revenue Department and the establishment of title to property?
 15. What is the role of the Land Revenue Department in regard to the collection of arrears of taxes administered by other Departments, viz, Sales-tax, Excise etc. will it be feasible to confer on the officer of other departments all the powers of revenue authorities under the provisions of the Revenue Recovery Act so as to enable them to collect arrears without the intervention of the Land Revenue Department?
 16. Do you consider that there is unnecessary and avoidable delay in the procedure relating to revenue recovery? If so, what steps should be taken by way of amendment of the statutory provisions or otherwise to reduce the time-lag?
 17. How are your relations with the public? As tax collecting authority have you come across any difficulties in maintaining good relations with the members of the public or with any class or category of people? If so, specify some of them and the measures adopted for meeting such situations.
 18. What modifications would you suggest either in the Land Assignment Rules or in the Rules relating to the leasing of Government lands with a view to increasing revenue?
 19. Have you any comments on the tax or non-tax revenues administered by other departments?
 20. Do you consider that the officers under you are adequately equipped for their jobs? Do you think that any modifications in the method of recruitment and training of the various levels of officers are needed in order to make them more efficient?
 21. Do you have any specific suggestions for toning up the administration of your Department?

(iii) *State Excise.*

1. Do you consider that there has been proportionate increase in revenue from State Excise duty and rent of liquor shops consequent to the lifting of prohibition? If not, what, in your opinion, are the factors that have stood in the way of realising proportionate increase in revenue?
2. Is there illicit manufacture and sale of liquor? In which parts of the State is the evil concentrated? To what extent has illicit distillation affected the State revenue?

3. What administrative measures have been taken for checking and eliminating illicit distillation? In what ways could proper liaison between the staff of the Excise and Police Departments be established with this end in view?
4. What comments would you offer on the present system of auctioning the right of vending toddy and arrack? Do you consider that any change in the system is called for?
5. What practical difficulties have you come across in the administration of the Abkari Act and the Rules issued under the provisions of this Act? Please suggest suitable solutions to them.
6. Is there scope for increasing the duties on liquors, drugs, opium, etc.?
7. Would you advocate the establishment of distilleries by State Government or the setting up of factories for the manufacture of beer and other alcoholic beverages under the auspices of the State Government? If so, outline your scheme in precise terms.
8. Do you consider that the officers under you are adequately equipped for their jobs? Do you consider that any modifications in the method of recruitment and training of the various levels of officers are needed in order to make them more efficient?
9. Do you have any specific suggestions for toning up the administration of your Department?

(iv) *Taxes on motor vehicles.*

1. Please enumerate the various taxes that affect directly or indirectly the motor vehicle industry? Can you give a rough estimate of the incidence of each of the taxes on the different types of vehicles?
2. Do you subscribe to the view that the proceeds from motor vehicle tax should be earmarked for the improvement and maintenance of roads. If so, what comments would you offer on a comparison of the revenue from this source with the outlays for the improvement and maintenance of roads during the last few years?
3. Do you consider that any increase or decrease is called for under any of the following items? If so, to what extent?
 - (i) Fee for registration and for transfer of ownership or possession of motor vehicles;
 - (ii) Fee for issue of trade certificates;
 - (iii) Fee for testing of drivers and for licence to drivers;
 - (iv) Fee for issue of permit to transport vehicles and the renewal and transfer of permits;
 - (v) Testing fee for issue of badges to drivers;
 - (vi) Fee for conductor's certificate and badges;
 - (vii) Fee for certificate of fitness.

4. Is there a case for increasing or modifying the rates of tax on goods and passengers? If so, please give concrete proposals explaining the financial effects thereof.
 5. What administrative measures would you suggest for expediting work and providing better service to the public?
 6. How far has the "counter system" recently introduced in certain districts helped the expeditious conduct of work?
 7. Have cases of corruption on the part of the departmental staff come to your notice? What in your opinion are the factors that lead to corruption? What measures have so far been taken to eliminate corruption? Have you any suggestions for more effective measures.
 8. Have you come across any difficulties or problems in the administration of various Acts and Rules pertaining to motor vehicles? If so, please indicate them and give your suggestions to overcome them.
 9. Is there evasion of taxes? What are the methods employed to evade payment of tax? What are the steps taken to deal with such evasion? Have you any suggestions for more effective measures?
 10. Have you any suggestions for improving the administration of the tax laws relating to motor vehicles, or for the simplification of the rules and procedures?
 11. Would decentralization of powers help reduce delay and increase revenue? If so, concrete suggestions may be given.
 12. Do you consider that the officers under you are adequately equipped for their jobs? Do you think that any modifications in the method of recruitment and training of the various levels of officers are needed in order to make them more efficient?
 13. Do you have any specific suggestions for toning up the administration of your department?
 14. Any other suggestions.
- (v) *Registration*
1. Do you consider that it will be feasible to step up the fees prescribed for the registration of documents, making or granting copies of documents, authentication of powers of attorney, issue of processes, filing translation of applications and appeals, attending on private residences, safe custody and return of documents, deposit and withdrawal of sealed covers containing bills, etc.? If, under any of the above items, any increase is considered feasible, please give concrete suggestions together with estimates of additional income.
 2. Do you consider that there is evasion from payment of full stamp duty on documents registered by understating the monetary consideration? What steps have been taken to check such evasion in the light of the recent amendment to the Registration Act? How far have such measures been effective? Have you any suggestions to make the system more effective?

3. Is there scope for increasing the rates of stamp duty?
4. What is your opinion about the filing system recently introduced in the department? What is the financial saving achieved by this change? Do you consider that, with the introduction of the filing system, it would be possible to effect further retrenchment of staff?
5. What other measures should be adopted to keep down the administrative expenditure? Please give concrete proposals.
6. What steps should be taken to expedite the work relating to registration of documents, furnishing of copies of documents etc., and thus afford better service to the public?
7. Complaints of corruption have been often adduced against the officers and staff of the department. Are you aware of such instances? If so, give details. What measures should be adopted to eradicate corruption?
8. Are there adequate arrangements for checking up whether the fees realized for the registration of documents, etc. are adequate? In other words is an audit of the receipts of the department being conducted now? If not, do you think that there is need for systematic audit? If so, please suggest the machinery required for this work.
9. Do you consider that the officers under you are adequately equipped for their jobs? Do you think that any modifications in the method of recruitment and training of the various levels of officers are needed in order to make them more efficient?
10. Do you have any specific suggestions for toning up the administration of your department?

(vi) *Forest*

1. What, according to you, should be the main features of a sound forest policy?
2. Please explain the steps taken in the recent past to conserve the forest areas of the State, and evaluate how far they have been successful. What in your opinion, are the problems that have to be faced in the implementation of any policy to preserve the forests?
3. Do you consider that there is need for the enacting legislation to enable the implementation of a sound forest policy?
4. Do you consider that the revenue from forests will steadily increase in the future years and that the progression realised in the previous years will continue to be maintained? If not, how do you explain any possible fall in forest revenue? What measures should be taken to ensure the steady growth of the forest revenue?
5. How do you evaluate the developmental schemes of the department? What comments would you make on the system of formulating working plans and drawing regeneration schemes and plantation policies?

6. What are the relative advantages and disadvantages of (a) departmental extraction of timber; and (b) extraction of timber through the agency of contractors? Which system would you prefer? Give reasons for your preference.
7. Do you consider that the present system of sale of timber fetches the maximum value? Do you have any suggestions to improve the system so as to increase the revenue?
8. Is the present method of sale of timber to Central Government Departments and the Railways advantageous to the State Government? If not, what changes should be made in it?
9. Have any instances of leakage of revenue come to your notice? How are they dealt with? How can their recurrence be prevented?
10. What is your assessment of the functioning of Flying Squads and check-posts?
11. To prevent theft and pilferage of forest produce what preventive measures should, in your opinion, be taken?
12. Have you any suggestions for the simplification of the rules and procedures with a view to the quick disposal of work?
13. What other proposals would you make for the proper conservation and exploitation of the forest wealth of the State?
14. Do you consider that the officers under you are adequately equipped for their jobs? Do you think that any modifications in the method of recruitment and training of the various levels of officers are needed in order to make them more efficient?
15. Do you have any specific suggestions for toning up the administration of your department?

APPENDIX IV

Questionnaire on "Taxation by Local Bodies"

1. What are your general views about the system of taxation by local bodies (Panchayats, Municipalities and Corporations) in Kerala? What, according to you, are its defects and drawbacks? Do you attribute these drawbacks to the framework (constitutional, legal etc.) within which the system operates or to the actual working of the system?
2. If you consider that the framework of the system is inherently defective, what are your specific recommendations to improve it?
3. If the operation of the system is defective, what are the modifications you would suggest to overcome the defects?
4. What are your views about the present method of assessment of local taxes by local bodies? Please illustrate your answers with reference to each of the taxes such as house tax, profession tax, entertainment tax, show tax, etc. What are your suggestions to improve the efficiency of assessment?
5. What are your comments on the collection procedure of local taxes? Can you suggest any improvement in the present methods?
6. Do you think that Governmental agency is more suited for efficient collection of taxes than the agency of the local bodies or vice versa? Do you hold that there is need for integrating the collection agencies of the Government and local bodies so as to avoid duplication of effort and secure greater convenience to the public? If so, in what ways can such integration be effected?
7. Do you think that there are many cases of evasion of taxes? If so, what are the 'modus operandi' of evasion? What are the safe guards you propose to check the evasion of taxes?
8. Has any instance of corruption by officers of the local bodies been noticed in assessment and collection of taxes? What are your recommendations to avoid corruption?
9. Do you think that tax resources have been fully tapped under the existing local tax system? If not, what new taxes do you propose to be introduced? How would you justify the introduction of new taxes?
10. Do you consider that the present level of revenues from local taxes is adequate for the needs of developmental activities of local bodies? If not, what are your suggestions to improve the revenues?
11. Do you think the present quantum of compensation paid to the local bodies in lieu of certain taxes (for example, compensation paid in lieu of vehicle tax is adequate? Have you any comments on the methods of fixing such compensations?

12. Do you subscribe to the view that there is need and justification to impose a tax or cess in the nature of betterment levy on all lands which have considerably appreciated in value in recent years mainly as a result of the various developmental activities undertaken either by the Government or by the local bodies? If so please spell out the details of such a tax measure?
13. Do you favour taxation of domestic animals? Support your suggestions with details.
14. Would you recommend the inclusion of any item of the existing State or Central taxes under local taxation? If so, which are the items you propose to be transferred to local bodies? What are your reasons for proposing such changes?
15. Do you think that the present grants from Government are adequate to meet the developmental needs of the local bodies? Have you any suggestions in regard to the manner of disbursing grants by Government?
16. What are the non-tax revenues of local bodies? Do you consider that they have been fully tapped? Is there any other item of non-tax revenue that could be tapped by the local bodies?
17. Have you any comments on the present policy of sanctioning of Government loans to the local bodies?
18. Do you favour public borrowing independently by local bodies? If so, please give concrete suggestions in regard to the scale and nature of such borrowing?
19. Have you any comments or suggestions, apart from what have been covered by your answers to the earlier questions, in regard to taxation by local bodies and their resources position?
20. Have you any comments on the expenditure incurred by any of the local bodies? More specifically can you locate any items of expenditure which are wasteful, unproductive or infructuous?

SECTION--B

(To be answered by the Commissioners of Corporations and Municipalities and Executive Officers of Panchayats)

1. An analysis of the budget of your local body for the last five years (1962-63 to 1966-67) may be given in the following proforma

A. Revenue :	<i>Year</i>
(a) Local taxes	
1.	
2.	
3.	
4.	

Year

(b) Non-tax revenues

- 1.
- 2.
- 3.

(c) Contribution from the public

- 1.
- 2.
- 3.

(d) Grants from Government

- 1.
- 2.
- 3.

(e) Loans from Government

- 1.
- 2.
- 3.

(f) Other items

- 1.
- 2.
- 3.

B. Expenditure:

- (a) Administrative expenses
- (b) Health & Sanitation*
- (c) Public Works*
- (d) Water Supply & Drainage*
- (e) Education*
- (f) Other items (to be specified)

(*Inclusive of the expenditure on the staff on these services which should be excluded from administrative expenses).

2. Please enumerate the taxes, duties and cesses levied and collected either by your local body or on behalf of your local body. Kindly specify the rates of levy of each tax, duty and cess and indicate their yield during the last five years (1962-63 to 1967-68).

APPENDIX V

List of Associations, Persons etc., who have replied to the General Questionnaire**A. ASSOCIATIONS**

1. The Chamber of Commerce, Chalai, Trivandrum
2. The Chamber of Commerce, Ernakulam
3. The Chamber of Commerce, Trichur
4. The North Malabar Chamber of Commerce, Cannanore
5. The All India Manufacturers' Organisation, Kerala State Board, Ernakulam
6. The Coconut Oil Manufacturers & Dealers' Association, Quilon
7. The Chief Coffee Marketing Officer, Coffee Board, P.B. No. 359, Bangalore-1.
8. The Malabar Produce Merchants' Association, Calicut
9. The Cardamom Planters' Association of South India, Bodinayakannur, Cumbum
10. The Cardamom Small Growers' Association, Meppadi, P. O. Wynaad
11. The Alleppey-Cochin Coastal Development Council, Alleppey
12. The Marine Products Export Promotion Council, Ernakulam
13. All Kerala Hotel and Restaurant Owners' Association, Ernakulam
14. The Kerala Government College Hostel's Staff Association, Ernakulam
15. The Engineering Junior Technical Staff Association, Kerala State, Trivandrum
16. The Administrative & Miscellaneous Staff Association, Trivandrum
17. The Association of Planters of Kerala, Kottayam
18. The Kerala Panchayat Association, Trivandrum
19. The Kerala State Agricultural Income Tax and Sales Tax Law Graduate Officers' Association, Trivandrum

B. NON-OFFICIALS

20. Antony Sri M. A., National Highway, Angamali
21. Asokan Sri K. T., Typist & Vakil's Clerk, Court Road, Badagara
22. Balakrishnan Nair Sri K., President, Purakkadi Panchayat, Meenangadi P. O.
23. Bhaskaran Sri K. R., Kocheril house, Peruvanthanam P. O.
24. Cherian Sri T. V., Thompil, Thukoy
25. Dharmaraja Iyer Sri M. A., Kalpetta, South Wynad
26. Eapen Mathai Sri V., Advocate, Cochin-16
27. Ebrahim Sri K., President, Kolachery Panchayat
28. George Sri C. M., Challisery house, Trichur-6
29. Gopinathan Nair Sri P. R., Lecturer in Economics, University of Kerala, Trivandrum
30. Krishna Kurup Sri C. K., President, Ala Panchayat, Pennukkara P. O.

31. Koyakutty Sri P. K., Proprietor, Feroke Match Industries, Feroke
32. Kumaran Sri N. K., Municipal Chairman, Cannanore
33. Kunjishencee Hajee, K. C. Kunjikode, Cranganore
34. Mathew Sri K. C., President, Villiamattom Panchayat, Pannimattom P. O., Thodupuzha P. O.
35. Menon Sri K. R. K., Chairman, Kerala State Industrial Development Corporation Ltd., Trivandrum
36. Menon Sri I. G., Lecturer in Economics, Guruvayoorappan College, Calicut
37. Menon Sri M. C., 'Prakash' Kunnanur, Palghat
38. Nair Sri K. K. President, Kuthuparamba Panchayat
39. Narayanan Vaidyar Sri, Poruthiyil, Jai Soudham, Banerji Road, Ernakulam-8
40. Omana Pillai Sri K. L., Chettikaud, Alleppey
41. P. N. V. Pillai Dr., All India Tax Research Centre, Ernakulam
42. Pushpangadan Sri K., Cost Accountants Officer, Kerala State Small Industries Corporation, Trivandrum
43. Scaria (Jr.) Sri K. S., Pottankulam, Mundakayam P. O.
44. Thomas Sri K. T., Kadankavil, Payapper, Palai
45. Ummerkutty Sri N., Thiruvangad, Tellicherry
46. Velayudhan Sri E. S., Member, Cochin Devaswom Board, Trichur
47. Venadan Kumaran Sri., President, Dharmadam Panchayat
48. The Principal, C. M. S. College, Kottayam
49. The President, Keerampara Panchayat
50. The President, Koduvayur Panchayat, Koduvayur
51. The President, Anakkara Panchayat, P. O. Kumbidi Palghat District
52. The President, Thidanad Panchayat, Thidanad P. O., Kottayam District
53. The President, Perumatty Panchayat, P. O. Vandithavalam
54. The President, Keezhur-Chavassery Panchayat, P. O. Uliyil, Tellicherry-4
55. The President, Nediyrippu Panchayat
56. The President, Vazhakulam Panchayat

C. OFFICIALS

57. Balagandharan Sri V., Director of Municipalities, Trivandrum
58. Gerard Sebastian Rodriguez Sri., Lecturer in Economics, Government College, Madappally
59. Joseph Sri P. J., Asst. Secretary, Finance Department, Trivandrum
60. Kurup Dr. R. S., Deputy Director of Bureau of Economics & Statistics, Trivandrum
61. Neelambaran Sri S., Executive Officer, Pulpatta Panchayat, Pulpatta
62. Sankaranarayanan Sri K. C., Secretary to Government, Revenue Department, Trivandrum
63. The Secretary, Vigilance Commission, Vellayambalam, Trivandrum-10

64. The Registrar of Co-operative Societies, Trivandrum
65. The State Insurance Officer, Trivandrum
66. The Commissioner, Corporation of Trivandrum
67. The Executive Officer, Cheriāmundam Panchayat, Thalakkadathur,
Tirur-3
68. The Executive Officer, Thrikkaderi Panchayat, Thrikkaderi P. O.
69. The Executive Officer, Nelloya Panchayat, Nelloya P. O.

APPENDIX VI

List of Associations, Persons etc., who have given Oral Evidence before the Committee

A. ASSOCIATIONS

Represented by—

- | | |
|---|---|
| 1. The Rubber Board, Kottayam | Sri T. V. Joseph, Secretary &
Sri V. Haridas, Market Intelligence Officer on behalf of the Chairman |
| 2. The Merchants' Association, Quilon | Sri K. Kunjuraman, President,
Sri Gopala Pai,
Sri S. Abdul Kader, &
Sri Bhaskara Pillai |
| 3. The Merchants' Association, Kottayam | Sri George Varghese, Secretary and three others |
| 4. The Chamber of Commerce, Ernakulam | Sri M. A. Kumara Pillai, Vice-President,
Sri Karuppaswamy, Secretary,
Sri P. A. Ali Mohammed &
Sri M. S. Bhaskaran Nair |
| 5. The Indian Chamber of Commerce, Cochin | Sri S. Koder, President |
| 6. The Chamber of Commerce, Palghat | Sri K. Vasudevan, President &
Sri K. C. Pazhanimala (President, Bus Owners' Association) |
| 7. The Chamber of Commerce, Trichur | |
| 8. The Regional Chamber of Commerce, Palghat | Sri N. S. Harihara Iyer,
President |
| 9. The Calicut Chamber of Commerce, Calicut | Sri T. R. Subramonia Iyer,
Member |
| 10. The North Malabar Chamber of Commerce, Cannanore | Sri A. K. Nair, President,
Sri B. Madhava Baliga,
Member, (Member—Sales-tax Advisory Committee),
Sri Balakrishnan Nair, Manager &
Sri T. N. Kunhikannan, (President, Lorry Owners' Association) |
| 11. The Central Travancore Merchants' Association, Kayamkulam | Sri Yoosuf Kunju, Secretary |

- Represented by—*
- | | |
|---|---|
| 12. The South India Cashewnut Manufacturers' Association, Quilon | Sri K. Janardhanan Pillai & Sri Thankappan Pillai |
| 13. The Kerala Cashew Manufacturers' Association, Quilon | Sri Narayanan, Secretary |
| 14. The Travancore-Cochin Coir Yarn Merchants' Association, Alleppey | The President |
| 15. The Association of Planters of Kerala, Kottayam | Sri O. C. Mathew, Secretary |
| 16. The All India Manufacturers Organisation, Ernakulam | Sri P. Kesavan, Hon. Secretary |
| 17. The Travancore Registering Officers' Association, Trivandrum | Sri K. Gopalan Nair (Sub-Registrar), President |
| 18. The Motor Vehicles Department Ministerial Staff Association, Trivandrum | Sri T. Damodara Kurup, Joint Secretary |
| 19. The Alleppey-Cochin Coastal Development Council, Alleppey | Sri K. L. Omana Pillai, (Chetticaud), President |
| 20. The District Consumers Co-operative Stores, Kottayam | Sri P. C. Cheriyan, Ex-M.L.A. President |
| 21. The Swadeshi Investments Ltd., Kottayam | Sri Jacob Mathew |
| 22. The All Kerala Hotel & Restaurant Owners' Association, Ernakulam | Sri Kerala Varma Raja, President |
| 23. The Marine Products Export Promotion Council, Ernakulam | Sri Kuruvath Damodaran
Sri Vijayan Panicker,
Sri E. V. Mathew &
Sri Mukundan Unni, Ag.
Managing Director, Kerala
Fisheries Corporation |
| 24. The Madhava Pharmaceutical Laboratories, Ernakulam | |
| 25. The District Wholesales Co-operative Consumers Stores Ltd., Ernakulam | Sri P. A. Kuruvilla, President |
| 26. The Cocktail Cashew Company, Ernakulam | Sri Dat Pete |
| 27. The Lorry Owners' Association, Trichur | Sri V. Krishna Iyer |
| 28. The Bus Owners' Association, Trichur | Sri M. M. Sebastian, Secretary
Sri R. Sivaraman (P. S. N.
Motors) |
| 29. The Express Motors, Trichur | |

Represented by—

- | | |
|---|---|
| 30. The M. R. Raman Motors,
Anthicaud | |
| 31. The Udaya Publications, Palghat | Sri T. S. Namboodiri |
| 32. The Small Scale Industries
Association, Calicut | Sri T. Abdul Azeez, President,
Sri P. V. Abdulla Koya,
Secretary,
Sri V. P. George, Member &
Sri M. Mohammed Koya,
Committee member |
| 33. The South Malabar Arecanut
Merchants' Association, Tirur | Sri Abdul Khader Haji,
Secretary |
| 34. The Gwalior Rayons, Mavoor,
Calicut | Sri R. N. Saboo, Vice-President |
| 35. The Bheevandiwalla & Co., Calicut | Sri V. N. Asher |
| 36. The Malabar Produce Export
Company, Calicut | Sri C. P. Kunhammad |
| 37. The Taliparamba Taluk Owners'
Association, Cannanore | Sri K. T. V. Kelu, Secretary
& Others |
| 38. The Western India Cottons Ltd.,
Pappinisserry | Sri R. M. Ramaswamy, Asst.
Manager
Sri P. C. Ravivarma Raja,
Office Secretary &
Sri A. K. Kunhalikutty Haji |
| 39. The Bar Association, Kasaragod | Sri B. S. Kakkilaya, President |
| 40. Kerala State Agricultural Income
Tax & Sales tax Law Graduate
Officers' Association, Trivandrum | Sri N. Balakrishnan Nair,
President,
Sri M. Balaji, Secretary,
Sri T. O. Koshy (Addl. Law
Officer) &
Sri K. N. Balakrishnan Nair,
Sales Tax Officer |
| 41. The Varapuzha Local Committee of
the Communist Party of India
(Marxist) | Sri V. Gopalakrishnan &
Sri O. C. Paili |
| 42. The District Council of Communist
Party of India, Palghat | Sri P. Sankar, Secretary |
| 43. The District Committee of
Samyuktha Socialist Party,
Trichur | |

B. NON-OFFICIALS

44. Abdulla Sri, Advocate, (Representative of Sri N. Ummerkutty Tiruvangadi, Tellicherry).
45. Antony Sri P. A. (Advocate), Chairman, Standing Committee, Trichur Municipality, Trichur.
46. Balakrishnan Sri P. K., Ex-Deputy Mayor, Calicut Corporation, Calicut.
47. Bhat Sri U. L., Advocate, Kasaragod.
48. Chandrasekharan Sri K., Councillor, Quilon Municipality (Representative of the Chairman).
49. Divakaran Sri A. S. (Advocate), President, Cochin Devaswom Board, Trichur.
50. Haridas Gordhandas Sri, Cannanore.
51. Ittaru Sri, Representative of Sri T. R. Raghavan, Govt. Contractor, Trichur.
52. Janardhana Pai Sri, Alleppey.
53. Krishna Iyer Sri, V. R., Advocate, Ernakulam.
54. Krishna Menon Sri P., Supdt., Koodalmanikyam Devaswom, Irinjalakuda.
55. Kunhiraama Menon Sri K. A., President, Panjal Panchayat, Trichur.
56. Kurien Uthuppu Sri, Chairman, Kottayam Municipality.
57. Kuttikrishnan Nair Sri P., Mayor, Calicut Corporation.
58. Markose Sri V. O., Ex-Minister, Kottayam.
59. Mathew Dr. E. T., Reader in Economics, University of Kerala, Trivandrum.
60. Menon Sri I. G., Lecturer in Economics, Guruvayoorappan College, Calicut.
61. Muhammed Kunhi Sri V. P. P., President, Tirkarpur Panchayat, Kasaragod.
62. Kurkothu Kunjappa Sri, Associate Editor, Malayalamanorama, Calicut
63. Rahim Sri A. A., Ex-Minister, Quilon.
64. Subramonia Iyer Sri K. S., Advocate, Payyannur.
65. Thomman Sri P. D., Advocate, Kottayam.
66. Vasu, Panicker Sri K. K., Advocate, Trichur.

C. OFFICIALS

67. Achutha Menon Sri C. P., Inspecting Assistant Commissioner, Agricultural Incometax & Salestax, Alleppey.
68. Balagangadharan Sri V., Director of Municipalities, Trivandrum.

69. Balakrishnan Menon, Sri V. K., Assistant Secretary, Board of Revenue, Trivandrum.
70. Bhagavaladas Sri T. K., Inspecting Assistant Commissioner, Agricultural Incometax & Salestax, Calicut.
71. Cherian Sri M. M., Chairman, Kerala State Road Transport Corporation, Trivandrum.
72. Dandapani Sri M., District Collector, Alleppey.
73. Govindan Nair Sri T. P., Secretary, State Transport Authority, Trivandrum.
74. Gopalakrishnan Pillai Sri G., District Collector, Palghat.
75. Gopinathan Nair Sri G., Inspecting Assistant Commissioner, Agricultural Incometax & Salestax, Kottayam.
76. George Sri P. C., Salestax Officer, II Circle, Alleppey.
77. Hassankutty Sri A., Divisional Forest Officer, Trichur.
78. Jailabdeen Sri, Additional District Magistrate & Personal Assistant to the Collector, Calicut.
79. Jayachandran Sri T. N., District Collector, Kottayam.
80. John Sri O., Salestax Officer, I Circle, Alleppey.
81. Kaimal Sri K. G., Regional Transport Officer, Trichur.
82. Kesavan Nair Sri R., Director of Panchayats, Trivandrum.
83. Krishna Kumar Sri S., Deputy Commissioner (Excise) & Additional Secretary, Board of Revenue, Trivandrum.
84. Krishnan Sri K. A., Deputy Commissioner, Agricultural Incometax & Salestax, Quilon.
85. Krishna Pillai Sri N., District Statistics Officer, Ernakulam.
86. Kumaran Nair Sri G., Secretary, Office of the Transport Commissioner, Trivandrum.
87. Mohammed Ibrahim Sri P. M., Deputy Commissioner, Agricultural Incometax and Salestax, Calicut.
88. Mathew Sri K. A., Regional Transport Officer, Quilon.
89. Moni Sri G., Asst. Conservator of Forests.
90. Mooza Sri K., Inspector General of Registration, Trivandrum.
91. Nair Sri T. S., Conservator of Forests, Quilon.
92. Narayana Pillai Sri K., Chief Conservator of Forests, Trivandrum.
93. Narayana Menoky Sri, District Collector, Trichur.
94. Narayana Menon Sri K., Appellate Assistant Commissioner, Agricultural Incometax and Salestax, Trichur.
95. Padmanabhan Sri P. S., First Member, Board of Revenue, Trivandrum.
96. Parameswaran Namboodirippad Sri K. P., Appellate Assistant Commissioner, Agricultural Incometax and Salestax, Trivandrum.

97. Parameswara Warriar Sri K., Salestax Officer, Special Circle, Alleppey.
98. Ramachandran Nair Sri R., District Collector, Quilon.
99. Rodriguez Sri J. A., Secretary (Taxes), Board of Revenue, Trivandrum.
100. Sankaranarayanan Sri S., Additional Agricultural Incometax Officer, Alleppey.
101. Sreedharan Nair Sri N., Secretary, Board of Revenue, Trivandrum.
102. Subramonian Potti Sri P., Advocate General, Ernakulam.
103. Subramoniam Sri C., Deputy Transport Commissioner, Trivandrum.
104. Subramonian Sri V., Asst. Secretary (Taxes) Board of Revenue, Trivandrum.
105. Thomas Sri C., Second Member, Board of Revenue, Trivandrum.
106. Timothy Sri S. L., Inspecting Assistant Commissioner, Agricultural Incometax & Salestax, Trivandrum.
107. The Salestax Officer, Cannanore.
108. The Salestax Officer (Special Circle), Cannanore.

APPENDIX VII

Union List

1. Taxes on income other than agricultural income.
2. Duties of customs including export duties.
3. Duties of excise on tobacco and other goods manufactured or produced in India except—
 - (a) alcoholic liquors for human consumption;
 - (b) opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.
4. Corporation tax.
5. Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies.
6. Estate duty in respect of property other than agricultural land.
7. Duties in respect of succession to property other than agricultural land.
8. Terminal taxes on goods or passengers, carried by railway, sea or air; taxes on railway fares and freights.
9. Taxes other than stamp duties on transactions in stock exchanges and futures markets.
10. Rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts.
11. Taxes on the sale or purchase of newspapers and on advertisements published therein.
12. Taxes on the sale or purchase of goods other than newspapers where such sale or purchase takes place in the course of inter-State trade or commerce.
13. Fees in respect of any of the matters in this list, but not including fee taken in any court.
14. Any other matter not enumerated in any other list including any tax not mentioned in either of those lists.

State List

1. Land revenue including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights and alienation of revenues.
2. Taxes on agricultural income.
3. Duties in respect of succession to agricultural land.
4. Estate duty in respect of agricultural land.

5. Taxes on lands and buildings.
6. Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development.
7. Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India—
 - (a) alcoholic liquors for human consumption;
 - (b) opium, Indian hemp and other narcotic drugs and narcotics, but not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.
8. Taxes on the entry of goods into a local area for consumption, use or sale therein.
9. Taxes on the consumption or sale of electricity.
10. Taxes on the sale or purchase of goods other than newspapers subject to the provisions of entry 92A of List I.
11. Taxes on advertisements other than advertisements published in the newspapers.
12. Taxes on goods and passengers carried by road or on inland waterways.
13. Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars subject to the provision of entry 35 of List III.
14. Taxes on animals and boats.
15. Tolls.
16. Taxes on professions, trades, callings and employments.
17. Capitation taxes.
18. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.
19. Rates of stamp duty in respect of documents other than those specified in the provision of List I with regard to rates of stamp duty.
20. Fees in respect of any of the matters in this list, but not including fees taken in any court.

APPENDIX VIII

Evolution of the Tax System in Kerala

According to 'Keralolpathi',* the entire area from 'Gokarnam' in the north to Cape Comorin in the south, was known as 'Keralam'. Before Independence this territory was comprised of three parts—Malabar District and contiguous areas directly administered by the British Indian Government and the autonomous princely States of Cochin and Travancore owing allegiance to the British. As a first step towards consolidation of the territories ruled by princes, Travancore and Cochin were integrated on July 1, 1949. The establishment of a united Kerala remained a cherished dream of the people, and the State of Kerala was formed on November 1, 1956, along with the general reorganisation of States on linguistic basis. The new State is comprised of the former Malabar District and Kasaragod Taluk of the Madras State and the whole of Travancore-Cochin State with the exclusion of the Taluks of Thovala, Agastheeswaram, Kalkulam, Vilavancode and Shencottah, which became part of the new Madras State. To get a comprehensive idea of the gradual evolution of the present tax system in Kerala State, it is necessary to have a cursory review of the various imposts in vogue since the beginning of recorded history, in the constituent units of Kerala State.

A. Travancore Area.

2. Prior to the period of King Marthanda Varma, there was no scientific system of taxation by the State. It was only after the formation of the unified Travancore during his period of reign that a tax system in the modern sense gradually came into existence. Lack of adequate and reliable records, for periods prior to the reign of King Marthanda Varma has stood in the way of getting a clear picture of the systems of taxes prevalent in early times. A few records are, nevertheless, available in the form of inscriptions on the walls of the inner temple of the Goddess Bhagavathi at Cape Comorin, on the granite pillars at Kumarimuttom, on a pillar standing outside the temple of the Manalikara Alwar in Kalkulam taluk, on the granite pillar in Agastheeswaram taluk, and on the southern wall of the temple of Keralapuram as well as a few documents written in Tamil. †

3. Some of the important taxes and duties that existed in the early times, as revealed by these documents and inscriptions were:

- (i) Land tax in the name of '*anjali*' and '*melvarom*' and tax on garden lands in the shape of ground rent (*payattupattom* or *tharappattom*) and tree tax.
- (ii) Customs (It can be assumed that the customs revenue was inclusive of some minor charges levied on the visiting ships, in the form of tolls).

* An anonymous work in Malayalam.

† pp. 181-325 Travancore State Manual Volume 1 by V. Nagam Aiyya.

- (iii) Tax on professions, viz., *Meenpattom* (Fishery Tax), *Tari Irai* (tax on looms), *Thattara pattom* (tax on gold smiths), *Ilai vania pattom* (tax on leaf merchants) etc.
- (iv) Miscellaneous taxes such as *Perumal Ayam* (Tax on title deeds), *Kalkuli* and *Kolkuli* (tax on measures and measurements), *Kavalkuli* (Protection dues), *Attupattom* (Cattle tax), *Kumarakachanam* (Marriage dues), *Kappalvari* (dues for maintenance of navy), *Padaippanam* (dues for maintenance of the army).

None of the taxes mentioned above had any scientific basis; the king in fact levied these taxes arbitrarily in order to meet both personal and army expenses, as also to amass large funds for waging battles with neighbouring kings. The tax system was in consonance with the then rigid economic conditions and the social life of the people. As land was the most important form of wealth in those days and as the major part of the population consisted of land-owners, tax on land figured as the major source of revenue to the king. As in the case of all maritime States, in Travancore also customs might have occupied a prominent place among the items of revenue, because she had a large volume of trade with overseas countries in spices, cardamom, cereals, timber and other hill produce. Other items of dues mentioned above were insignificant and were mostly of a personal and professional nature.

The above survey is not, however, exhaustive as a number of minor and at the same time vexatious taxes which seem to have been abolished in later periods have not been included here due to the non-availability of reliable records regarding the origin and existence of such taxes.

4. The system of taxation dealt with in the preceding paragraph related mainly to that which existed in the kingdom of Venad which later formed the major constituent part of the Unified Travancore. Considering the similarity in the geographical, historical, economic and cultural backgrounds of the petty kingdoms such as Attingal, Karunagappally, Kottarakkara, Ambalapuzha etc. (which later formed part of Travancore) and of Venad, it is not unreasonable to conclude that the tax system prevalent in those areas were by and large similar in nature to that in Venad.

5. The unification of Travancore State and the introduction of a stable and powerful administrative machinery enabled King Marthanda Varma to establish a progressive tax system in Travancore. The various reforms put through by him, besides augmenting the revenues of the State, afforded a stable basis for the systematic collection of the taxes. During the period of his reign customs houses called *chowkeys* were established at the frontiers of the State and duties on articles exported and imported were imposed and collected. This seems to be the origin of land customs in Travancore. A State monopoly was introduced in articles of commercial importance, such as pepper, tobacco, arecanut etc., and by exercising a strict control over the purchase and sale of these commodities, the Government realised a sizeable revenue. In order to improve the land tax collections, a survey of lands of the whole State was begun in 926 M.E. (1750-51 A.D.) and completed

in three years' time. After the survey a *pattah* specifying the tax levied on each property was given to every land holder. The first ayacut account of the State was based on this settlement, which also introduced the principle of periodic assessment of revenue instead of yearly fixation of rates.

6. After the lapse of two decades, another survey and settlement of lands and gardens was completed in 948 M.E. (1772-73 A.D.). It was only a *Kettezhuthu*, i.e., the survey was conducted not based on inspection of plots, but on the basis of enquiries and hence the assessment was inaccurate.

7. The system of levying 'poll tax' was in vogue in early Travancore. For example a capitation tax used to be imposed on males within the age group of 16 to 60 except Nayers, Moplals and artisans.

8. For the better administration of the State, a *Sathavariola* (a collection of rules and regulations) was framed towards the close of the 18th Century. Sections 31 to 35 of the above *Sathavariola* deal with the settlement of civil disputes between ryots. "In the case of disputes between ryots concerning landed property.....after the case is decided by the *Thadasther* (jurors), the party gaining the case shall be required to pay a fee at the rate of 10% on the amount of his suit, and the contra party who losses the case shall be required to pay five percent".* This is indeed an interesting piece of enactment as both the parties to the suit were liable to pay tax to the State.

9. In order to augment the revenue to meet the expenses of the war with Tippu Sultan, a new tax called 'war tax' was levied exclusively on landed properties; the currency of this tax was limited to one year.

10. In 978 M. E. (1802-1803 A.D.) thirty years after the settlement of 948 M.E. (1772-73 A.D.) another settlement of both garden and fields was undertaken. In this too, no accurate measurement was taken, but the assessment was made by local inspection. By the settlement of 978 M.E. tree tax was levied on, cocoanut, areca, jack, palmyra, tamarind, punna, mango iluppa etc. Cocoanut tree was taxed throughout the State, while the other trees were assessed only in certain areas where they grew in abundance. The rates of tax varied from place to place.

11. The period 1811 to 1815 A.D. witnessed a number of important tax reforms. Several vexatious taxes such as the capitation tax on males, tax on christian festivals, etc., were abolished along with the tax on inheritance of property. The system of sea customs that prevailed till then was abolished and a select number of chowkeys or customs houses were opened. The duties imposed were 5% on exports and 8% on imports passing the frontiers and 5% inland or transit duty on all goods conveyed from one part of the State to another. The tax levied on slaves was abolished in 987 M.E. (1811-12 A.D.) consequent on the ban imposed on purchase and sale of slaves other than those attached to the soil for purposes of agricultural operations. Salt was also made an article of Government monopoly by the end of 988 M.E. (1812-13 A.D.)

*p. 282 "History of Travancore" by T. Sankunny Menon.

12. The law relating to writing of documents was laid down in the Royal Proclamation of 993 M.E. (1817-18 A.D.) whereby stamped *cadjans* (Palmyra leaves) were introduced for the first time for this purpose.

13. In 1011 M.E. (1835-36 A.D.) customs duty on 165 articles of different kinds was abolished with a view to giving a stimulus to trade. Inland transit duties were also abolished, and the fontrier and sea board chowkeys alone retained.

14. In 1012 M.E. (1836-37 A.D.) a new settlement of garden lands was conducted, when the assessment and settlement throughout the State was, for the first time, made on a uniform basis. There was, however, inequality in assessment, as the levy was made with out any reference to the nature of soil, facilities of cultivation, or the produce grown. The varying rates of tax on trees which used to be levied according to the settlement of 978 M.E. (1802-03 A.D.) were abolished by a Hukumnamah issued in 1012 M.E. and a uniform rate was fixed for all trees other than coconut, jack and areca. The rates were as follows:—

- | | |
|-------------------------|--------------------------|
| (1) Palmyrah—7 cash | (2) Punna—12½ cash |
| (3) Mango—12 cash | (4) Tamarind—3 chuckrams |
| (5) Illuppa—1 chuckram* | |

The cocoanut, jack and areca trees were assessed at different rates in different areas, based on the yield.

15. On 3rd November, 1860 (20th Thulam 1036 M.E.) the Travancore Government issued a Proclamation abolishing the pepper monopoly of the State and substituting an export duty of 15% *ad valorem* on all pepper exported by sea or land. It was also specified that no special tax would be imposed on pepper vines, but that, where land had been granted for pepper cultivation, the *Sarkar* reserved to itself the right of taxing it according to quality and with reference to the value of its produce. In 1039 M.E. (1863-64 A.D.) the State monopoly on tobacco was abolished and, in its place, an import duty was imposed based on the variety of the tobacco. The abolition was necessitated by the large scale smuggling through British Cochin, Anjengo and Thankasserry consequent on the abolition of monopoly in the British administered area. The profit from the sale of pepper and tobacco was hitherto a major source of revenue to the State. The above measure resulted in some loss of revenue. Upto the year 1037 M.E. (1861-62 A.D.) opium was an article of free trade; but from 1037 M.E. it was treated as an article of Government monopoly and subjected to an import duty.

16. In the year 1865 A.D. the Travancore Government entered into a commercial treaty with the British Government and thereafter the commercial policy of the Travancore Government was regulated by this treaty known as the 'Inter-Portal Trade Convention'. The circumstances

* 1 chukram=3.5 paise; 1 cash=0.22 paise

which led to the Maharajah of Travancore to enter into this treaty were the following:—

Merchants of Travancore had free access to British Cochin. They had to pay only a small duty levied by the Cochin Government at the boundary. Prior to 1864 A.D. the Travancore Government was treated as a foreign State by the British (because Travancore was not a party to the agreement of 1848 A.D.) and hence exports from, and imports to, this country were subjected to heavy foreign customs duty at British ports. Because of these conditions it was found to be more advantageous to take Travancore goods by land to British Cochin, and thence transport them to other ports of British India under the freedom granted by the Inter-Portal Act of the Indian Government, than to export them from Travancore ports direct by sea to British Indian ports. The import to this State was also through British Cochin and then by land to Travancore by giving only a small duty at the Cochin boundary. Hence the trade began to divert to Cochin from the Travancore ports. This led to a reduction in Government revenue and delay in trade and transit.

In July 1863, the British Government at Madras consented to grant freedom of interportal trade to the Travancore Government subject to the following conditions:—

“(1) The free admission of British Indian produce into the Native States by land and sea with the exception of certain articles which are either the subject of monopoly or produce so large a revenue that they cannot at present be admitted without financial danger to the State, eg., tobacco.

“(2) The levy of British rates of duties on all foreign produce imported into the States with similar exceptions;

“(3) The adoption of the same course in regard to the produce of the Native States when exported therefrom;

“(4) The Native States to raise their salt tax to the same level as that of the Madras Government; and

“(5) The adoption of the British tariff valuation.

“The concessions in return are (1) the admission of Travancore produce into British Indian ports free of all duties, excepting for opium, salt, wines and spirits and (2) the Travancore duties, so far as the British Government consider them equitable, to be levied on the exempted articles at British Cochin and the customs receipts of the port to be shared between the British Government and those States in such proportions as a Commission specially to be named for the purpose might consider just.”*

The commercial treaty was accordingly concluded between Travancore on the one hand and the British Government and the Cochin Sarkar on the other. The sanction of the Government of India having been duly received, the Madras Government gave effect to the above proposal from the 1st June, 1865.

* P. 541 Travancore State Manual, Volume I by V. Nagam Aiyya.

17. In pursuance of the above treaty, a notification was issued by the Maharajah of Travancore. The notification reads:—

“(i) No customs duties on account of this *Sarkar* will be levied from and after the 1st June 1865 on goods imported by land, sea or backwater into Travancore and being the produce and manufacture of British India or of the territories of the Cochin State excepting on tobacco, raw and manufactured, salt, opium, spirits, which will be treated as heretofore.

“(ii) The British Indian and Cochin Governments will also give up their customs duties on all goods imported by land, sea or back water, into Travancore from their territories.

“(iii) On goods other than those which are the produce of British India or of Cochin State, the Travancore Government will levy the British Indian rates of duty, except when they shall have already paid duty to British India or to Cochin State.

“(iv) The duty that Travancore Government will levy on goods exported from Travancore will be 10% on timber, Rs. 15 per candy of 500 lbs. of pepper and betel-nut and 5% on all other goods. But Tinneveli cloths exported from Travancore to British India or to Cochin State will be free.

“(v) Neither the British Government nor the Cochin State will levy any duty on goods imported into their territories from Travancore, whether by land, sea or backwater, and whether the produce of Travancore or foreign goods which have already paid import duty to this State, excepting salt, opium and spirits.

“(vi) This *Sarkar* will not tax Coimbatore or British Indian produce passing through the Travancore backwaters to British Cochin or to Cochin State, nor tax the produce of the Cochin State directly proceeding through Travancore backwaters to British Cochin or to some other part of the territories of the Cochin State itself.

“(vii) The British Indian Tariff of valuation will supersede the Tariffs hitherto in force in the chowkeys of this *Sarkar*.**”

18. The average amount of customs duty collected at the time of the treaty was Rs. 53,218 of which Rs. 13,218 represented the amount of import duty realised at the Travancore sea ports; and the loss then sustained by Travancore by allowing free access into Travancore to goods other than the produce or manufacture of British India and which might have already paid duty at British Indian customs houses was Rs. 40,000. On this basis it was decided that so long as the Travancore sea customs collections were below Rs. 13,218 the British Government should pay to the Travancore Government Rs. 40,000 and that, if in any year it exceeded Rs. 13,218, the excess would be deducted from the sum of Rs. 40,000 and the balance alone would be paid to the State.

19. In 1041 M.E. (1865-66 A.D.) the Government fixed rates of ‘*Kudivaram*’ and ‘*Melvaram*’ at 40% and 60% respectively for private salt pans

** p. 184 Travancore State Manual Volume II by V. Nagam Aiyya.

and 20% and 80% for Government salt pans. (*Kudivaram* was that portion of the salt taken by Government on payment of fixed prices called '*kudivila*' and '*melvaram*' was that portion taken by Government without any payment).

20. In 1042 M.E. (1866-67 A.D.) the Maharajah passed a regulation for establishing an improved system of registration of deeds in Travancore. The old system provided for the use of "*stamped cadjans*" issued through Munsiffs' Courts and the proceeds were credited to the State. The new regulation was modelled on the British Indian Act for the registration of assurances. Under this regulation all deeds relating to immovable property and to rights connected with such property had to be registered; for movable property it was not compulsory. The regulation came into effect on the 1st Dhanu 1043 M.E. (14th December 1867).

21. In order to streamline the system of abkari administration and to augment the revenue from this source, a new Regulation (I of 1054 M.E.) was brought into force from the year 1055 M.E. (1879-80 A.D.) The shops selling European liquors had to take out licences renewable from year to year. The abkari farms were rented on triennial leases, and on the expiry of the period they were put to auction and given to the highest bidder. It appears from available records, however, that the practice of leasing out abkari farms to the highest bidder came into existence sometime around the year 1010 M.E. (1834-35 A.D.) Nagam Ayya says: ".....In the event no person coming forward to hold the farm, the work was managed by the Tahsildar and in some places by a *Vicharippukar*, a *Pillay* and two persons employed for the purpose, and from the total collections, expenses were deducted and the remainder credited to the 'Sarkar'".*

22. Even from very early times, a system of levying a duty of 10% of the value of the property on both the seller and purchaser was prevalent in Travancore.** This appears to be a levy analogous to stamp duties of modern times. A Stamp Regulation was passed on 24th Makaram 1059 M.E. (5th February 1884 A.D.) generally on the lines of the British Act, and given effect to on the 1st Edavam 1059 M.E. (11th May, 1884). This measure was introduced in order to make good the fall in revenue consequent on the reduction of import duty on tobacco in the latter part of 1055 M.E. (1879-80 A.D.) the lowering of the selling price of salt at the close of the year 1058 M.E. (1882-83 A.D.) etc. On this Regulation, the Administration Report of Travancore Government for 1059 M.E. (1883-84 A.D.) says ".....to seek for some new source of revenue His Highness's Government resolved on imposing a moderate stamp duty as the least objectionable mode of levying such additional revenue and as affording, with registration, an additional protection against foregery....." In the initial period, Madras Stamps were used in Travancore. Then stamps and stamp papers bearing the distinguishing mark of the Travancore Government were

* p. 502 Travancore State Manual, Volume II by V. Nagam Aiyya.

** p. 321 Travancore State Manual, Volume II by V. Nagam Aiyya.

specially manufactured by the Madras Government, and finally in 1061 M.E. (1885-86 A.D.) the Travancore Government commenced printing of their own stamp papers.

23. By a Royal Proclamation dated 14th Kumbhom 1061 M.E. (24th February 1886) a thorough survey* of lands was undertaken to remedy all the defects of the previous settlement, viz., of the year 1012 M.E. (1836-37 A.D.). This survey and settlement introduced for the first time a uniform standard of measurement of area in acres and cents and of grains in *paras* and *idangalis*. In order to get a clear picture of the land tax system of the State, it is necessary to have some idea of the system of land tenures as existed at that time, as land tax system has a direct relation to land tenures.

24. The arable lands of the State were divided into *Jenmom* lands and *Sarkar* lands. The *Jenmom* lands were further classified into three categories:

(i) *Jenmom* lands which were entirely freehold and exempt from payment of revenue to Government under any circumstance;

(ii) *Jenmom* lands which were originally exempt from payment of any revenue to Government, but which subsequently became liable to tax under certain conditions. For example, the *jenmom* right ceased when such lands passed into alien hands for money consideration, whatever be the nature of transaction. As soon as an alienation took place, the land became permanently liable to a light tax called '*Rajabhogom*' amounting in the case of gardens, to $\frac{1}{6}$ or $\frac{1}{8}$ of the full rent, and, in the case of paddy lands, to one half, $\frac{1}{10}$ or $\frac{3}{10}$ of the quantity of the seed required to sow the land; and

(iii) *Jenmom* property subject ab-initio to the payment of a light demand, called *Rajabhogom* at rates mentioned under (ii).

At the time of the settlement of 1886 A.D. the lands under category (i) were owned by certain religious and charitable institutions and by some individuals, too, viz. Kilimanoor Koil Thampuram, Aghor Namboodripad etc., etc. The total number of institutions and individuals who held land under this category was only 76 at that time. The lands under category (ii) were owned by *Brahmins* and certain institutions. The lands under category (iii) were owned by '*Madambimars*' and other chieftains who were not *Brahmins*.

25. *Sarkar* lands were divided into five categories:

(i) *Kandukrishi* lands—These were crown lands and the tenants had right of property subject to the payment of *pattom* or rent. For paddy lands the full dues had to be paid in kind only, and on gardens the dues were payable partly in kind and partly in money;

(ii) *Kuthagapattam* lands, viz., lands that were leased out by the *Sarkar* to the ryots, and on which rent or *pattom* in full was payable to the *Sarkar* by the ryots;

* Note.—The British occupied areas of Thankasserri and Anjengo were not covered by this survey.

(iii) *Venpattom* or *Sarkar pattom* lands—These lands were charged with full assessment. The tenants had full right on the property;

(iv) *Otti* lands—These lands were charged with full assessment, but certain deductions were made. The Government demand consisted of the full *pattom* or tax minus interest on the money due (to the present cultivator by the original owner who gave the land as (*Otti*) plus *Rahjabhogam*; and

(v) *Anubhogam* and *Viruthu* lands or *Inam* lands or *Service Inam* lands—These lands were the lands given by the *Sarkar* to people for rendering certain services to the King. *Viruthu* holders were originally bound to render military services. On these lands the Government demand included full assessment minus the commuted value of services rendered by the *Viruthies* plus *Rajabhogam* at the usual rates. When the commuted value of services was lower than the full assessment, the difference was fixed as 'quit rent' payable to Government. If the assessment fell short of the commuted value of services, money grants were paid to the land holders to make good the difference. In addition to this, all *Viruthu* lands were subject to an extra cess termed "*chumattupanam*" or load tax. This was the price of a load of vegetables which *Viruthukars* were liable to pay to Government free of charges which was collected in money terms as a cess. In the case of *Inam* lands which were given as personal grants to some families or to individuals for services already rendered, certain lands were altogether—rent-free while others were subject to payment of *Rajabhogam* only.

26. The method adopted in the settlement of 1886 A.D. for fixing the full *pattom* for wet lands was "to estimate the gross produce on any land on the best possible data and deduct therefrom one *para* for the seed sown and an equal quantity for the expenses of cultivation." From the remainder $\frac{1}{3}$ was deducted for the cultivator's share and the remaining $\frac{2}{3}$ was divided in the proportion of $\frac{6}{10}$ to Government and $\frac{4}{10}$ to the land holder. Formerly this was being arbitrarily fixed in different ways in different taluks. The rates in the south sometimes went up even to ten times the seed, though the average was only five. Wherever the rate went up to above ten times the seed, it was reduced to that level. On an average the burden of taxation in the north was $\frac{1}{4}$ of the produce while it was $\frac{1}{3}$ in the south considering the high yield of the lands in the south (12 to 15 times of the seed in the south against 7 to 8 times in the north). The settlement of 1886 introduced certain definite principles as mentioned above. The wet lands were divided into 13 classes with varying rates of assessment and *Sarkar* tax. The rates varied from 5 *idangalis* to 7 *paras* for single crop and 7 $\frac{1}{2}$ *idangalis* to 10 *paras* 5 *idangalis* for double crop of one *para* of land (i.e. about one-seventh of an acre). No additional tax was demanded if a third crop was cultivated. It is to be noted that double crop rate was demanded only on those lands which were recorded as double crop land in the *Sarkar* records. Although the assessment on paddy lands was fixed in quantities of grain, the commuted value in rupees was also shown.

27. Garden lands throughout the State were divided into four categories with reference to their situation, soil and productiveness and each

garden charged with a distinctive rate carefully determined, but not to exceed four *chukrams* or fall short of one *chukram* for every cocoanut tree. The tax on the jack and the areca was made uniform throughout the State and palmyrah, punna, tamarind and mango trees were declared liable to tax only in certain places. The tax on the Illuppa was totally abolished. The assessment in kind was given up. The system of periodical revision and *Nadavukur* applicable to *Venpattom** lands was also abolished. The annual ground rent and tree tax varied from 15 *fanams* * to one *fanam* per acre in the case of ground rent and one *fanam* to one *chukram* in the case of tree tax for cocoanut, one *fanam* for jack tree, 8 *cash* each for arecanut and palmyrah 12 *cash* each for laurel, punna and mango, and two *chukrams* for tamarind.

28. 'Some special features of the revenue settlement of 1886 A.D. were:

(i) A degree of uniformity was brought about in fixing the portions of tax payable in kind and money—the tax payable in kind was fixed as one-fourth for the Quilon Division, three fourths for the Kottayam Division and one-half for the Trivandrum and Padmanabhapuram Divisions. Later, by a Proclamation dated 13th Karkatakam 1064 M.E. (27th July 1889) the grain portion of the assessment on paddy lands was fixed at 25% of the total assessment in the Quilon and Kottayam divisions and 50% in the Trivandrum and Padmanabhapuram divisions;

(ii) To encourage reclamation from backwaters cultivation was allowed in such areas free of tax for five years and on *payattu pattom* (ground rent) thereafter;

(iii) Numerous petty taxes hitherto levied on lands in addition to land revenue—most of them personal or related to profession—were abolished. Those taxes which were less than the full *pattom* were however retained; and

(iv) The settlement was declared to be permanent for thirty years.

29. During the year 1068 M.E. (1892-93 A.D.) in the place of many extra cesses on wet lands, a single cess in the shape of "water rate" at 2½ *fanams* per acre on all river irrigated areas and one *fanam* per acre on those under rain-fed tanks was levied.

30. The excise system—a deviation from the abkari policy so far followed by Government—introduced as an experimental measure by Regulation IV of 1073 M.E. (1897-98 A.D.) in Trivandrum taluk was confirmed in 1074 M.E. Regulation IV of 1073 M.E. was a close adaptation of the Madras Act I of 1886 A.D. The system adopted in Trivandrum taluk was as follows:—

The exclusive privilege of manufacture and supply of arrack was disposed of by tender and was granted to the tenderer who offered to government the largest share of the prescribed still-head charges. The privilege of sale of arrack was sold by auction. Within the town, the right of sale was assigned to the highest approved bidder for each shop. The area outside the town was auctioned as a single unit and the bidder could open as many shops in the vend area as he may be required, or permitted to do, by the Government.

* 1 *fanam* is equivalent to 1/7 of a rupee.

The manufacturer was required by the Government to supply to the shops arrack at a specified price. The exclusive right of sale of toddy throughout the taluk was separately sold by auction and granted to the highest bidder.

31. The whole of Trivandrum division was placed under the excise system in 1075 M. E. (1899-1900 A. D.). In 1076 M. E. (1900-01 A. D.) the system was extended to the southern division (Padmanabhapuram). Kottayam and Quilon divisions continued to be under the farming system.

32. At the instance of the British Government, a cess at 1/4 pie per pound was imposed on all tea exported by sea, from the year 1078 M. E. (1902-03 A. D.).

33. Court fee stamps were introduced for the first time in 1080 M. E. (1904-05 A. D.) by the Travancore Stamp Regulation IV of 1080 M. E.

34. Tree tax for toddy-tapping began to be levied in Trivandrum in 1080 M. E. The rates of tree tax were Re. 1, Re. 1 annas 8 and Rs. 2 for six months per tree in the case of palmyrah, cocoanut and choondapana respectively.* In the year 1082 M. E. (1906-07 A. D.) the excise system for abkari was extended to Quilon (Central division). The Kottayam division alone continued under the farming system. In the excise tracts the right of manufacturing and vending toddy and arrack was disposed of taluk by taluk and the supply of country spirits arranged for under the contract distillery system.

35. By Regulation VII 1087 M.E. (1911-12 A.D.) the registration of motor vehicles was, for the first time, made compulsory. By Regulation IV of 1088 M.E. the system of collecting tolls on roads and bridges was introduced with effect from 1st Makaram 1088 M.E. to meet the heavy maintenance charges of roads and bridges. The Hackney Carriage Regulation (VI of 1089 M.E.) was passed in the year 1089 M.E. (1913-14 A.D.) This regulation was applicable only to the town of Trivandrum in the first instance. By this regulation the carriages were to be registered compulsorily. The drivers of these carriages were to take driving licences. The regulation also fixed rates of fares for hackney carriages. The rates of registration varied between 7 chukrams and Rs. 3 per annum according to the category of the vehicle.

36. In the year 1090 M.E. (1914-15 A.D.) the contract distillery supply system in regard to arrack was extended to the whole State with the exception of Devicolam taluk where the right of manufacture and sale remained with the same contractor. In regard to toddy the independent shop system with the accompaniment of tree tax introduced in Trivandrum in 1080 M.E. was in force at the close of this year in the revenue divisions of Padmanabhapuram, Quilon, the taluks of Changanacherry, Meenachil, Kottayam and Ettumanoor in Kottayam division and the taluk of Peermade in the Devicolam division. The rates of still-head duty were raised both in regard to cocoanut-toddy arrack and jaggery arrack.

* The rates of tree tax were revised from time to time.

37. An export duty of Re. 1 annas 8 per 100 lbs. was imposed on tea exported from Travancore from 1st March, 1916. The import tariff was revised and the rates of duty in regard to several items enhanced with effect from 1st March, 1916.

38. In 1093 M.E. (1917-18 A.D.) an irrigation cess of Rs. 3 annas 8 per acre on all dry lands converted into wet and irrigated by water from the Kodayar Channel, was levied under the provisions of the Irrigation Regulation III of 1072 M.E.

39. To enforce a strict control over the trade of opium and ganja, the privileges affecting the vend of these articles were sold shop by shop for the first time in 1093 M.E. The levy of a cess of 1/4 pie per pound of tea exported by sea from Travancore, introduced earlier, was ordered to be continued till 30th March, 1922. The proceeds from this cess were transferred to the Indian Tea Committee.

40. In the year 1094 M.E. (1918-19 A.D.) the Motor Vehicles Regulation V of 1090* was replaced by Regulation VI of 1094. The rates of registration fee laid down in this Regulation were:

	<i>Rate</i>
Motor cycle	..Rs. 4
Motor vehicle	..Rs. 16
Taxi car—first registration	..Rs. 16
renewal	..Rs. 8
Heavy motor vehicle plying for hire—	
first registration	..Rs. 32
renewal	..Rs. 16

41. In 1096 M.E. (1920-21 A.D.) the independent shop system with tree tax for toddy was extended to the taluks of Moovattupuzha and Thodupuzha. The still-head duty was raised both for toddy arrack and jaggery arrack. The rates of tree tax were also enhanced.

42. The rate of cess levied on behalf of the Indian Tea Committee, on tea produced in Travancore and exported by sea to any port outside British India or Aden, was raised from two annas one pie to four annas per 100 lbs. with effect from 1st May, 1921.

43. With a view to meet the increasing cost of administration and to distribute the burden of taxation equitably on all the people, an income-tax began to be levied with effect from 1st Chingom 1097 M.E. under the Income Tax Regulation VIII of 1096 M.E., which was modelled on the lines of the Indian Income Tax Act VII of 1918.

* Regulation VII of 1087 M.E. had been amended by the Regulation of 1090.

Some of the important categories of incomes not assessable to income-tax were:

- (i) Salaries and allowances paid by the British Government to persons resident in Travancore who were in service of the King Emperor in India;
- (ii) Profits earned by a co-operative society in Travancore register under Regulation X of 1089 M.E. or dividends received by members of any such society;
- (iii) Pensions paid by or on behalf of the Government of Travancore to their retired officers who both reside and draw their pensions outside Travancore and who were liable to pay income tax in respect thereof to any Government other than the Government of Travancore, for 1097 M.E.;
- (iv) The income derived by any educational institution, existing solely for educational purposes and not for purposes of profit, from fees and other receipts of a similar character;
- (v) Agricultural income.

The rates of income-tax on incomes in excess of Rs. 2,000 varied from 10 *cash* to 2 *chukrams* in the rupee for assesseees other than companies and registered firms, incomes not exceeding Rs. 2,000 being completely exempted. In the case of companies and registered firms, tax was levied at the maximum rate of two *chukrams* in the rupee. For purposes of conversion of incomes received in paddy, a fixed commutation rate of 20 *chukrams* per *para* of 800 cubic inches of paddy was prescribed for computing the income tax-rate.

44. The cess on tea was raised to six annas per 100 lbs. from 21st April 1923.

45. In 1097-98 M.E. the income by way of pensions paid by the State Government to those both residing and drawing their pension outside the State and who were liable to pay income-tax to another Government were exempted from payment of income-tax in Travancore. In 1099 M.E. it was agreed to by the State Government and the British Government that "where the same income is taxed both in British India and in Travancore, each Government should give to the assessee concerned a refund at one-half of the lower of the rates of tax imposed in the two places". This was implemented with effect from 8th December, 1923.

46. The independent shop system in regard to sale of toddy was extended to the taluks of Vaikom, Sherthallai, Kunnathunad and Parur in 1099 M.E. (1923-24 A. D.), and by the beginning of the next year the whole State was brought under the independent shop system with its accompaniment of tree tax, except Devicolam taluk where there was no manufacture or sale of toddy. The annual rate of tree tax was Rs. 3 annas 8 for palmyrah tree, Rs. 6 for cocoanut tree and Rs. 10 for sago palm, throughout the State except in the pakuthies of Kunnathunad and Parur taluks which border on the Cochin territory. In the border area, the rates were Rs. 3 per palymrah tree, Rs. 4 per cocoanut tree and Rs. 7 per sago palm.

47. The Income Tax Regulation VIII of 1096 M. E. was amended by Regulation V of 1100 M. E., on the basis of the Indian Income Tax Act XI of 1922 A. D. The amended regulation came into force at the beginning of 1101 M. E. The salient features of the amendment were (i) provision enabling assesseees to make the income tax commissioner refer any question of law arising in the course of assessment proceedings to the High Court; and (ii) provision for relief against double income-tax on the same income when that income was taxed both by the Travancore Government and any other Government.

48. In 1102 M. E. (1926-27 A. D.) the system of collecting land revenue in kind was abolished completely. Previously land tax used to be collected in money as well as in kind such as paddy, cocoanut, etc. At the last settlement (commenced in 1886 A. D. and completed in 1911 A. D.) taxation in kind except paddy in respect of paddy lands had been abolished and money payment substituted. Even this paddy tax was commuted into money in respect of *Pandaravaka* lands in 1081 M. E., and in 1102 M. E. this change was made in respect of *Kandukrishi* or Crown lands and the *Sreepadom* lands also. Thus, by 1102 M. E. land revenue from all categories of lands began to be collected in money.

49. In the year 1931 A. D., the British Government, the Cochin Government and the Travancore Government mutually agreed to effect the sharing of customs revenue realised at the Cochin Harbour from 1st April, 1931. This arrangement was in pursuance of a four party agreement entered into among the Governments of British India, Madras, Travancore and Cochin in July 1925 for the development of the Cochin Harbour. The development scheme was divided into four stages. The expenditure relating to the first stage was met by the Government of Madras. The second stage was completed at a cost of about Rs. 9 lakhs towards which Madras, Cochin and Travancore each contributed Rs. 3 lakhs. The third stage was financed by the Harbour authorities. The question of undertaking the fourth stage was under consideration during 1931-32 A. D.

50. The levy of an excise duty on matches was introduced for the first time on 1st April, 1934. This duty was imposed in consequence of the levy of an excise duty on matches by the British Government in their territory. The Travancore Government, along with other Indian States, agreed to pay the proceeds after deducting the collection charges, to a common pool for ultimate distribution between British India and the Indian States on the basis of population according to the census of 1931.

51. In November 1934, at a meeting of the Governments of British India, Madras, Travancore and Cochin, the principle for dividing the customs revenue of the Cochin Port was finally decided as follows:—

“(a) In respect of any year in which the customs revenue of the port does not exceed Rs. 49 1/2 lakhs, the Government of Cochin, Government of Travancore and the Government of India will each receive 1/3 share.

“(b) In respect of any year in which the net customs revenue exceeds Rs. 49 1/2 lakhs, but does not exceed Rs. 63 lakhs, the Travancore Government will receive Rs. 16 1/2 lakhs, the Cochin Government will receive 1/3 of the net customs revenue and the Government of India will receive the remainder.

“(c) In respect of any year in which the net customs revenue exceeds Rs. 63 lakhs the Travancore Government will receive Rs. 16 1/2 lakhs plus 6% of the excess over Rs. 63 lakhs, the Cochin Government will receive Rs. 21 lakhs plus 10% of the excess over Rs. 63 lakhs and the Government of India will receive the remainder.”*

52. In 1111 M. E. (1935-36 A. D.) by Regulation V of 1111 (Sea customs Amendment Regulation), a cess at the rate of eight annas per cwt was imposed on coffee exported by sea from the State to any port outside British India and Burma. By the Travancore Mechanical Lighters (Excise Duty) Regulation IV of 1111, an excise duty was imposed on all mechanical lighters with a view to discourage the production of those commodities in order to save the Match industry.

53. The Income Tax Act was amended in 1112 M. E. and a supertax was introduced.

54. In 1113 M. E. (1937-38 A. D.) the cess on tea exported was raised to Re. 1 annas four per 100 lbs., and the cess on coffee to Re. 1 per cwt. At the beginning of that year, wholesale and retail transactions of tobacco in the whole State were brought under the licence system.

55. From the beginning of 1116 M. E. (1940-41 A. D.) the rates of income tax and super tax were enhanced by the Travancore Income Tax Act XXVII of 1115 M. E. The revised rates of income tax for assesses other than companies and registered firms varied from 10 *cash* to four *chuckrams* in the rupee according to the income slab. Incomes upto Rs. 2,000 were exempted from tax as before. Companies and registered firms were assessed to income tax at the maximum rate of four *chuckrams* in the rupee on the total income. The rates of supertax for assesses other than companies varied from one *chuckram* 12 *cash* to 12 *chuckrams* four *cash* in the rupee according to the range of income exceeding Rs. 20,000. For companies, supertax was levied at a flat rate of one *chuckram* 12 *cash*.

56. In the same year (1116 M. E.), a cess at the rate of Re. 1 per cwt was levied on all raw rubber exported from the State, and the export duty of tea was enhanced to Rs. 2 per 100 lbs. The excise duty on matches was enhanced consequent on the enhancement of the duty by the British Government.

57. In the year 1117 M. E. (1941-42 A. D.) the Travancore Motor Vehicles Act I of 1117 M. E. was enacted repealing the Motor Vehicles Regulation VI of 1094 M. E. The rates of registration fee were fixed as:—

(1) For a motor cycle below 3 1/2 horse power	Rs. 4
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* Administration Report of the Travancore Government for the year 1110 M. E.

(2) For any other motor cycle	Rs. 8
(3) For a motor vehicle, the registered laden weight of which does not exceed 14,500 lbs.	Rs. 16
(4) For a motor vehicle, the registered Laden weight of which exceeds 14500 lbs	Rs. 32
(5) For a trailer	Rs. 5
(6) For temporary registration	Rs. 2

58. The cess on raw rubber was enhanced from Re. 1 to Re. 1 annas 8 per cwt from 1st Chingom 1118 M.E.

59. By the Agricultural Income Tax Act I of 1119 M.E. (1943-44 A.D), a tax on agricultural income began to be levied with effect from 1st Chingom 1110 M.E.* The rates of tax were:—

Rate

In the case of every person:

1. When the total income is less than Rs. 5,000	Nil
2. For income between Rs. 5,000 and Rs. 10,000	8 <i>cash</i> in the rupee
3. Do. Rs. 10,000 and Rs. 15,000	12 <i>cash</i> in the rupee
4. Do. Rs. 15,000 and Rs. 20,000	1 <i>chukram</i> in the rupee
5. Do. Rs. 20,000 and Rs. 30,000	1 <i>chukram</i> 12 <i>cash</i> in the rupee.
6. Do. Rs. 30,000 and Rs. 40,000	2 <i>chukrams</i> 4 <i>cash</i> in the rupee.
7. Do. Rs. 40,000 and Rs. 75,000	2 <i>chukrams</i> 8 <i>cash</i> in the rupee.
8. Do. Rs. 75,000 and Rs. 1 lakh	2 <i>chukrams</i> 12 <i>cash</i> in the rupee.
9. Income above Rs. one lakh	3 <i>chukrams</i> in the rupee

60. By the Travancore Income Tax (Amendment) Act X of 1119 M.E. a surcharge on income-tax and supertax was introduced from 1st Chingom 1119 M.E. The rates of surcharge on income-tax varied from 5 *cash* to 2 *chukrams* in the rupee according to the range of income in the case of assesseees other

**Note*:—In the District Gazetteer of Trivandrum it is stated that “agricultural income tax was introduced for the first time in Travancore State by the Travancore Income Tax Act of 1121 in order to make good the loss of revenue sustained by the Government on account of the introduction of basic tax in that year”. (pp. 571-572). In fact the agricultural income tax was already in existence when basic tax on land was introduced; what was done at that time was to increase the rates of agricultural income tax with a view to compensating the loss on account of the introduction of the basic tax.

than companies and registered firms. In the case of companies and registered firms, surcharge was levied at the maximum rate of 2 *chukrams*. The surcharge on super-tax varied from 14 *cash* to 6 *chukrams* 2 *cash* in the rupee.

61. At the instance of the Government of India, the Travancore Betelnuts, Coffee and Tea (Excise Duty) (Emergency) Act IX of 1120 was promulgated on the lines of a similar enactment in British India. Under this Act, excise duty was imposed from 1st Chingom 1120 on betelnut (cured) coffee (cured) and tea (manufactured) in Travancore at the rates of one anna, six pies and one anna nine pies per pound respectively. Tea and betelnuts were already subject to customs duty and therefore excise duty on these articles was so fixed that both the duties together are equal to the excise duty in British India. As there was no customs duty on coffee unlike tea and betelnut, the rate of excise duty on coffee was fixed at six pies per pound having regard to the comparatively poor quality and low selling price of the coffee produced in Travancore. The receipts from these items, after deducting the collection charges, were agreed to be paid to a common pool for division between the Government of India and the concerned Indian States on the basis of population.

62. By the Travancore Excess Profit Tax Act I of 1120 M.E. a tax on excess profits arising out of certain businesses was imposed from 28th Chingom 1120. The rate of tax was generally 60% of the quantum of profit in excess of the standard profit. The Act provided specific rules for computing the standard profit. This Act applied to every business of which any part of the profits made during the chargeable accounting period was assessable to income-tax under the provisions of the Travancore Income Tax Act. (The profits exempted in the Travancore Income Tax Act and the business of Life Insurance were totally exempted from excess profit tax).

63. The excise duty on betelnut was reduced from one anna to six pies per pound from 4th Mithunam 1121 M.E. (1946 A.D.)

64. Taxation on motor vehicles was introduced by the Motor Vehicles Taxation Act of 1121 M.E. abolishing the toll system in Travancore from 1st Chingom 1121. Assessment of tax on non-motor vehicles was also started during the second half of the year.

65. Towards the close of the year 1121 M.E., the Income Tax Act and the Agricultural Income Tax Act were repealed and a new enactment, the Travancore Income Tax Act XXIII of 1121, consolidating and amending the law relating to income-tax, supertax and agricultural income-tax, was promulgated and implemented from 1st Chingom 1122 M.E. This Act brought the Travancore law on the subject generally into conformity with the Indian Income Tax Act. In this Act, the agricultural income was assimilated to the ordinary income for the purpose of taxation. There was also provision for encouraging consolidation of holdings by giving concessions to people doing so. The rates of tax levied were lower than those of the British Indian rates of incometax. By this Act, income-tax was charged in respect of the total income of every individual, Hindu undivided family, undivided marumakkathayom tarwad

company, local authority etc., etc. The categories of income assessable to tax were salaries, interest on securities, income from property, profits and gains of business, profession or vocation, agricultural income and income from other sources. In addition to the income-tax charged, all assessees were liable to pay supertax. In the case of assessees other than companies and local authorities income-tax was charged at rates varying from 1 *chuckram 8 cash* to 6 *chuckram 8 cash* in the rupee according to the income slab. Incomes below Rs. 2,000 were totally exempted from tax. For companies and local authorities income-tax at 6 *chuckrams 8 cash* in the rupee was levied on the total income. The rates of supertax for incomes exceeding Rs. 20,000 for assessees other than companies and local authorities varied from 2 *chuckrams 10 cash* to 18 *chuckrams 6 cash* in the rupee. In the case of companies and local authorities, supertax was levied at the rate of two *chuckrams ten cash* in the rupee.

66. By the Travancore Land Tax Proclamation of 1121 M.E., (dated 9th July 1946) the basic land tax system was introduced for the first time in Travancore from 1st Chingom 1122 M.E. According to this enactment, a basic tax at the rate of 4 *cash* per cent of land was levied on all kinds of lands excepting *Shripandaravagai, Kandukrishi, Sreepadom, Edavagai* and other lands exempted under section 6 (2) of the Proclamation. The fundamental principle underlying this new enactment was the imposition of a low rate of basic tax uniformly on all registered holdings irrespective of the nature, quality or location of the holdings. There was no separate tax on trees. The imposition of a basic tax at a low flat rate in combination with a tax on agricultural incomes was considered to be a progressive fiscal measure.

67. With the introduction of the basic land tax system, all taxes previously levied on land were abolished. The irrigation assessment charged on tank beds and other *poromboke* lands brought under registry since the completion of the Kodayar Project was abolished. The Government, however, reserved the right to levy an irrigation or water rate on any land as they deemed fit.

68. The duty on salt in the State was abolished from 1st April, 1947 A.D./18th Meenom 1122 M.E. following the abolition of the same by the Government of India.

69. Towards the middle of the year 1123 M.E., the excise duty on betelnut was abolished, while that of coffee and tea was raised to 2 annas 6 pies and 3 annas 9 pies per pound respectively. Subsequently, however, the duty on coffee and tea was reduced to 1 anna 6 pies and 2 annas 9 pies per pound respectively. A cess at the rate of 2 annas per maund was levied from 18th Thulam 1123 M.E./4th November, 1947 A.D. on salt sold or removed from the factories in the State for export.

70. On the first of Chingom 1124 M.E., under the Travancore Prohibition Act VII of 1123, 'prohibition' was introduced in the six taluks of Thovala, Agastheeswaram, Kalkulam, Vilavancode, Neyyattinkara and Shencottah.

71. Though the Inter-portal Trade Convention was terminated on 15th August, 1947, with the attainment of Independence the Travancore Government entered into a stand-still agreement with the Indian Dominion and the

customs policy continued without any change. The excise duty levied on matches under the provisions of the Travancore Matches (Excise Duty) Act IV of 1109 M.E. as amended by Act XIX of 1116 M.E. and the duty levied on coffee and tea under the Travancore Betel-nuts, Coffee and Tea (Excise Duty) (Emergency) Act of 1120 M.E. and the duty on tyres imposed under the Travancore Tyres (Excise Duty) Act XVI of 1116 M.E. continued to be levied and the proceeds pooled and distributed as before even after independence.

72. The Travancore General Sales Tax Act XVIII of 1124 M.E. modelled on the lines of the Cochin and Madras Acts came into force from 1st Edavom 1124 M.E. Sales-tax was introduced in order to offset the loss of revenue consequent on the introduction of prohibition. The tax system in general was a multipoint one. The ordinary rate was three pies in the rupee of the turnover. But the sale of luxury articles such as motor cars, wireless reception instruments, refrigerators etc., was subjected to an additional tax at rates ranging from three to nine pies in the rupee, the additional tax being levied from the first assessable dealer in such articles in the State. The sale of certain articles such as food grains, salt, khader, etc., were exempted from sales-tax. Subsequent to the date of enforcement of the Sales Tax Act, a good number of articles were exempted from sales tax under separate notifications. The minimum limit of turnover for liability to sales tax was Rs. 10,000 a year. Registration of dealers whose annual turnover exceeded Rs. 7,500 was made compulsory, the registration fee being Rs. 6. Dealers having a lower turnover could also apply for registration. The benefit of the exemptions could be availed of only if the dealers took out the requisite licence on payment of the prescribed fee. With a view to promote local industries, a rebate of 50% of the sales-tax paid by the dealers was granted in respect of a number of articles manufactured within the State and sold for delivery outside the State.

73. In the light of the policy of 'merger of States' accepted by the Government of India, the rulers of the States of Travancore and Cochin entered into a covenant for the formation of a United State of Travancore and Cochin; and from the first of July 1949 A.D./17th Mithunom 1124 M.E. the separate State of Travancore ceased to exist.

B. Cochin

74. Consequent on the dismemberment of the *Chera* Kingdom or the *Kerala Desam*, the kingdom of *Perumpadappu* or Cochin came into existence by about the sixth Century A.D. Only very little reliable information is available on the system of taxation that prevailed prior to this event. The only record which throws some light on this aspect is a book by name "The Tamils Eighteen Hundred Years Ago", probably written by the one Kanakasabhai Pillai. It is mentioned therein that during the period between the third century B.C. and the middle of the second century A.D. customs, tolls and land tax formed the main sources of revenue. The 'tribute' paid by the vassal chiefs and princes the booty gained in the border expeditions and the profits of royal demesnes also formed a significant source of the king's income. One-sixth of the produce on land was the legitimate share of the king and, for the water supplied by the

State, a water cess was levied from the farmers. One of the five councils set up by the hereditary monarch attended solely to the collection and expenditure of revenue and the administration of justice.*

75. Information on the system of taxation or the various sources of revenue to the State till the end of the 15th Century is very scanty. C. Achutha Menon, in his book "The Cochin State Manual" says that, at the beginning of the 16th Century, the chief sources of the king's revenue were the income from crown lands and customs. It is a fact admitted by all historians that crown lands were in existence from very early times and that Cochin State had been enjoying extensive trade relations (in commodities like pepper, cocoanut, areca cardamom, ginger, jaggery etc.) with other countries from olden days. These facts go to show that the two sources of revenue mentioned above must have been in existence even earlier than the 16th century. Neither the extent of the crown lands nor the nature and amount of income derived from them are, however, known. The property of the chiefs and vassals dying without heirs escheted to the sovereign. This was obviously an increasing item of revenue. The Raja of Cochin did not originally exercise the right of levying duty on goods imported into the kingdom. But when the Portuguese established themselves as a powerful force in Cochin and began to levy this duty, they shared with the Raja the proceeds from this source.** The rates of duty imposed by the Portuguese on goods imported from different countries were not uniform as may be seen from the following:—

- (i) The Moors paid 10% of which 7/10 to Raja and 3/10 to Portugal.
- (ii) The Benganese paid 8% of which 5/8 to Raja and 3/8 to Portugal.
- (iii) The Canarese paid 8% of which 5/8 to Raja and 3/8 to Portugal.

The export duty levied by the King was at the rate of 6%. Besides, inland customs (*Chunkom*) at the rate of 1% *ad valorem* were levied at a number of stations and as these duties accrued to the king or the chiefs according to the situation of the stations, payment of duty at one station did not exempt the goods from payment at any other station or stations through which they were carried. Though there was no regular land tax during this period, the King derived a fair income from the garden lands held by *Madambis* (local chieftains) on account of the *Kettutengu* levied thereon. This was a cess levied on three per cent of the cocoanut trees in a garden at the rate of 6 annas 8 pies (commuted value). No regular land tax was levied from other categories of local chieftains (*Swarupis* and *Prabhus*), but they were called upon for special contributions on extraordinary occasions.

76. In addition to the above, there were a number of minor items of receipts. They were:—

- 1. *Ankam* (fight/duel/battle wager)—This was the money the king received as umpire between two combatants under the system of battle wager;

* P. 35. "The Cochin State Manual" by C. Achutha Menon.

** P. 349 'History of Kerala' Volume II by K. P. P. Menon.

2. *Nuzzar*—The estates of chiefs and others dying without heirs lapsed to the king, and adoption could be made only with his consent and on payment to him of 20% of the value of the estate as 'nuzzar';
3. *Ezha* (penalty, exacting presents)—The usurpation of estates of such neighbouring *Rajas*, *Naduvazhis* or other chiefs as might be incapacitated from poverty or other cause from governing;
4. *Kozha*—forced contribution;
5. *Tappu* (slip, blunder)—fines levied for accidental and unintentional crimes;
6. *Pizha* (fault)—fines levied for intentional crimes;
7. *Purushandaram* (succession duty)—The duty payable by hereditary chiefs varied between two and 1200 fanams.
8. *Pulayattu Pennu* (adulterous women)—compensation received for maintaining women excommunicated for adultery, chiefly but not exclusively of the *Brahmin* caste, and for the trouble of preventing their going astray again. The *Rajas*, however, often disposed them of for money to the *Chetty* merchants;
9. *Ponnarippu* (gold sifting)—royalty to be paid for sifting gold or generally gold dust;
10. *Talappanam* (head money)—poll tax levied from certain classes of people;
11. *Rakshabhogam* (protection money)—These payments were for protection generally without being limited to any specified aid;
12. *Changatam* (association or companionship)—payment made for assigning a sentinel or guard for protection;
13. *Kazhcha* (offering, gift)—a 'nuzzar' paid annually and on special occasions by *Madambis*, *Swarupis*, *Prabhus* and other title holders;
14. *Adinja Urukka* (stranded vessels)—shipwrecked vessels which have drifted ashore;
15. *Cherikal*—private domains of kings;
16. Natural freaks among cattle, wild elephants and ivory, horn, tigers' skin and claws etc.;
17. All teak trees whether standing in sarkar or private lands were the monopoly of the State.

But the aggregate receipts from these miscellaneous items formed but a small fraction of the total revenue.

77. The Portuguese lost much of their power by the close of the 16th Century A.D. and, by 1663 A.D., the Dutch captured Cochin from the Portuguese and established themselves 'master of Cochin'. This political change brought about some re-arrangement in the fabric of commercial taxation. On 20th March, 1663, an agreement was concluded between the Dutch company and the Raja whereby the Raja agreed to deliver to the Dutch all the pepper and

wild cinnamon produced in his country between Porakkad and Crangannore and to allow the company the monopoly of the import trade in opium while all customs duties already levied and to be levied were to be given to the Raja. The discriminatory rates of import duty levied by the Portuguese were abolished by the Dutch Company and a uniform rate of 10% was adopted. The proportion in which the revenue from this source was divided between the Raja and the Company was refixed as 6:4. The export duty continued to be at the same rate of 6%. A duty on commodities such as pepper at the rate of half a ducat per candy was being collected from merchants who sold them. This levy was not applicable to the sales undertaken by the Company.†

78. The treaty of 25th February 1664 between the Raja of Cochin and the Dutch laid down that ".....the subjects of the Raja who have been accustomed to contribute head money and other demands shall not be freed from other obligations by becoming Christians".‡ It appears from this that certain personal taxes such as 'head money' were being levied in early Cochin, on some sections of the community.

79. According to available records, the levy of tax on land known as "*Rajabhogam*" (king's share) was started in the State for the first time by 1762 A.D. This does not, however, mean that the Raja was not in receipt of any revenue from land prior to this period. In fact the Raja received a share of the produce of the crown lands in the shape of *jennibhogam* (landlord's share), he being the jenmi in respect of crown lands, and revenue by way of a cess called '*Kettutengu*' levied from cocoanut gardens owned by the *Madambi* chiefs. The other jenmis also received *jennibhogam* in the same manner from the *jennom* lands held by them. Thus, in early days, the revenue received by the Raja from lands (wet lands) was not by virtue of his authority as king, but only on account of his *jennom* right on crown lands. As regards the exact date of introduction of land tax in Cochin, there is considerable difference of opinion among writers. According to C. Achyutha Menon, a regular land tax began to be levied in Cochin in the year 1763 A.D.** According to another source, it was during the occupation of the country by the Mysore King Hyder and his men (about 950 M.E./1774-75 A.D.) that a tax was first levied on land.†† A third view is that taxes were first imposed by the Raja to meet the demands for tribute made by the Mysore Suzerains. The Superintendent of Census, Cochin, has stated that there are grounds to believe that "a land tax was first levied in 937 M.E. (1761-62 A.D.) chiefly to meet the increasing expenditure consequent on the wars with the Zamorin and Travancore. £ According to K. P. P. Menon, "the earliest attempt at a survey and

Note:—*Pepper and spices were treated as articles of State monopoly which could be disposed of by the producers only to the State.

†p. 17 "Visscher's Letters from Malabar".

‡p. 377 History of Kerala volume I by K. P. P. Menon.

**p. 119 The Cochin State Manual.

††Report of the Superintendent of Census, Cochin, 1901.

£Report of the Superintendent of Census, Cochin, 1901.

settlement of lands is said to have been taken place at some period between 950 and 960 M.E. (1775-85 A.D.); that is after the Mysorean conquest".*

80. The levy of a general land tax on a *very limited scale* introduced in 937 M.E. (1761-62 A.D.) was necessitated to find funds for the maintenance of administrative establishments and also of a standing army which came under the direct command of the king after the invasions of Zamorin-King of Kozhikode in 1762 A.D. (Prior to this the administrative and military powers were vested in the hereditary chiefs.) Various tenures under which lands were held were taken into account in fixing the assessment. In Cochin also, as in Travancore and in Malabar, the property in the soil was vested not in the sovereign or in the cultivator, but in an intermediate class known as *jenmis*, who leased out the lands to cultivators on the produce-sharing system under a variety of tenures. The origin of this proprietary right and of the tenures on which the lands were leased is lost in the mists of antiquity. The various systems of land tenures that existed in Cochin are briefly outlined below:

(i) *Verumpattom* is a simple lease which enures only for one year if no period is specified in the deed. In leases of this kind in the olden days, a third of the net produce of the land, after deducting the cost of seed and cultivation, was reserved to the tenant and two-thirds paid to the landlord.

(ii) *Kanam*—The '*verumpattom*' becomes a '*kanam* lease' when the *jenmi* acknowledges a liability to pay a lump sum to the tenant on the redemption of his lease. In *kanam* leases the net produce, after deducting the cost of seed and cultivation, was shared equally between the landlord and the tenant and from the share of the former the tenant was entitled to deduct interest on the *kanam* amount at 5%. The amount so payable to the *jenmi* was '*michavaram*'.

(iii) *Inam* or *Anubhogam* is a perpetual lease granted for services rendered or to be rendered. Ordinarily a small rent or right to renewal-fee or both were reserved to the grantors, the renewal-fee in such cases being one year's assumed rent. On failure of heirs, the grants reverted to the *jenmies*.

(iv) *Other tenures*:—*Otti* and *Nerkanam* are of the same nature as *kanam*, except that the amount advanced by the tenant was so large that the interest extinguished the rent due to the *jenmi*.

81. All assessable lands were broadly divided into two classes—'*nilams*' and '*parambas*'. *Nilams* were lands adapted for paddy cultivation and *parambas* for cultivation of other crops. All lands—*nilams* and *parambas*—were again divided into '*pandaravaka*' and '*puravaka*'. The former were lands over which the State had the *jenmom* or proprietary right, while the *jenmom* rights over *puravaka* lands vested in private individuals or institutions. *Pandaravaka* lands were held by ryots directly under the *Sarkar* on the same tenures on which *puravaka* lands were held by tenants under the *jenmis*—viz. *verumpattom*, *kanam*, *otti*, etc. In fact the lands known as *pandaravaka* came into the possession of the State chiefly by escheat and confiscation and the tenures under which the lands were held under their former proprietors were left undisturbed by the *Sarkar*.

82. In the settlement of 937 M.E. there was no regular *paimash* or survey of lands, but the assessment was made after oral enquiries and conferences with land holders. The extent of land was measured in terms of *paras* i.e., on the basis of the number of *paras* of paddy required on an average to sow a particular plot. (Later on, the area of land began to be reckoned in terms of *perukkams*—a *perukkam* being equivalent to 1/5 of a cent). Consequent on the settlement of 937 M.E. a tax called *muppara* at the rate of three *paras* of paddy for every ten *paras* of land was charged on all *pandaravaka kanam* lands in addition to the *michavaram* rent which was being levied on them. *Muppara* was also levied on all *puravaka* lands demised to tenants on *kanam* or *anubhogam* tenures. If, in the case of any land, the 'kavalpalam' or protection fee which was being levied previously was found to be in excess of the *muppara*, the former impost was continued to be levied and no *muppara* charged. No *muppara* was to be charged on *puravaka* lands held as *tanatu verumpattom*, that is, land farmed by the jenmi himself or leased to tenants at will from year to year, but the levy of the protection fee was continued, whether it was more or less than the former. Bearing cocoanut, arecanut and jack trees standing in *pandaravaka parambas* were charged at the following rates:

1 2/3 annas per cocoanut tree together with *kettulengu*, i.e., 6 2/3 annas per tree on 3% of the trees in a garden;

2 1/2 pies per arecanut tree, and 6 2/3, 5 and 3 1/3 annas per jack tree according to its fruit-bearing capacity. In the case of trees standing on *puravaka parambas* only *ettilonnu* or 1/8th of the above rates was to be charged. *Parambas* containing no taxable trees, but bearing such crops as pulses and other cereals, were charged with a *varam* or cess of 1/10 or 1/20 of the gross produce according as they were *pandaravaka* or *puravaka*. The new taxes on land levied under the settlement were generally known as 'Rajabhogam' or the king's share. 'Jenmibhogam' due to the king, on crown lands were continued to be levied at the rates applicable to each category of tenure. The *Rajabhogam* together with the *jenmibhogam* on crown lands constituted the land revenue of the State.

83. The system of levying fees from parties in civil suits appears to have been introduced in 1762 A.D. The fee was then known as *peramper* and later as *dasturi panam*.

84. In 949 M.E. (1773-75 A.D.), to pay the contribution demanded by Hyder, a heavy additional tax was levied on land holders at rates ranging from 5 annas to 9 annas per *para* of land. A similar contribution at enhanced rates was levied in 952 M.E. (1776-77 A.D.) to pay the indemnity to Hyder; from the next year onwards, however, the rates were reduced to the level of 949 M.E. As money was scarce in those days, it was found impossible to realise this heavy assessment in money and, consequently from 959 M.E. (1783-84 A.D.) the assessment began to be levied in kind.

85. Towards the year 1785 A.D. the Cochin Raja claimed tolls on rice and other durable articles going into Cochin through backwaters for which *chowkeys* (customs houses) were opened at important places. Produce which had once paid customs was exempt from further toll.

86. In the next '*Kettezhuthu*' settlement completed in 964 M.E. (1788-89 A.D.), a second crop assessment called *kalanikuti* began to be levied on *puravaka nilams* in some parts of the Mukundapuram, Trichur and Talappilli taluks, the rate of assessment being less than one-half of the charge on the first crop. (In between the settlements of 937 M.E. and 964 M.E. there were several piecemeal *kettezhuthu* settlements, but the available records do not throw any light on their nature and scope).

87. During the Diwanship of Col. Munroe (1812-17 A.D.) a number of tax reforms were introduced with a view to augmenting the revenues of the State. Court fees began to be levied according to a definite scale and stamped '*cadjans*', were introduced for engrossing documents. The "*Hukumnamah*" of November 1814 contained provisions for the collection of *dasturi panam* or court fees by means of '*acchadiyolas*' or stamped '*cadjans*', and the judges of the several courts were made ex-officio vendors for the sale of these *cadjans*.

88. During this period salt was made a monopoly article and the purchase and selling prices were fixed at 2 annas and 4 to 6 annas per maund respectively. Preventive measures were taken to minimise the smuggling of monopoly articles like pepper and tobacco. (Tobacco was made a monopoly article towards the close of the 18th century). The farming system in Cochin and Kanayannur taluks and the levy of a duty on toddy and arrack in the other taluks of the State were introduced for the first time in 1812 A.D. abolishing the old tax by name *katti chatti* or knife and still tax. This was a tax, more or less, professional in nature levied on drawers of toddy and distillers of arrack and had been in existence from very early times. (The exact period from which this tax began to be levied is, however, unknown)*.

89. The unsatisfactory state of land revenue accounts caught the attention of Col. Munroe and in May 1814 a *Hukumnamah* was issued for the inspection and assessments of lands throughout the State in a systematic manner. Accordingly the settlement of *parambas* started in 990 M.E. (1814-15 A.D.) and that of *nilams* in 996 M.E. (1820-21 A.D.). This was the first *Kandezhuthu* settlement in which a regular *paimash* or survey of lands was made.

The *parambas* containing taxable trees were assessed with a *vrikshapattom* or tree tax and those without such trees were assessed with *payattupattom* or pea tax. *Payattupattom* was charged on *pandaravaka parambas* at the rate of 10 pies or 5 pies per *para* of land according to the nature of the soil and on *puravaka parambas* at 1/8 of these rates. In the Chittur taluk, however, a uniform rate of seven pies per *para* was charged, whether the *paramba* was *puravaka* or *pandaravaka*, and in some cases a *vallavari* was charged instead of *payattupattom* at rates ranging from 1 to 2 rupees per *vallam*, a *vallam* being equal to three acres and sixty cents. The trees treated as taxable were coconut, arecanut, palmyrah and jack. Coconut trees were divided into four classes and assessed at the rates of 40, 30, 20 and 10 pies respectively per tree. Besides this, a *kettutengu* was charged at the same rate as that prescribed in 937 M.E., and also a *pattakaccha* or *nuzzar* at rates ranging from 10 pies to Rs. 3 annas 5 according to the extent of each plantation. In the Venduruthy island

* p. 333 Cochin State Manual by C. Achyutha Menon.

which once belonged to the Dutch and was purchased from them by the Raja in 1758 A.D., the Dutch levied a uniform rent of $7\frac{1}{2}$ annas on each cocanut tree. The same rate continued during this settlement. The arecanut trees were assessed at two rates viz., $2\frac{1}{2}$ and 5 pies per tree, and the palmyrah palms which were taxed only in some places were charged with 10 pies per tree. The jack trees were divided into four classes and the rates of assessment levied on them were $13\frac{1}{3}$, 10, $6\frac{2}{3}$ and $3\frac{1}{6}$ annas per tree respectively. The above rates were for trees standing on *pandaravaka parambas*. On *puravaka parambas* cocanut trees and arecanut trees were assessed at a uniform rate of $2\frac{1}{2}$ pies per tree and the jack trees at $\frac{1}{8}$ of the *pandaravaka* rates. *Kettutengu* was charged on cocanut trees in *puravaka* lands at the same rate as applicable to *pandaravaka* lands.

90. The *Kandezhuthu* of 996 M.E. (1820-21 A.D.) embraced all the wet lands then under cultivation. The lands were not actually measured, but the extent was estimated after inspection. The assessment of *pandaravaka* lands held on *verumpattom* tenure consisted mainly of *pattom*, *nilavari* and *pattakazhcha* in Cochin and Kanyannur taluks and of *pattom*, *nikuthi*, *palam* and *pattakazhcha* in the other taluks except Chittur, where only *pattom* and *palam* were levied. The *pattom* or rent proper was generally fixed at half the Jenmi's share, or about a third of the net produce and amounted to one-fourth to six paras of paddy per para of land. The *nilavari* cess was levied at the rate of $7\frac{1}{2}$ pies per *para* and in a few cases at 15 pies. *Pattakazhcha* was a *nuzzar* paid to the *jenmi*, the amount ranging from 10 pies to Rs. 4 annas 9 and pies 2 according to the extent of the holding. The rate of *nikuti* varied according to the quality of the soil from $\frac{1}{4}$ to 1 para of paddy per para of land, and those of *palam* from a tenth to $\frac{3}{4}$ of a para. *Palam* amounting to $\frac{3}{10}$ of a *para* was known as *muppara*. The assessment on *pandaravaka kanam* lands was calculated in the same manner as that on *verumpattom* lands except that *michavaram* was substituted for *pattom*, *nilavari* was charged at a uniform rate of 15 pies and *pattakazhcha* varied from 20 pies to $1\frac{1}{4}$ rupee. In the case of lands held as *adima* and *anubhogam*, a lump sum was deducted from the *pattom* (the amount deducted being called *udankuravu*) while all the other items of assessment were levied exactly as in the case of *kanam* lands. *Karaima* lands were charged with only what is known as *melaima* or royalty which amounted to $2\frac{1}{2}\%$ of the *pattom* and *pattakazhcha*. No impost of any kind was charged on lands held as *karozhivu* or tax free, except in the case of some lands so held in the Chittur taluk, which were only exempted from the payment of *palam*, but were charged with *pattom*. On *puravaka nilams*, no *pattom* or *pattakazhcha* was charged, but *muppara* and *nilavari* were levied in the southern taluks and *nikuthi* and *palam* in the northern taluks. The *nilavari* charged was generally 15 pies per para but in a few cases it was only $7\frac{1}{2}$ pies. This settlement did not increase the total land revenue to any appreciable extent, but resulted in a more even and equitable distribution of the demand.

91. In addition to the ordinary assessment, all lands benefited by irrigation works constructed at the cost of the Government were charged with a

special cess called 'chiravari' at the rate of 1/10 to $\frac{1}{2}$ para of paddy per para of land according to the outlay on the 'chiras' concerned.

92. The Devaswom lands within the State were assessed more or less in the same manner as *pandaravaka* lands and the assessment was levied in money. Col. Munroe ordered that the assessment on wet lands should be collected in money, the rate of commutation being 5.25 *paras* per rupee. For over half a century after land revenue began to be levied, the assessment was collected in kind, except for a few years during the Mysorean supremacy when a portion of it was levied in money. The commutation rate was changed into seven *paras* per rupee in 1816 A.D. which was generally adopted in the above settlement. As, however, different prices ruled in different parts of the State, the commutation rate was not uniform throughout the State.

93. Besides the assessment on lands, a tax was also levied on all houses except Government buildings religious edifices and residences of *Brahmins* and nobles. In the Trichur and Talappilli taluks the amount levied as house tax was above six annas per house, while in the other taluks it varied from 20 to 40 pies.

94. During the Divanship of Shri Nanjappayya (1818-25 A.D.) the farming system for the manufacture and sale of toddy and arrack was extended to the whole State.

95. Stamp duty began to be levied for the first time in 1837 A.D. under the provisions of Regulation I of 1012 M.E. which required documents including deeds of sale, mortgage etc., to be written in *mudrolas* or stamped *cadjans*.

96. In the year 1840 A.D. the inland customs duties on all goods at the frontier stations were reduced and, in the case of rice and other food stuffs, the duty was totally abolished. Transit duties levied within the State were abolished in 1847 A.D. and the customs were made exclusively frontier and sea duties, while British produce going from one British possession to another was allowed to pass toll-free.

97. The second crop assessment known as '*kalanikuthi*' introduced in the settlement of 964 M.E. (1788-89 A.D.) was abolished in 1846 A.D. In the year 1858 A.D. the exceptional rate of tax on cocoanut trees being levied in the Venduruthy island was modified and brought on a par with the rates that existed in the other parts of the State. In 1860 A.D., the commutation prices (i.e., money equivalent of the tax payable in kind) for paddy were refixed, considering the increases in the market price of paddy. The Government monopoly on pepper was abolished in the same year. However, a duty was levied on all pepper exported from the State.

98. Opium and Ganja were made Sarkar monopolies only in 1861 A.D. The farming system was adopted for the sale of these drugs also. The State received only the rental for the monopoly of the sale and did not levy any duty on the drugs.

99. In the year 1865 A.D. the Cochin Government entered into a tripartite trade agreement*, known as the "Inter-portal Trade Convention, with Travancore and the British Government. By this convention, Cochin agreed to abolish all inland customs and tobacco monopoly, to adopt the British selling price of salt and to raise the rate at inland depots so as to place Cochin and British salt on the same footing in the market. To compensate Cochin for the loss incurred by these arrangements, the British Government agreed to make over to the Sarkar a *moiety* of the customs receipts of British Cochin subject to a minimum of Rs. one lakh and, on account of the abolition of import duty on tobacco, an amount not less than Rs. 10,500 every year. Cochin was also allowed to import salt on the same terms as those on which it was imported into British Indian ports. Accordingly, all inland duties were abolished, but, on all imports and exports by sea, duties began to be levied just in the same manner as they were at the British Indian ports. Any revenue so derived was handed over to the British Government and the State received as compensation from that Government a share of the customs receipts of the British Cochin in accordance with the agreement. The State however levied its own port dues on vessels anchored off Narakkal and Malipuram. The above convention proved to be a great boon to Cochin—it gave impetus to inland trade and consequently increased the revenues.

100. Even though the tobacco monopoly was abolished in 1865 A.D.† the Government did not allow its unrestricted import or sale. Those who wished to import or sell tobacco were required to take out licences.

101. Tolls on conveyances were introduced for the first time in the year 1870 A.D. at the toll gate on the Trichur-Shoranur Road soon after the completion of the Shoranur bridge. ‡ (The practice of levying tolls on goods had been in existence from time immemorial).

102. The system of registering documents was first brought into force in August 1875 under the provisions of Regulation I of 1049 M.E. (1874-75 A.D.) based on Central Act VIII of 1871. The benefits of registration as conferring security of title were recognised by the people.

* Tobacco which was not a monopoly article in the neighbouring districts of Malabar and Coimbatore (since the abolition of monopoly in 1853 A.D.) was extensively smuggled to Cochin. Similarly salt was smuggled into Malabar and Coimbatore districts from Cochin as the selling price of salt was lower in Cochin than in Malabar. This not only created difficult administrative problems, but also resulted in loss of revenue to the Cochin Government. These were the circumstances which led Cochin to enter into the trade treaty.

† K. P. P. Menon says that the tobacco monopoly in Cochin was abolished in the year 1862 A.D.—vide p. 353 "History of Kerala" Volume II.

‡ By about 1911 A.D. tolls were levied at about 28 stations and the receipts on this account amounted to Rs. 40,000 per annum.

103. In the year 1884 A.D. the export duty on pepper was abolished. The law relating to stamp duties introduced in 1012 M.E. (1836-37 A.D.) was amended and amplified by Regulation I of 1071 M.E. (1894-95 A.D.) which was based on the British India Act I of 1879 A.D. Since the passing of this Regulation stamped cadjans gave place to stamped papers.*

104. In the year 1080 M.E. (1904-05 A.D.) Regulation II of 1080 M.E. to govern the levy of court fees was issued based on the British India Act VII of 1870 A.D. Since the passing of this regulation, court fees were levied in stamps and calculated in terms of British Currency. This superseded Regulation I of 1055 M.E. (1879-80 A.D.) enacted to amend Regulation I of 1010 M.E. (1834-35 A.D.).

105. On 27th Kumbhom 1080 M.E. (10th March, 1905) a settlement Proclamation was issued with a view to undertaking a scientific survey of both *nilams* and *parambas*. In the case of *nilams* this was an attempt to revise the assessment rates fixed over eighty-five years ago, in the settlement of 996 M.E. (1820-21 A.D.). As regards *parambas*, there were two partial settlements (*kandezhuthus*) in 1012 M.E. (1836-37 A.D.) and in 1032 M.E. (1856-57 A.D.), in order to bring in the trees newly planted and the *parambas* newly cleared, under assessment. In neither of these two settlements has any change made in the rates of assessment. The present settlement tried to remedy all the defects of the previous ones. With a view to achieve this, the following preliminary works had been completed by this time:

- (i) A cadastral survey (according to the Survey Regulation II of 1074 M.E.).
- (ii) Classification of soils in different localities according to fertility.

106. Settlement of all claims relating to *Inam* lands, assignments of land revenue and all cases of escheat etc., were also matters within the purview of this settlement. All lands were divided, as in previous settlements, into *nilams* and *parambas* for purposes of assessment, but their areas were recorded in terms of acres and cents instead of *perukkams* or *paras* or *edangalis*. *Parambas* were divided, as in the previous settlements, into '*payattupattom*' and '*vrikshapattam*' *parambas*, the only trees taxed in the latter being cocoanut, arecanut and jack. All lands were classified with reference to the nature of their soils. *Pandaravaka verumpattam* was treated as the normal tenure for settling the full State demand and all other tenures were brought under one or another of three tenures, '*Pandaravaka kanam*' '*Puravaka*' and '*Inam*'. The State demand on *pandaravaka kanam* lands was made $\frac{2}{3}$ of that on *verumpattam* lands, one-third being waived in lieu of the extinction of the customary incidence of *kanam* tenure. The *puravaka* assessment was $\frac{1}{2}$ of that of *pandaravaka verumpattam* in the case of *nilams* and $\frac{1}{4}$ in the case of *parambas*. *Inam* grants were confirmed, modified or redeemed according to the merits of each case and assignments of land revenue were also treated in the same manner. Full

*Note:—In 1908 A.D. arrangements were made with M/s John Dickinson & Co., of London for the manufacture of all important denominations of stamps required by the Government.

property in the soil was conferred upon *pandaravaka verumpattam* and *kanam* holders and the settlement was made current for a period of 30 years.

107. For fixing the rates of assessment on 'nilams', the gross produce was estimated by means of harvest experiments and the outturn thus arrived at was converted into money value at the rate of four annas and seven pies per *para* of paddy. From this, deductions were made on account of vicissitudes of season, unprofitable area and cultivation expenses and the balance was assumed as the net produce. One-half of this net produce was taken as the share due to the State in respect of lands held under the normal tenure, viz., *Pandaravaka verumpattam*. The lands were divided into nine *tarams* according to their productive capacity and nine rates of assessment were accordingly adopted, ranging from one rupee to seven rupees and eight annas. In Chittur taluk, however, only 7 rates were adopted and the rates were fixed higher on account of the irrigation facilities afforded to the ryots by the Government and in lieu of the water cess which used to be levied till the new settlement.

108. For an occasional second crop raised on single crop *nilams*, one-half of the single crop assessment was charged. In the case of permanent double crop lands, the ryots were given the option to compound the second crop charge at one-fourth of the first crop charge, which he should pay, whether he raised the second crop or not in any year.

109. *Payattupattam parambas* (*parambas* without taxable trees) were divided with reference to their productive capacity into eight *tarams* in Chittur Taluk and seven in other taluks with rates for *pandaravaka verumpattom* ranging from two annas to two rupees per acre.

110. In respect of *vrikshapattam parambas*, the assessment was charged not on the land, but on the trees. Coconut trees were divided into four classes not with reference to the yield of individual trees, but with reference to their situation on the sea-board or alongside the backwaters, rivers, paddy swamps or the inferior hilly tracts. The rates charged were 3 annas 6 pies 3 annas, 2 annas and 1 anna per tree respectively. The assessments fixed on arecanut and jack trees were at the uniform rates of four pies and 4 annas per tree respectively. Only bearing trees were counted and assessed and the maximum number of cocoanut trees assessable in an acre of *paramba* was fixed at 60 and of arecanut trees at 480, the trees in excess of these numbers being left un-assessed. In the case of *parambas* containing more than one kind of taxable trees, the assessment was not to exceed the highest assessment of a cocoanut garden containing the maximum number of trees. The above rates were for *pandaravaka parambas*, those for *pandaravaka kanam* and *puravaka parambas* being $\frac{2}{3}$ and $\frac{1}{4}$ of these rates.

111. As already pointed out, a number of minor cesses used to be levied from landlords. All these including house tax were now abolished and in lieu thereof, a *thirumulkazhcha* or royalty cess at a uniform rate of six pies was charged on every rupee of normal land revenue or full State demand due on each holding, whether held on *pandaravaka verumpattam*, *kanam*, *puravaka* or other favourable tenures.

112. As was done in the previous settlement, all Devaswom lands within the State were assessed nearly in the same manner as *pandaravaka* lands and the assessment was levied in money at the same commutation rates. This settlement also reserved to the State all rights to minerals, whether in *pandaravaka* or *puravaka* lands.

113. In 1080 M.E. (1904-05 A.D.) the Abkari Regulation was introduced to regulate the sale of toddy and arrack in the State. The exclusive privilege of the manufacture and sale of country spirits and toddy was sold by public auction or by inviting tenders. The number of distilleries and of sites of shops was limited as far as possible and the lessee was required to sell country spirit at specified strength. Licences were issued for the sale of foreign liquor in shops and for tapping for jaggery at varying rates.

114. The Cochin Ferries and Tolls Act III of 1082 M.E. came into force on 1st Chingom 1083 M.E. whereby the Government could regulate the levy of charges on goods, conveyances etc., at specified ferries and toll gates. Certain ferries were leased out for specified periods and collection of dues from other ferries and tolls was made direct by Government.

115. The old licensing system for the vend of tobacco was abolished and an auction system was introduced in 1083 M.E. (1907-08 A.D.).

116. The old Stamp Regulation (I of 1071 M.E.) was modified and a new Stamp Regulation (VI of 1083 M.E.) was passed. According to this, all denominations of stamps in "*puttans*" were abolished. From 1st Vrischigom 1083 M.E. (1907-08 A.D.) "copy stamped papers" were introduced for granting copies to the parties in public offices which were provided with a salaried establishment of copyists. The local manufacture was confined to all denominations of Anchal Stamps, envelopes and cards, two annas copying stamp paper, court fee papers, special adhesive labels and hundi stamp papers.

117. The Cochin Registration Act V of 1084 M.E. (1908-09 A.D.) was enacted and brought into force from 1st Chingom of 1085 M.E. repealing the previous Regulations. Registration of certain instruments such as 'gifts of immovable property', 'lease of property' etc., was made compulsory.

118. In 1086 M.E. (1911-12 A.D.) arrangements were made to introduce the excise system for the sale of arrack and toddy into the three northern taluks of the State—Thalappilly, Trichur and Chittur. The system of selling independent arrack shops was also sanctioned in these taluks. The right to manufacture and vend arrack was separated from that of toddy and the toddy shops were sold independently. The supply of arrack to the independent shop-keepers in these three taluks was arranged to be made through a contract supplier from the Trichur Distillery. An excise duty was levied on the arrack supplied. In 1088 M.E. (1912-13 A.D.) the tree-tax system was introduced in the three northern taluks, the rates of tax being the same as those prevailed in the adjoining Malabar District.

119. The practice of the Raja conferring various '*sathanams*' (titles, offices and distinctions) and receiving annual payments— '*Antukazhcha*'—from the recipients thereof was abolished in many cases in the year 1914 A.D.*

120. In 1089 M.E. (1913-14 A.D.) the combined arrack and toddy monopoly system which prevailed in the southern taluks of Cochin was changed to the farming system separately for arrack and toddy. The farming of arrack was again changed to the independent shop system in 1090 M.E. (1914-15 A.D.) In the southern taluks the system of leasing the monopoly right of manufacturing and vending toddy was abolished, and the tree-tax system, with the sale of shops separately as in the northern taluks, was introduced from the beginning of 1092 M.E. (1916-17 A.D.).

121. In order to consolidate and amend the law relating to motor vehicles in the State, Regulation I of 1094 M.E. was enacted on the model of the British India Act on the subject. The original Regulation II of 1089 was repealed by this Regulation.

122. In 1098 M.E. (1922-23 A.D.) the Cochin Hackney Carriages Act II of 1098 M.E. was enacted prescribing the annual registration of hackney carriages. Registered carriages were given licences. The rates of licence fee varied from 4 annas to Rs. 3 according to the type of the carriage.

123. A tax on income began to be levied for the first time in the State with effect from 1st Chingom 1109 M.E. (1933 A.D.) by the Cochin Income tax Act VIII of 1108 M.E. The exemption limit for the levy of income tax for assesseees other than companies and registered firms was Rs. 2,000. Income derived from property held under trust or other legal obligation wholly for religious or charitable purposes, income of religious and charitable institutions derived from voluntary contributions, income of local authorities and agricultural income were exempted from income tax.

124. An excise duty on matches manufactured in the State began to be levied in 1110 M.E. (1934-35 A.D.). The manufacture of matches was controlled by the issue of licences under the Cochin Matches (Excise Duty) Regulation VIII of 1110 M.E. Rules were framed under this Regulation for the assessment and collection of duty on matches and for the control over the manufacture, importation and supply of splinters and veneers. Banderols required for the match factories were supplied by the Government of India. From the gross revenue derived out of the sale of banderol during a year, the expenditure incurred on account of the administration and control of the

**Note*:—The '*sathanams*' once conferred entitled the holders to be headmen of the community to which they belonged and by virtue of their office they had the privilege of presiding over ceremonies such as marriage, funeral etc., and deciding caste disputes. In some cases they had also to procure men and supplies for the State purposes. They were entitled to be remunerated by the levy of fixed fees from those at whose ceremonies they presided. This practice must also have been stopped with the abolition of the practice of conferring titles by the Raja.

excise duty on matches was deducted and the balance was paid to a common pool for division among the various provinces and States, on the basis of their population according to the census of 1931.

125. In November 1934, the Cochin Government agreed to divide the customs revenue of the Cochin Port among the Governments of Travancore, Cochin and the British India on the basis of the principle agreed upon by the parties concerned. This decision was in pursuance of the four-party agreement entered into by the British Government with Madras, Cochin and Travancore for the development of the Cochin Port.

126. The Irrigation Regulation VIII of 1111 M.E. empowered the Government to levy a cess on any area benefited by irrigation works. As regards major irrigation works the cess could be levied so as to ensure a return of 3% on the capital outlay after making provision for depreciation etc. The Government had also power to constitute irrigation boards for local areas to regulate the distribution of water of any irrigation work.

127. The Income Tax Regulation VIII of 1108 M.E. was amended by Regulations XXXVIII and XXXIX of 1111 M.E. with a view to bring the original Act into line with the income-tax law in British India. Regulation XXXVIII of 1111 M.E. introduced several important changes. It extended the scope of taxation by providing for the assessment of all foreign incomes except foreign agricultural income and for the assessment of the income of deceased persons in the name of their legal representatives. Provision was also made for the prevention of certain forms of evasion of income-tax. At the same time the assesseees were enabled to secure refund of tax in certain cases not provided for in the old Regulation and to get relief in respect of contributions to certain Provident Funds and against double taxation in Cochin and the U. K. Regulation XXXIX of 1111 M.E. introduced a steeper graduation of income and higher rate of tax on incomes above Rs. 15,000. Assesseees other than companies and registered firms were levied income-tax at rates varying from 4 pies to 20 pies in the rupee on incomes exceeding Rs. 2,000. Income-tax at the maximum rate of 20 pies in the rupee was charged on the whole income of companies and registered firms. With a view to relieve the British Officers stationed at Cochin from the inconvenience of paying income-tax both in Cochin and in British India and then claiming refunds by way of relief against double tax, the Government of India agreed to collect from them the tax at the higher of the two rates and then pay over to the State the tax due to it.

128. In 1935, the Cochin Government agreed to purchase the right of the Madras Government in the Cochin harbour (the expenditure for the first stage of the development work of the Cochin harbour was completely met by the Madras Government) by accepting the liability to contribute 2/3 share of the expenditure for the fourth stage of the development work. The Cochin Port Act was passed by the Central Indian Legislature declaring the Cochin Port as a major port with effect from 1st August, 1936.

129. Several important notifications affecting the assessment and collection of income-tax were issued in 1112 M.E. (1936-37 A.D.). One of these

related to exemptions from tax of Interest on Provident Fund contributions and accumulations upto six per cent, and another to a similar exemption in respect of fees levied by traders from the customers for charitable purposes and of the incomes derived by the members of the Cochin Royal Family and the Cranganore Chief from all sources except salary, profession and business. It was also notified during the year that only foreign associations having the characteristics of a company should be treated as a company for purposes of the Income Tax Act. By another notification assesseees were given the right to appeal against orders refusing to grant relief against double tax in Cochin and British India.

130. Two income tax amendment Acts were passed during the year 1113 M.E. (1937-38 A.D.). By Act XXXII of 1113 M.E., a supertax was imposed with effect from 1st Chingom 1114 M.E. on companies at a flat rate of one anna in the rupee on incomes above Rs. 50,000 and on all other assesseees on a graduated scale on incomes above Rs. 75,000. By Act XII of 1113 M.E. the contribution made by the British India Officers to the Provident Fund and the contributions made to the Cochin Education Department Benefit Fund were exempted from income-tax.

131. A cess on tea exported from Cochin began to be levied by the Cochin Tea Cess Act XXX of 1113 M.E.

132. By the Income Tax (Amendment) Act XIV of 1114 M.E. the right to claim refunds was extended to non-resident British subjects.

133. Next year, the Cochin Government Trading Taxation Act V of 1115 M.E. was passed whereby foreign governments doing business in Cochin were made liable to be assessed to income-tax in the State. By a notification dated 2nd August 1940 the bonus on Post Office Ten Year Defence Certificate and by another notification dated 8th August, 1940 the contribution made to the Cochin State War Fund by banks and joint stock companies were exempted from income-tax.

134. The duty on matches was enhanced by the Government of India and the enhanced rate was adopted in the State also from 1st March, 1941. In this year, the Cochin Motor Vehicles Act VIII of 1116 M.E. was enacted.

135. The Income Tax Act VIII of 1108 M.E. was repealed and a new Income Tax Act VI of 1117 M.E. was passed in the year 1117 M.E. (1941-42 A.D.) on the model of the Indian Income Tax Act as amended by the Amending Act of 1939. An upward revision of income-tax and supertax rates was effected by the new Act. Another important measure was the passing of the Excess Profit Tax Act II of 1117 M.E. with effect from 1st Chingom 1117 M.E. This was amended in the same year by Act VII of 1117 M.E. This tax was levied on the excess profits arising out of certain businesses. The rate was 60 per cent of the amount in excess of the "standard profit" worked out on the principles laid down in the Act. A reciprocal arrangement was made between Cochin and Travancore on the model of the one in existence between Cochin and British Governments, for granting relief against double income-tax to persons assessed in both the States.

136. By the Income Tax (Amendment) Act II of 1118 M.E. it was provided that all non-resident British subjects need be taxed like the non-resident British India subjects and subjects of Indian States at the average rate applicable to their total world income only and not at the maximum rate provided by the original Act. Contributions made to the War Fund were exempted from income-tax and supertax.

137. Arrangements were made in 1119 M.E. (1943-44 A.D.) with the Government of India and the U. K. for granting double excess profit tax relief on income doubly taxed in Cochin State on the one hand and British India or the U. K. on the other.

138. By Proclamation II of 1120 M.E., an excise duty of 2 annas per pound of betel-nuts, coffee (cured) and tea (manufactured) in the State was imposed in co-operation with the Government of India. In the same year the duty on betel-nuts was reduced from 2 annas to 1 anna per pound. By the Vegetable Products Excise Duty Proclamation of 1119 M.E. an excise duty on vegetable products (such as cocoanut oil) at the rate of 1 anna per pound was also introduced. As in the case of matches, the revenue from these items were pooled and divided among the participating States and the Government of India based on population.

139. A tax on motor vehicles began to be levied for the first time in Cochin under the provisions of the Cochin Vehicles Taxation Act XIII of 1121 M.E. which came into force on 1st Chingom 1122 M.E. (1946-47 A.D.). The maximum rate leviable on each type of vehicle was prescribed in Schedule I to the Act. Tolls and carriage tax levied by certain municipalities were abolished and the local bodies were given compensation at specific rates from out of the proceeds of the vehicle tax. The Government, however, reserved the right to levy tolls under the Cochin Ferries and Tolls Act.

140. Consequent on the abolition of the duty on salt in the Dominion of India, it was abolished in the State also, from 1st Medom 1122 M.E. But the monopoly system of procurement continued. In the same year the Government decided to introduce prohibition of intoxicating liquors and drugs in the State in stages and brought into force complete prohibition in the Chittoor taluk from 1st October 1947.

141. By the Cochin Income Tax (Amendment) Act XXII of 1122 M.E. the income-tax and supertax rates were revised, the exemptions in respect of religious and charitable institutions were restricted to income actually spent for the purposes of the institution and agricultural income and capital gains were brought within the purview of the Act. For purposes of assessing tax on the agricultural income, allowance was made for: (i) any sum paid on account of land revenue; (ii) local rates and cesses and municipal taxes in respect of the land from which the agricultural income was derived; (iii) any excise duty or tax paid for the agricultural produce from the land; (iv) any rent paid to the landlord etc. The arrangement for relief against double income-tax in Cochin and British India was modified providing that the relief to be granted by each State should be in proportion to the rate at

which tax is levied in that State. Arrangement was also made for adopting a special mode of calculating relief when the income-tax assessed in both the States was subjected to excess profit tax in one State and not in the other

142. In 1122 M.E. (1946-47 A.D.) the Cochin Sales Tax Act XV of 1121 M.E. came into force. Under this Act every dealer had to pay tax annually according to the following scale—

- (i) for turnover upto Rs. 15,000—Rs. 96.
- (ii) for turnover between Rs. 15,000 and Rs. 20,000—Rs. 144.
- (iii) for turnover exceeding Rs. 20,000—1% of such turnover

No tax was payable if the turnover was less than Rs. 10,000 a year. Salt, rice, paddy, wheat, cereals and pulses, sugar, vegetables, fresh fish (except that for export), cooked food served in hotels when the annual turnover was below Rs. 15,000, cheap cloth including khader, handspun yarn newspapers, tobacco, bullion and specie and betel-nut were exempted from sales tax. By an amendment to the Act made in the same year (Cochin Sales Tax (Amendment) Act XXI of 1122) agriculturists selling their own products were excluded from the category of dealers assessable to sales tax and goods manufactured in Cochin were subjected to sales tax wherever the sale might have taken place. The amendment also provided that, when the total turnover of a dealer included turnover in exempted goods, the turnover in goods that were not exempted might be assessed even when it was less than Rs. 10,000. The schedule of exempted articles was also modified. The most important of the new exemptions was that imported goods that were re-exported were subjected to tax only at one stage. Provision was made to issue licences to dealers who were entitled to exemptions under the provisions of the Act.

143. The rates of Stamp duties, vehicle tax and court fees were generally enhanced in 1122 M.E. by amending the respective Acts in force.

144. On the basis of Central excise law of the Indian Dominion, a cess at the rate of 4 annas per cwt., on the quantity of copra crushed in a mill began to be levied from the beginning of 1122 M.E. The proceeds of this cess, after deducting collection charges, were handed over to the Indian Oil Cess Committee.

145. The rate of duty on a pack of 50 matches was raised from Re. 1 annas 12 to Rs. 2 annas 8 from 1st March 1948 in line with the enhancement made by the Government of India. The rate of excise duty on vegetable products was also enhanced from 1st March 1948 following similar enhancement in the Indian Union. Tobacco in any manufactured form was exempted from sales tax in 1123 M.E. (1947-48 A.D.).

146. Under the Cochin Electricity Duty Act XXII of 1123 M.E. licensees were to pay every month to the Government a duty at prescribed rates on and in respect of all sales of energy effected by the licensees during the previous month, at a price of more than 2 annas per unit. Total sales of energy in a month below a prescribed limit were exempted from the duty.

147. In 1124 M.E. (1948-49 A.D.), the Cochin Sales Tax (Amendment) Act V of 1124 was passed and came into effect from 1st Dhanu 1124 M.E. By this amendment Act, sales tax was levied at the rate of 3 pies in the rupee of turnover instead of at 'slab rates'. An additional tax ranging from 3 pies to 9 pies in the rupee was also charged on certain luxury articles such as motor vehicles, refrigerators, wireless reception instruments etc. This additional tax was levied from the first assessable dealer in such articles in the State. Provision was also made for registration of dealers whose annual turnover reached Rs. 7,500 or more.

148. In the same year, by the Cochin Income Tax (Amendment) Act VI of 1124 M.E. the rates of income-tax and supertax were revised and brought on a par with the rates in the Indian Union under the Indian Finance Act of 1948. The exemption limit for income-tax was raised from Rs. 2000 to Rs. 3000. Provision was also made to levy supertax on incomes wholly earned or wholly unearned at different rates.

149. A cess at the rate of one anna per maund of oil seeds crushed in mills began to be levied from 1124 M.E. The proceeds of this cess (excluding collection charges) were made over to the Indian Oil Cess Committee.

150. On the first of July 1949, the independent princely States of Travancore and Cochin merged into a single unit under the name of the United State of Travancore and Cochin (Since modified as Travancore-Cochin State).

C. Travancore-Cochin.

151. Soon after the integration of the States of Travancore and Cochin, the land customs houses situated on the boundaries between Travancore and Cochin were abolished and new *chowkeys* were established at the northern boundaries of the Travancore-Cochin State under Ordinance V of 1124 M.E.

152. The following changes were made in the period immediately following the integration. Prohibition was introduced in four more taluks, viz. Trivandrum, Nedumangad, Chirayinkil and Thalapilli, thus bringing a total number of 11 taluks under prohibition in the Travancore-Cochin State. In other areas, the abkari systems in force under the respective regulations in the erstwhile Travancore and Cochin areas continued without change. Salt continued to be an article of State monopoly. The Inter-portal Trade Convention of 1865 A.D. and the standstill agreement regarding matters pertaining to the customs revenue continued till 17th September 1949, when certain drastic changes were introduced in the customs policy of the State under Ordinance No. 1 of 1125 M.E. and in accordance with the policy of the Government of India, all the land customs at the frontiers of the State were abolished with effect from 17th September 1949 and the State Land

Customs Act was repealed by Act III of 1950. From the above date only five sea customs houses of the State continued to function and, for the levy of duty, the Indian customs tariff was adopted. The export duty on pepper was enhanced in keeping with the increased rate brought into force by the Government of India. The levy of excise duty on matches, betel-nut, coffee and tea continued on the basis of the Acts in force in the respective areas of erstwhile Travancore and Cochin States. The licence system for the vend of tobacco which was in vogue in the Travancore area was abolished and the auction system, as existed in the Cochin area, was introduced with effect from 1st Chingom 1125 (1949-50 A.D.) Consequent on the abolition of inland *chowkeys*, the collection of duty on tobacco was discontinued from 17th September, 1949.

153. The outstanding event of financial significance during the year 1950-51 was the Federal Financial Integration which came into effect from 1st April, 1950. The following items of revenue and expenditure were taken over by the Government of India under the scheme.

<i>Items of revenue</i>	<i>Items of expenditure</i>
1. Customs Duties	1. Cost of collection of taxes:
2. Corporation Tax	(i) Customs
3. Income-tax excluding agricultural income tax	(ii) Central Excise
4. Central Excise	(iii) Income-tax including Corporation tax
5. Railways	2. National Highways
6. Telephones	3. Defence
7. Posts & Telegraphs (Anchal)	4. Aviation
8. Coinage and Mint	5. Broadcasting
9. Patents, Copyrights, Trade Marks, Joint Stock Companies	6. Meteorology
	7. Archaeology
	8. Coinage & Mint
	9. Patent, Copyrights, Trade Marks, Joint Stock Compa- nies
	10. Audit & Accounts
	11. Pensions—Military and other Federal Civil Personnel
	12. Privy purses of the ex-rulers of Travancore and Cochin
	13. Census

154. The Federal Financial Integration resulted in the loss of some of the important elastic sources of revenue to the State. The net revenue gap

resulting from the financial integration was computed as Rs. 280 lakhs per annum. An agreement was executed between the Central and State Governments for meeting this gap for a period of ten years. Under the terms of the agreement the Government of India was to meet the entire revenue gap of Rs. 280 lakhs for the first five years beginning with 1950-51 and, thereafter, on a tapering scale reducing the grant to Rs. 222.6 lakhs in the tenth year. For the first three years after Integration, an additional sum of Rs. 25.33 lakhs was also to be paid to the State representing the amount by which the federal items of revenue for 1124 M.E. (1948-49 A.D.) lost to the State exceeded the average of such revenue for 1123 M.E. and 1124 M.E. Thus the total amount due to the State for the first three years from 1950-51 to 1952-53 was fixed at Rs. 305.33 lakhs. The amounts due to the State for the remaining years were:

	<i>Rs. lakhs</i>
1953-54	280.00
1954-55	280.00
1955-56	268.51
1956-57	257.03
1957-58	245.54
1958-59	234.06
1959-60	222.57

The Centre had also agreed that, if in any year, the State Government's share of the divisible central taxes exceeded the amount mentioned above, the higher amount was payable to the State Government. During the above period, the Central Government also agreed to pay to the State Government a sum of Rs. 2.24 lakhs per annum towards liquidating the Central share of the pension liability in respect of the civil personnel who retired on or before 31st March, 1950. In addition to these, the State became entitled to all subsidies, grants-in-aid and other forms of financial assistance from the Centre in the same way as Part A States.

155. The Federal Financial Integration completely changed the structure of the State finances. While the emergence of a uniform fiscal and financial system all over the country, which was the object of the federal financial integration, was an achievement of great importance to the nation, Travancore-Cochin had to suffer considerable loss of revenue. With the integration, customs which were an expanding source of revenue passed on to the Centre. Other important elastic sources of revenue like income-tax which the two States had fully developed were also taken over by the Government of India. Similarly land customs which yielded about Rs. 100 lakhs a year to the Travancore Government had to be dropped altogether after the integration. At the same time, development services like agriculture, industry, irrigation, communication, etc., and social services like education, public health which were expensive and expanding were left with the State. The allocation of resources had no relation to the allocation of functions.

156. A sales-tax on tobacco was introduced from January 1951. The Travancore-Cochin General Sales Tax Act XI of 1125 M.E. came into force from 1st June, 1950, repealing the Travancore General Sales Tax Act of 1124 M.E. and the Cochin Sales Tax Act of 1121 M.E. Multi-point tax was levied at the rate of 3 pies in the rupee in general on almost all commodities and single-point tax at varying rates on certain selected commodities such as motor spirits, turmeric, cocoanut, copra etc., On certain luxury articles and on tobacco an additional tax at rates varying from 3 pies to 18 pies were also levied at the point of first sale, over and above the usual rate of 3 pies.

157. Though income tax became a Central subject, taxes on agricultural income remained with the State, and agricultural income-tax continued to be collected by applying the provisions of the Travancore Income Tax Act and the Cochin Income Tax Act in the respective areas.

158. Prohibition was extended to two more taluks, viz., Pathanapuram and Cranganur.

159. The auction system for tobacco was abolished and the licence system was introduced from 17th August, 1950.

160. The following Acts were passed in order to unify certain enactments in force in the erstwhile Travancore and Cochin States:

- (1) The Travancore-Cochin Vehicles Taxation Act XIV of 1950.
- (2) The Travancore-Cochin Agricultural Income-Tax Act XXII of 1950.
- (3) The Travancore-Cochin General Sales-tax (Amendment) Act XXVIII of 1950.
- (4) The Travancore-Cochin Hackney Carriages Act XXXV of 1950.
- (5) The Travancore-Cochin Electricity Duty Act IV of 1950.
- (6) The Travancore-Cochin Court Fees Act, 1125.

161. Since the coming into force of the Constitution of India, the State lost the revenue from salt, as "manufacture, supply and distribution of salt by Union agencies, regulation and control of manufacture, supply and distribution of salt by other agencies" was included as entry 58 in List I of the Seventh Schedule of the Constitution.

162. By the Travancore Land Tax Proclamation (Amendment) Act 1950, the rate of basic land tax was revised and fixed as 3 pies per cent of land (or Re. 1 and annas 9 per acre) from 1st April, 1950.

163. By the Travancore-Cochin Electricity Duty Act IV of 1950, electricity duty began to be collected throughout the State from June 1950. The rate was 9 pies per unit of energy sold at a price of more than 2 annas per unit. The duty was payable only by the electric supply licensees.

164. The Travancore-Cochin Agricultural Income Tax Act XXII of 1950 came into force from 1st April, 1951. With the advent of this new Act,

the exemption limit was enhanced to Rs. 3,000 (for Hindu undivided families etc., the exemption limit was Rs. 6,000). The rates of tax varied from a minimum of 9 pies to a maximum of 4 annas in the rupee. For companies the rate was 4 annas in the rupee on the total agricultural income. In addition to income-tax, supertax was also levied on incomes exceeding Rs. 25,000 at rates varying from 1 anna 6 pies to 6 annas in the rupee. On companies, the supertax was at a flat rate of 1 anna 6 pies in the rupee on the total income.

165. The Travancore Cochin General Sales Tax (Amendment) Act XXVIII of 1950 came into force during the year 1951-52. The important changes brought about by this Act were:

- (i) the levy of sales tax on the purchase or sale of goods in the course of import or export outside the territory of India as well as on inter-State trade was prohibited;
- (ii) tax on the sale of tobacco was fixed as 4 annas in the rupee. This additional levy was subsequently reduced to 1½ annas at the first point;
- (iii) almost all essential commodities were exempted from the levy of sales tax.

By Act XII of 1951 the Travancore-Cochin General Sales Tax Act was amended to ensure that the provisions in the Act do not conflict with the provisions in Article 286 of the Constitution of India imposing certain restrictions on the levy of tax on sales or purchases in the course of export or import and in the course of inter-State trade or Commerce.

166. With the passing of the Part B States (Laws) Act III of 1951, the Indian Registration Act XIX of 1908 (Central Act) was adopted by the Travancore-Cochin Government.

167. In 1952-53, the following modifications were made in the sale tax structure. (i) Aloe yarn, copra, arecanut, pepper, ginger, turmeric, lemon-grass oil, tea, rubber and cardamom which were taxable at two points were made liable to pay tax at all points; (ii) Rugs, druggets and carpets of coir and jute on which tax was levied at the last point only were also brought under the multi-point scheme of taxation; (iii) All sales of green and soaked husk, coir yarn and coir products were temporarily exempted, on the recommendation of a Committee of three members appointed to examine the question of revision of the multi-point sales tax on coir and coir products etc. owing to the abnormal fall in the prices of coir yarn and coir products.

168. From 1st April, 1954 the rates of agricultural income-tax and supertax were enhanced by the Travancore-Cochin Agricultural Income Tax (Amendment) Act IX of 1954. The new rates of supertax varied from 2 annas in the rupee to 6 annas 6 pies in the rupee. In the case of companies the rate was 2 annas in the rupee on the total agricultural income. By the Travancore-Cochin Land tax Act XV of 1955 the basic land tax in force in the former Travancore area was extended to the Cochin area from 1st April, 1956; the rate of tax continued to be 3 pies per cent of land. The *kandukrishi* lands and *edavagai* lands (which were exempted from payment of land

tax by the Proclamation of 1946) were made liable to pay tax. In 1955-56, prohibition was extended to the taluk of Kottarakkara, thereby bringing a total of 14 taluks under prohibition. In order to levy betterment contribution and water cess on irrigated lands, the Travancore-Cochin Irrigation Act 1956 (Presidents' Act VII of 1956) was enacted and given effect to in 1956-57.

169. The exemption granted to coir and coir yarn from the levy of sales tax from 1952-53 was withdrawn on 18th October, 1956, and they were brought under the levy of sales tax at the rate of three pies in the rupee at the last purchase point.

170. As a result of the reorganisation of States, the Travancore-Cochin State ceased to exist from 1st November, 1956.

D. Malabar.

171. The collapse of the power of the *Chera* rulers brought about a fragmentation of their kingdom (Kerala Desam) into a number of petty principalities by about the 6th Century A.D. These territories came under the reign of independent hereditary chieftains. The Rajas of Kozhikode (Zamorins) and of Kolathiri were prominent and powerful among them and the areas ruled by these Rajas were popularly known as 'Malabar'. In very early times the Rajas of Malabar possessed extensive private properties and the large profits derived from these estates were their major source of income. This income was more or less sufficient to maintain the royal pomp and the administrative expenses. Therefore, the necessity to levy taxes regularly in order to augment the State revenues, was very much limited at that time. The system of exacting revenue followed by the ancient Rajas was one of aid and perquisites and forced contributions rather than of fixed taxes and assessments. There were a number of petty contributions and dues levied by the kings from the very early times in order to establish the sovereignty of the king, though the revenues derived from them were very meagre. Regarding the origin, nature and scope of these levies, adequate information, except the statements of a few travellers and historians, is not available.

172. Abdul Razaak, a Persian envoy, who visited Malabar in 1442 A.D. says that wealthy merchants brought to Calicut large quantities of cargo from maritime countries and the Zamorin's Officers at the customs houses looked after the merchandise. When a sale was effected, they made on the merchants a charge of one-fortieth part; if no sale was effected, no charge was made.*

173. K. P. P. Menon says that, even before the advent of foreigners in Malabar, fees were levied for the administration of justice. According to the Hindu law, 5% of the suit value was leviable from the plaintiff and 10% from the defendant if he failed in his defence; otherwise he (defendant) was exempt from any tax.**

* "India in the 15th Century" by Abdul Razaak.

** p. 252 'History of Kerala' Volume II.

174. Graeme, Special Commissioner in Malabar, has in his Report preserved a curious list of items which brought revenue to the coffers of the Malabar Rajas in early times. The items of revenue are more or less similar to those that existed in Cochin as mentioned earlier—vide paragraph 76.

175. A levy was made on intoxicating liquors in the shape of a profession tax upon drawers of toddy and distillers of arrack. This tax was known as '*kattichatti*' or knife and still tax. The exact period from which this tax began to be levied is unknown.

176. The earliest instance we have of payment of a land tax in Malabar occurs in 1731-32 A.D. It is stated that, when the dominions of the Raja of Kolathiri were invaded by the Bednore Raja's forces, the Kolathiri Raja imposed a tax of 20% on the *pattom* of all paddy lands. This was perhaps an imitation of what was in vogue in the Canara country of which Bednore formed a part where a regular system of land tax had existed "from the remotest times of which there is any record". When the invaders retreated, levy of this tax must also have been discontinued.* In the year 1757 A.D. the Zamorins imposed a land tax called '*kavalpanam*' to meet the expenses of the army kept for defence against the Mysoreans. This tax was levied at the rate of one anna on every piece of land which required one local *para* (10 seers) of seed for single crop.**

177. A number of writers and historians have expressed their views regarding the origin of land tax in Malabar. The Mohammedan Writer, Sheik Zeenuddeen, of the 16th Century A.D. has assured that "they (the Rajas) demanded no land tax from the tenants of the lands and gardens, although they are of great extent." Speaking of what happened in Malabar on its conquest by Hyder, Dr. Buchanan says in his book 'Canara and Malabar' thus:

"Under the Government of the Rajas, there was no land tax; but the conqueror soon found the necessity of imposing one, as the expenses of his military establishment greatly exceeded the usual revenues".

Thackeray (in the Report of the Board of Revenue, Madras, dated 14th August 1807 A.D.) says:

"There is no proof that any regular land tax existed in Malabar previous to Hyder's invasion.....The proprietors of land were certainly bound to render military service, and were liable to contribute twenty per cent in case of invasion.....The Rajas had other sources of revenue from fines, royalties, imposts, personal taxes and plunder which were sufficient to support them. There was no army besides the militia nor any expensive establishment to support, so that there does not seem to have been any necessity for a general land tax....."

* p. 299 Gazetteer of the Malabar & Anjengo Districts, Vol. I by C. A. Innes, I. C. S.

** History of Kerala Vol. II by K. P. P. Menon.

The Board of Revenue, Madras, observed in 1818 A.D. that "until the conquest of Malabar by the Mussalman Princes of Mysore, the right (the *jenmom* right) seems to have been held by the *Janmakars* free from any condition of a payment in money or produce to Government; for until that period, a land revenue appears to have been altogether unknown to the people". Writers like Thomas Munroe, Major Walker, Captain Burton, Justice Kunhu Raman Nayar and K. P. P. Menon have also expressed more or less the same views as in the above quotations. Logan, however, holds the view that there was land tax in Kerala in early times. His theory is based on his rendering of the word "*pattam*" which he derived from '*pattavaram*' or authority's (*patu*) share (*varam*). Persons like K. R. Krishna Menon (a Malayalam Scholar) and Dr. Gunthert have disagreed with this derivation.

178. From what has been stated above it follows that a regular land tax came into existence in Malabar somewhere about the Mysorean conquest, i.e., by about the year 1760 A.D. Any dues similar to land tax which the King levied on land-holders prior to this period were purely of a personal nature and were not a burden on the land, and the land-holders never felt it an obligation to pay them. In the words of Visscher, these contributions were "regarded rather as free will offering than a tax".

179. In 1776 A.D., Sirdar Khan, Civil and Military Governor of the province of Malabar (Governor of Haider Ali), prepared some sort of accounts regarding the land in South Malabar and on the basis of this "the *Huzur Niguthi*" was imposed by Haider Ali. This tax ranged from 1/10 to 1/3 of the *pattom* on paddy lands. For garden lands a tree tax was nominally fixed upon each kind of tree, usually at the rate of 2 annas for every bearing coconut, four annas for every bearing jack tree, eight pies for arecanut and 12 annas for every pepper vine. But these rates were never applied in practice. Miscellaneous crops were not assessed in South Malabar. Lands in North Malabar were assessed on different principles. The proportion of the *pattom* exacted from wet lands was, as a rule, one-half. Tax on gardens varied from place to place. In short the "*Huzur Niguthi*" represented no fixed share of the gross or net produce, and individual assessments were quite unequal.

180. On March 11, 1793 A.D., all the interior tolls were abolished on the order of the British Government, as a result of the inconvenience caused by the multiplicity of inland *chowkeys*. However, the duty on imports and exports by land and sea continued to be levied.

181. In 1792, by the Treaty of Shrirangapattanam, Malabar ceded to the East India Company.* The company made no attempt to introduce any new settlement; but, in spite of the inequalities of the assessment followed hitherto, it tried to realise as much as possible of the Mysorean demand.

182. A *pymash* or survey in Malabar was conducted in 1796. Detailed information on this survey is, however, not available.

*Note:—Since this period, Malabar was under the rule of the British and became part of the Madras Presidency later.

183. In the year 1801 A.D. the tax on drawers of toddy and distillers of arrack (*katti-chatti*) was increased and only knives and stills stamped with a government marks were allowed to be used.

184. In 1802 A.D. Major Macleod, the first Principal Collector of Malabar, tried to introduce a system of land tax, based on the gross produce from land. But the rates fixed by him were so high that the collection of tax could not be done successfully. After a detailed enquiry conducted throughout Malabar, a Proclamation was issued by the British Government in 1805 A.D. prescribing the method of assessment and the tax due on land. The principle adopted was that "on wet or rice grounds, after deducting from the gross produce the required seed and exactly the same quantity for expenses of cultivation, and then allotting $\frac{1}{3}$ of what remains as *kolulabham* (or plough profit) to the *kudiyar*, the residue or *pattom* is to be divided in the proportion of $\frac{6}{10}$ to the *Sarkar* and $\frac{4}{10}$ to the *Janmakar*. On *paramba* or orchard lands $\frac{1}{3}$ of coconut, arecanut and jack tree produce being deemed sufficient for the *kudiyar*, the remainder or *pattom* is to be equally divided between the *Sarkar* and *janmakar*. On dry grain lands the *Sarkar's* share is to be half of the *janmakar's* '*varam*' on what is actually cultivated during the year". These were made applicable uniformly for the whole Malabar and declared to be permanent for 12 years.

185. In the case of Wynaad, no attempt was made for a settlement until 1806 A.D. In that year, the assessment on wet lands was fixed on the following principle : The gross produce was ascertained, in the case of wet area, by multiplying the seed sown by the 'out-turn multiple'; a deduction of twice the seed was made for cultivation expenses; and the balance was divided in equal shares between the Government, the *jemmi* and the cultivator. This settlement was known as '*niguthi vittu*' or seed assessment.

186. In 1822 A.D. Mr. Graeme tried to make a reassessment of both the paddy fields and garden lands, but could not implement it successfully. In the same year, an additional levy called '*Jenmabhogam*' at varying rates on all lands of which the Government was the proprietor, was introduced. In 1860 A.D. the different rates were unified and fixed at 8 annas per acre.

187. In the year 1860 A.D. the farming system for the production and sale of intoxicants was introduced in the whole of Malabar to get over the difficulties in detection of illicit tapping and distillation.

188. Dry grain lands in Wynaad were not assessed till 1862, when acreage rates (annual) of Re. 1 annas 4 upon lands other than those under permanent occupation and annas 10 upon lands in permanent occupation were introduced. On the Government *jennom* lands these rates were enhanced by the usual *jenmabhogam*. Coffee estates were taxed in 1860 at a uniform rate of Rs. 2 per acre from the third year after planting, plus the usual *jenmabhogam* if the land belonged to the Government. Cinchona was similarly assessed, but no charges were made for the garden products of the plains.

189. The authority for levy of water cess in the Madras State was derived from the Irrigation Cess Act (Madras Act VII) of 1865. Standard scales of water cess as applicable to all areas generally were fixed. Separate rules

were framed in respect of particular areas from time to time. The rate of water cess was generally fixed with reference to the area irrigated, the quantity of water required and the nature of the crop raised.

190. From 1870 the Court Fees Act (Indian Act VII of 1870) was made applicable to the Madras State to regulate matters relating to court fees.

191. In 1877 A.D. the monopoly on salt was abolished* and since then an excise duty was levied at Bombay on each maund $\frac{1}{2}$ of salt issued for consumption.

192. In 1885 A.D. the methods and principles of land revenue collection in Wynaad were revised. Cultivable lands were divided into *wet* lands comprising swamps and paddy flats, and *dry* lands including all other lands irrespective of the crop cultivated. For wet lands a scale of rates rising from annas 8 to Rs. 2 annas 8 by increments of annas 4 was adopted and the soils were classified into different *tarams* to correspond with the money rates. Dry lands were not classified, but were arranged in four classes, and assessed at rates ranging from annas 8 per acre by increments of annas 8 to Rs. 2 per acre. Special rates were fixed for estates held under private *jennies* or acquired in good faith from private *jennies*. Estates held on Government lands were charged with *jennabhogom* in addition to the ordinary levy. House sites were allowed upto 25 cents free of levy. These rates were introduced during 1886-87 in some parts of Wynaad and extended to the remaining area in the next year.†

193. In 1886 A.D. a new excise system for production of intoxicants was introduced, by which the privilege of manufacture of arrack, subject only to a duty upon each gallon issued from the distillery, was assigned to a contractor on payment of a lump amount determined by competition. The privilege of retail sales was sold by auction for small areas except for municipal towns where shops were auctioned separately. In the case of toddy a tree tax was levied on each tree tapped and the privilege to open shops for sale of toddy was auctioned. This system, in so far as it related to toddy, was first introduced in 1886 A.D. as an experimental measure in certain places and extended to the whole of Malabar in 1889 A.D.

194. Stamp duties began to be levied in Malabar under the provisions of the Indian Stamp Act III of 1899.

195. During the period of 1900 to 1904 A.D., a broad-based survey and settlement of the plain taluks of Malabar (area excluding Wynaad) was conducted. (Prior to this period a number of attempts were made for the revision of the assessment rates on lands fixed in the Revenue Settlement of

* Salt had been declared as a State monopoly commodity by Regulation II. of 1807.

† Note:— Because of certain legal difficulties felt in the implementation of this system, the settlement notification was amended in 1893 A.D., but without interfering in any way with the classification of land, the rates of assessment or the settled demand.

1805 A.D. But none of these could be carried out successfully). By this settlement the revenue system in Malabar was brought into line with that of the rest of the Presidency, due allowance being made for special local conditions. Tree tax was abolished, so also the practice of charging only certain specified crops in gardens. Cultivable lands had been classified according to their soil and further to wet, garden and dry lands. To constitute a garden, a minimum of ten cocoanut trees to the acre or 120 arecanut trees or 5 jack trees was necessary. Tax was levied only on the extent cultivated in each year. The rates prescribed for wet lands were:

<i>Taram</i>	<i>Rate per acre/crop</i>		
	<i>Rs.</i>	<i>As.</i>	<i>Ps.</i>
1	6	0	0
2	5	0	0
3	4	0	0
4	3	0	0
5	2	0	0
6	1	8	0
7	1	0	0
8	0	12	0

The method of fixing the rates was different from that adopted at the settlement in 1805 only in one aspect, i.e., allowance for vicissitudes of seasons or unprofitable areas was given in the new settlement. On the land regularly yielding two crops, the charge for the second crop was fixed as 1/4 of the first crop, whereas, for occasional second crops on single crop lands, the charge was 1/2 of the first crop. There was thus an inducement to stick on to regular second crop cultivation. For dry lands 1/5 of the gross produce was deducted for vicissitudes of season, and cultivation expenses were calculated at sums varying from Rs. 6 to Rs. 3 per acre; 1/3 of the net produce was then allowed as the cultivator's share and the balance was divided in equal proportion between the Government and the Jenmi. The rates fixed on the above principle varied from annas 4 to annas 12 by increments of annas 2, and then to Re. 1, Re. 1 annas 8 and Rs. 2 per acre. Seven acreage rates varying between Rs. 7 and Re. 1 were imposed on garden lands according to the quality of the land.

196. Pepper was classed as a special product in Wynaad by Government Order No. 797/Revenue dated 25th July, 1904 and it was exempted from assessment for three years after planting. A similar concession was extended to rubber also. It is stated in "The Gazetteer of Malabar and Anjengo Districts" that the consumption of toddy, arrack and country spirit was prohibited in Malabar on 1st October, 1906. The circumstances leading to this decision are not clear; nor is it known when this prohibition was withdrawn.

197. In 1922 the Indian Stamp Act of 1899 hitherto in vogue in the State was replaced by the Madras Act VI of 1922 which came into force from 25th April, 1922. By this Act the stamp duties were generally enhanced by 50%.

By the Madras Act V of 1922 various amendments to the Indian Court Fee Act 1870 were made, the main object being to enhance the rate of Court fee generally by 50% as a measure of augmenting the State revenues. These amendments came into force from 18th April, 1922.

198. In the year 1926, a revenue settlement of the lands in the Malabar area (including Kasaragod) was started and completed by the end of 1934. In this settlement the lands were classified into "Old holdings" and "New holdings". New holdings were charged a higher rate of assessment than the old holdings. This higher rate was the result of the levy of "*Jenma bhogam*" in addition to the regular assessment. "*Inam* lands" were completely exempted from the levy of tax, provided the conditions of the "*Inam*" were fulfilled. For fixing the rate of tax, the outturn for each sort of soil was fixed and the same converted into money in the first instance. From this, deductions were made for cartage, merchant's profits and cultivation expenses. The remainder of the commuted outturn was divided between the cultivator and the Government in fixed proportions.

199. For purposes of assessment lands were classified into wet, dry and garden lands. The rates of assessment for each category of land were fixed as follows:—

Wet lands:—In the plain taluks of Malabar (8 taluks) lands were divided into 8 *tarams* and the rates fixed ranging from 14 annas to Rs. 7 annas 2 per acre for single crop wet lands. Double crop lands were assessed at $1\frac{1}{2}$ of the single crop rate. In Wynaad, wet lands were assessed at 9 different rates (instead of 8 *tarams* in the plain taluks) ranging from annas 10 to Rs. 2 annas 14 per acre. In Kasaragod area wet lands were assessed at nine different rates ranging from annas 14 to Rs. 7 annas 14 per acre. Double crop lands were assessed at $1\frac{1}{2}$ of the single crop assessment.

Dry lands:—In the plain taluks 8 *tarams* were adopted for dry lands and the rates varied from annas 5 to Rs. 2 annas 4. In Wynaad area dry lands were brought under two categories, viz., developed and undeveloped (all dry lands coming under private '*jenmom*' with regular occupations and all Government '*jenmom*' dry lands were classed as "developed" and all other dry lands were classified as "undeveloped". Four different rates were adopted for "developed" dry lands, ranging from Rs. 8 to Rs. 2. The rate for dry lands not comprised in estates (undeveloped) was fixed as $1\frac{1}{2}$ anna per acre. In Kasaragod area dry lands were divided into nine *tarams* and the rates of assessment varied from annas 2 to Rs. 2.

Garden lands:—Seven *tarams* were adopted for the purpose of assessment of garden lands in the plain taluks and the rates ranged from Re. 1 annas 3 to Rs. 8 annas 5 per standard acre (10 coconut palms or 120 arecanut palms or 5 jack trees were treated as one standard acre as in the previous settlement). In Wynaad, garden lands were classified as estates developed estates and undeveloped. All lands planted with tea, coffee, rubber, cinchona or any

*c.f. G.O.MS. 284/67/Rev. dated 17th July, 1967 of the Revenue 'C' Department, Government of Kerala.

other special crop or occupied by buildings required for or ancillary to the cultivation of these crops or their preparation for the market came under the category of 'Estates developed'. All other estate lands were treated as "Estates-undeveloped". All estate lands were further grouped into four categories, viz (1) estates formerly held from jemmies and later on directly held from Government; (ii) estates held from government on *ryotwari pattah*; (iii) estates held under *jemmies*; and (iv) estates of which the planters were the *jemmies*. The rates of assessment fixed for the above categories of estate lands were:—

	<i>Developed</i>			<i>Undeveloped</i>		
	Rs.	As.	Ps.	Rs.	As.	Ps.
1. Item (i) above	3	0	0	0	10	0
2. Item (ii) above	3	0	0	0	10	0
3. Item (iii) above	2	6	0	0	0	6
4. Item (iv) above	2	6	0	0	0	6

In Kasaragod area eight *tarams* were adopted for the purpose of assessment of garden lands, the rates ranging from Re. 1 annas 2 to Rs. 9.

200. The Madras Motor Vehicles Taxation Act III of 1931 was passed and brought into force on 1st April 1931. Prior to this date there was no uniform system of levy of tax on motor vehicles in Madras State. The local bodies were levying tax on motor vehicles and tolls were also being collected. By the new Act the Government abolished the levy of all tolls and the tax on motor vehicles imposed by local bodies and introduced a State tax on motor vehicles using public roads.

The rates of tax were levied on the following basis:

- (i) Motor cycles on the basis of horse power
- (ii) Goods vehicles on the basis of laden weight
- (iii) Taxis and buses on the basis of seating capacity
- (iv) Private cars on the basis of their unladen weight

201. By the enactment of the Madras Traffic Control Act of 1938 the fees levied by Government in addition to the permit fee on motor vehicles and the fees on licences granted to motor vehicles by local bodies were abolished. Provision was also made to compensate the loss sustained by the local bodies on account of the abolition of the fees charged by them. The rates of tax levied on motor vehicles under the Motor Vehicles Taxation Act of 1931 were enhanced in order to make good the loss consequent on the abolition of the additional fees levied by the Government and licence fees by the local bodies.

202. In order to regulate registration of motor vehicles, transfer of ownership or possession of motor vehicles, issue of licences and badges to drivers and conductors and of fitness certificate of transport vehicles etc. the Indian Motor Vehicles Act 1939 was adopted in the place of the Indian Motor Vehicles Act 1914 which was in force in the State.

203. Sales tax began to be levied in the Madras State under the Madras General Sales Tax Act, 1939 in order to make up the loss of revenue consequent on the introduction of prohibition in 1939. The Act authorised the levy of a general tax on the sale of goods other than electrical energy, motor spirit, manufactured tobacco and any goods on which duty was or might be levied under the Madras Abkari Act, 1886, the Madras Prohibition Act, 1937 or the Opium Act, 1878. The tax was payable under the Act on the actual turnover exceeding Rs. 10,000 in an year. The rates of tax fixed were: (i) between Rs. 10,000 and Rs. 20,000 of turnover in a year—Rs. 5 per month; (ii) annual turnover exceeding Rs. 20,000—half per cent on the turnover in excess of Rs. 20,000. The turnover of certain commodities such as bullion and specie, cotton yarn, handloom cloth etc., was exempted from the levy of sales tax. The Act also provided for the grant of licences on payment of licence fee to enable dealers to avail themselves of the benefits of the exemptions.

204. A tax on the retail sale of motor spirits was levied in Madras State with effect from 1st April 1939 under the provisions of the Madras Sales of Motor Spirits Taxation Act, 1939. Petrol, diesel oil and other internal combustion oils (excluding kerosene, furnace oil, coal or charcoal) were treated as motor spirit for the purpose of the Act. The tax was levied at the point of sale of the commodity to the consumer. Registration of dealers in motor spirit was compulsory but no registration fee was prescribed. The rates of sales tax prescribed in the Act were one anna and six pies per gallon in the case of petrol and six pies per gallon for motor spirit other than petrol. For dealers having motor cars a reduction not exceeding 2% of the total quantity of petrol received for personal use every month was exempted from the levy of sales tax. The sale of motor spirits supplied as bunkers' oil to ships visiting the Madras Port was also exempted from the tax.

205. The Madras Tobacco (Taxation of Sales and Registration) Act, 1939 provided for the levy of a tax on the sale of tobacco and the licensing of trade therein.

206. Under the Madras Entertainment Tax Act, 1939, a tax on entertainments began to be levied by the Madras Government with effect from 1st August 1939. This Act repealed the Local Authorities Entertainment Tax Act of 1926 and provided, for the payment, by way of compensation to local authorities which were in receipt of an income from the tax levied under the Act of 1926 during any part of the three years preceding 1st April 1939, of a sum equal to the average net annual income from this tax. The rates of entertainment tax ranged from pies 3 to Rs. 3 for payments upto Rs. 10, and Rs. 3 for every additional payment of Rs. 10 or part thereof.

207. A tax on the consumption or sale of electricity was levied in the Madras State under the provisions of the Madras Electricity Duty Act V of 1939, which came into force on 1st April, 1939. This was also one of the measures taken by the Madras Government for making up the loss of revenue on account of the introduction of prohibition in the State. Under the Act licensees had to pay every month to the Government a duty of 6 pies per unit of energy sold at a rate of more than 2 annas per unit in respect of all his sales

during the previous month. But the energy consumed by him for his personal purposes was exempted from payment of duty. Further, the Act allowed exemption from duty in case the total energy sold by a licensee during the previous month did not exceed 16,666 units provided also that his total sale for the year was less than 200,000 units.

208. During the year 1940 the rate of general sales tax was reduced to Rs. 4 per month on the first slab (turnover between Rs. 10,000 and Rs. 20,000) and to 1/4% of the annual turnover for the second slab (turnover exceeding Rs. 20,000). This reduction was effected in consequence of the policy of Government not to extend prohibition further. The rates were, however, enhanced with effect from 1st October, 1943.

209. The Electricity Duty Act of 1939 was amended in 1941 and 1943. These two amendments, viz: (i) Madras Act III of 1941 and (ii) Madras Act II of 1943, were intended to bring the law into accord with section 154A of the Government of India Act, 1935 on the subject, providing for: (i) the exemption from tax in respect of electricity sold to the Central Government (including Railways) and (ii) the fixation of the price of electricity sold to the Central Government (including Railways) at a rate equal to the price charged to bulk consumers less the amount of tax.

210. With effect from 1st October, 1943, the Government enhanced the rates of stamp duty on certain instruments by the Madras Stamp (Increase of Duties) Act XVI of 1943. The rates were then raised by 100% on some instruments connected with business and by 50% in other cases. This measure was intended primarily to check the inflationary conditions brought about by the Second World War.

211. The Madras Tobacco (Taxation of Sales and Registration) Act of 1939 was repealed with effect from 1st April 1944 at the instance of the Government of India, which in return agreed to compensate the loss.

212. In 1945, the Electricity Duty Act of 1939 was further amended by the Madras Act VIII of 1945 authorising the Government to impose a duty on the energy consumed by licensees other than those connected with the construction, maintenance and operation of electrical undertakings.

213. From 1st April, 1945, a new procedure for payment of compensation to the local bodies under the Madras Entertainment Tax Act of 1939 was evolved whereby the local bodies were reimbursed the entire amount of the entertainment tax collected from their respective areas by the Government after deducting 10% of the collections.

214. The rates of sales tax levied under the Madras Sales of Motor Spirit Taxation Act of 1939 were enhanced from 1st January 1947 in order to augment the State revenues. The new rates were 4 annas per gallon of petrol and 1 anna 6 pies per gallon in the case of motor spirit other than petrol.

215. The Madras General Sales Tax Act of 1939 was amended with effect from 1st January 1948. The 'slab rates' for levy of tax was replaced by a general rate of three pies in the rupee. On certain luxury articles such as motor vehicles and spare parts, radio sets, electrical goods, photographic cameras etc., an additional tax at the rate of 3 pies or 6 pies in the rupee was

introduced. This additional tax was levied at such single point in the series of sales by successive dealers as might be prescribed. Bullion and specie were brought within the orbit of sales tax for the first time, the rate of tax being fixed as $1/4\%$ at the first sale point in the State. The absolute exemption allowed for cotton yarn and handloom cloth was also withdrawn. Provision was made for the registration of all dealers with a turnover of Rs. 7,500 and above at various rates according to the nature of the commodity dealt in and for the restriction of the collection of the tax to the registered dealers. The enhancement of the rates of sales tax was due to the revival of the prohibition policy of the Government in 1946-47.

216. The rates of entertainment tax fixed by the Madras Entertainment Tax Act were revised from 1st January, 1948. Separate rates were provided for cinematographic exhibitions and other entertainments.

217. The General Sales Tax Act was again amended in 1949 so as to levy an increased rate of tax of $4\frac{1}{2}$ pies in the rupee on articles of food and drink sold in hotels etc., with an annual turnover exceeding Rs. 25,000. In the case of cotton, provision was made for the levy of the tax at $\frac{1}{2}\%$ on the turnover at a single specified point in the series of sales by successive dealers. A single point tax was also levied on the sale of newspapers, periodicals etc.

218. The rates of tax under the Madras Motor Vehicles Taxation Act of 1931 were revised from 1st July 1949. The increase in the rates worked out to about 20% in the case of motor cycles, $33\frac{1}{3}$ per cent in the case of goods vehicles, 25% in the case of taxies, 20% in the case of private cars and 77% in the case of buses.

219. The Madras Entertainment Tax Act of 1939 was amended in order to levy an additional tax (show tax) from 1st August 1949 for each cinematographic show exhibited in the Madras city, other municipalities and other places in the State, at different rates. Receipts from this additional tax were not to be made over to the local bodies.

220. The single point tax levied on the sale of newspapers, periodicals etc., was discontinued from 1st January 1951 consequent on the Government of India's legislation in the matter. From 15th February, 1951 the tax on the sale of handloom cloth woven partly or wholly with mill yarn was reduced from 3 pies to $1\frac{1}{2}$ pies in the rupee, with a view to give encouragement to the handloom industry.

221. The rate of sales tax for petrol was further enhanced to 6 annas per gallon in June, 1952.

222. To augment the revenues of the State the Madras Motor Vehicles (Taxation on Passengers and Goods) Act of 1952 was enacted and given effect to from 1st February 1953. Under this Act, a tax was levied on all passengers, luggage and goods carried in stage carriages, and all goods transported by public carrier vehicles in the State at the rate of 9 pies in the rupee on the fares and freights in the case of stage carriages and at the rate of 6 pies in the rupee on the freights in the case of public carrier vehicles. Provision was also made to enable the operators of taxable vehicles to pay, in lieu of the tax leviable under the Act, a composition fee calculated at the rates prescribed in the schedule to the Act.

223. On the recommendation of the First Finance Commission, the Government of India discontinued from 1st April, 1953 the compensation paid to the State Government on account of the abolition of sales tax on tobacco by the State. The State was allowed to revive its own taxation on tobacco sales and hence the Madras Tobacco (Taxation of Sales and Registration) Act of 1953 was enacted and brought into force on 20th April, 1953. The tax was levied at the point of first sale in the State. Tax was levied on cigarettes, cigars, cheroots, cigarette-tobacco and pipe-tobacco. Beedies, snuff, chewing tobacco, cigarettes sold at a price of 3 pies each or less, and cigars and cheroots sold at a price of 2 annas each or less were exempted. The rates of tax varied from 10 to 30 per cent of the turnover. Registration of dealers was compulsory under this Act.

224. The following modifications to the General Sales Tax Act were brought about in 1954-55.

- (i) Gold, silver wares and precious and imitation stones were included in the list of luxury articles.
- (ii) Sales of meat, fish, green vegetables, flowers, fruits and eggs were exempted from tax.
- (iii) Sales tax at anna 1 ps. 3 in the rupee at one point in addition to the then existing multipoint tax was levied on all mill-made cloth, including woollen and silk fabrics. Coarse cotton cloth of 16 counts was exempted from the levy of general sales tax, and the tax of 1½ pies in the rupee on handloom products was discontinued.

225. To rectify the anomalies and defects in the old Court Fees Act of 1922, a new enactment, viz., the Madras Court Fees and Suits Valuation Act, was passed in 1955.

226. The Madras Plantation Agricultural Income Tax Act V of 1955 was enacted to levy a tax on the income derived from plantations. The assessable minimum was Rs. 3000—(Rs. 6000 for Hindu undivided family etc.). The rates of tax for assesseees other than companies on incomes in excess of Rs. 1500 varied from 9 pies to 5 annas 6 pies in the rupees. For companies, the rate was 5 annas 6 pies in the rupee on the whole income.*

E. Kerala

227. On 1st November, 1956, the present State of Kerala was formed as a result of the passing of the States Reorganisation Act by the Government of India. The former Travancore-Cochin State, excluding the taluks of Thovala, Agastheeswaram, Kalkulam, Vilavamcode and the tamil speaking part of the Shencottah Taluk and the Malabar District and the taluk of Kasaragod of the South Kanara District of the Madras State were integrated to form the Kerala State. At the time of the formation of Kerala State, prohibition was in force in nine taluks of Travancore-Cochin and in the whole of the Malabar District and Kasaragod Taluk of the Madras State.

*Part IV B Fort St. George Gazette dated 30th March, 1955.

228. Soon after the formation of the Kerala State, the Travancore-Cochin and the Madras Acts were made applicable to the respective component parts of the State, until the laws were unified.

229. By Act VIII of 1957, the provisions of the Travancore-Cochin Agricultural Income Tax Act, 1950, were extended to the Malabar area and the Madras Plantation Agricultural Income Tax Act V of 1955, in its application to Malabar, was repealed with effect from 1st April, 1957, and the Travancore Cochin Agricultural Income Tax Act XXII of 1950 acquired a new title viz. "the Agricultural Income Tax Act, 1950." The rates of tax, both under agricultural income-tax and supertax, were revised expressing them in decimal coinage. In respect of supertax on companies a slab rate ranging from 12 paise to 37 paise was introduced as against the original flat rate of 2 annas per rupee.

230. In the case of sales-tax, while the rates were converted into decimal coinage by means of the Kerala Sales Tax Laws (Amendment) Act IV of 1957, the general rate of 3 pies was revised as 2 naya paise. The changes in the sales tax law introduced in 1957 were on the basis of the Report of an Expert Committee appointed by the Government in 1955* to examine how far the recommendations made by the Taxation Enquiry Commission in regard to sales tax and agricultural income tax were applicable to this State and to suggest a scheme of taxation suitable to the economic and trade conditions that prevailed in the State. The Central Sales Tax Act 1956 (Act 74 of 1956) enabled the State Governments to impose on behalf of the Central Government a tax on the sale or purchase of goods in the course of inter-State trade or commerce. The levy of tax under the Central Sales Tax Act, 1956, began from 1st July, 1957.

231. By the Travancore-Cochin Land Tax (Amendment) Act X of 1957, the basic tax system in vogue in the Travancore-Cochin area was extended to the Malabar area from 1st September, 1957, and the rate of tax was raised from Re. 1 annas 9 to Rs. 2 per acre for the entire State. Thus, for the first time, the entire assessable lands in the Kerala State came under a flat rate of land tax.

232. With the passing of the Kerala Surcharge on Taxes Act XI of 1957, a surcharge on sales-tax at a rate of 2½% began to be levied from 1st September, 1957 on turnovers exceeding Rs. 30,000. A surcharge of 5% was also imposed on agricultural income-tax. By the Travancore-Cochin General Sales tax (Amendment) Act XII of 1957 the Travancore-Cochin General Sales Tax Act 1125 was renamed as the General Sales Tax Act 1125, which was extended to the Malabar area from 1st October, 1957.

233. From 14th December, 1957, the Government of India, in consultation with the State Governments began to levy an additional excise duty on mill-made textiles (other than pure silk), sugar and tobacco in replacement of the sales tax on these commodities. The States were, however, compensated

*Government Proceedings No. SR. 1.9445/55/RD dated 30th November, 1955.

for the loss in revenue from sales-tax on these items. The amount of compensation is redetermined from time to time by the Finance Commissions.

234. By the Electricity Duty (Amendment) Act XXXVII of 1958, the rates of duty levied on licensees in the Travancore-Cochin and Malabar areas were unified and fixed as 6 paise per unit of energy sold at a price of more than 12 paise per unit. A duty was also imposed on the bulk supplies to consumers other than licensees, who were taking supplies at 11 KV or above. The amendment came into force from 1st September, 1958.

235. In order to unify the rates of stamp duty prevalent in the Travancore-Cochin and Malabar areas, the Kerala Stamp Act XVII of 1959 was enacted. In the same year the different Acts relating to court fees in force in the Travancore-Cochin and the Malabar areas were repealed and the Kerala Court Fees and Suits Valuation Act 1959 was passed. The rates of *ad valorem* fees and the fees for other documents were also increased in most cases.

236. The Agricultural Income Tax Act was amended in 1960 by Act XIII of 1960 with the object of affording some relief to agriculturists in the lower income groups. By this Act, the minimum taxable limit was raised to Rs. 3,600 and provision was made for compounding of the tax payable at a lump sum of Rs. 75 in the case of assessee in the slab of Rs. 3,600 to Rs. 5,000. The amendment came into force from 1st April, 1960.

237. In order to levy an additional tax on plantations, the Kerala Plantation (Additional Tax) Act 1960 was enacted and given effect to from 1st April, 1960. Lands used for growing one or more of the following plants were treated as 'plantation', for purposes of assessment under this Act:—

- (i) Cocoanut trees,
- (ii) Arecanut trees,
- (iii) Rubber plants,
- (iv) Coffee plants,
- (v) Tea plants,
- (vi) Cardamom plants &
- (vii) Pepper vines.

Every person holding plantation of more than five acres in area was liable to pay plantation-tax at the rate of Rs. 8 per acre for the whole area except for the first two acres. The Act laid down the method for computing the area of plantation held by an assessee for the purpose of determining the tax payable.

238. The surcharge levied on sales-tax was enhanced to 5% with effect from 1st April, 1960.

239. By Act X of 1961 the Agricultural Income Tax Act was again amended with a view to giving relief in the matter of supertax to assessee coming within the highest slab of income, by reducing the maximum rate from 37 paise to 31 paise in the rupee in the case of companies and from 41 paise to 34 paise in the rupee in the case of individuals, Hindu undivided families, etc. This modification took effect from 1st April, 1961.

240. By the General Sales Tax (Amendment) Act XI of 1961 food grains which were hitherto exempted from tax were made taxable at 1% at the point of first sale; rice sold through fair price shops, however, continued to enjoy the exemption. As a relief to small dealers, provision was made, for the first time, for payment of tax at compounded rates in respect of dealers whose annual turnover was less than Rs. 25,000. The amendment came into effect from 1st April, 1961.

241. In December, 1960, the Supreme Court held that the Travancore-Cochin Land Tax Act 1955 as amended by Act X of 1957 was ultra vires the Constitution. With a view to remedying the defects in the Act, it was replaced by the Kerala Land Tax Ordinance, 1961, according to which the lands were classified into two groups: (a) lands yielding a gross income of Rs. 10 or more per acre per annum, and (b) lands yielding a gross income of less than Rs. 10 per acre per annum. The rates of tax specified were: (i) Rs. 2 per acre per annum for the lands under category (a) above; and (ii) 1/5 of the gross income or potential gross income in the case of lands under category (b) above. The Ordinance was later replaced by the Kerala Land Tax Act, 1961.

242. By the Kerala Additional Land Tax Act 1961 an additional tax on land at the rate of Rs. 2 per acre per annum was imposed on all lands the gross income from which was not less than Rs. 20 per acre per annum subject to the condition that the total land tax including the new tax should not exceed 1/5 of the gross produce from the land. Holdings below two acres were exempted from the additional tax. Provision was also made to deduct the effective acreage brought within the levy of the plantation tax from the assessment for the new levy.*

243. In 1961, the Kerala Buildings Tax Act 1961 was passed in order to levy a non-recurring tax on buildings completed on or after 2nd March, 1961. The rates specified varied from 10 ps. to 50 ps. per square feet of the total floor area of the building. Buildings having a floor area of less than 1000 square feet were exempt from the tax. Factory buildings, public buildings and buildings for religious and charitable institutions were exempted from this tax. (The Kerala High Court in November 1964 struck down the Act on the ground that it was ultra vires the Constitution).

244. In 1962, the single point scheme of taxation on sales was made considerably more broad-based by transferring some commodities from the multi-point to the single-point system.

*NOTE:—In 1962, the Kerala High Court struck down the Kerala Land Tax Act 1961 as unconstitutional; thereby the Additional Land Tax Act became ineffective. In 1964 the Kerala Land Tax Act was included in the Ninth Schedule to the Constitution of India by the Constitution Seventeenth Amendment Act 1964, to make it immune from attacks in courts of law. Since, however, the Additional Land Tax Act 1961 continued to suffer from the imperfections in the Land Tax Act, it was repealed by the Kerala Additional Tax on Lands (Repeal) Act of 1967.

245. On the basis of the Report of the High Level Sales Tax Committee (1961), a new Act, viz. the Kerala General Sales Tax Act XV of 1963, was enacted to rationalise the sales tax system from 1st April, 1963. The general rate of sales tax was also enhanced from 2% to 3% (multipoint) and the tax on luxury articles was raised from 7% to 10%. The registration fee was enhanced from Rs. 6 to Rs. 10. There was no provision for licensing the dealers in the new Act.

246. The rates of Central sales-tax in the course of inter-State trade or commerce were revised from 1% to 2% in the case of sales to Government or to registered dealers and in other cases (except 'declared goods') from 7% to 10%, in 1963-64.

247. The Kerala Electricity Duty Act XXIII of 1963 was passed repealing the Travancore-Cochin Electricity Duty Act IV of 1950 and the Madras Electricity Duty Act V of 1939 in its application to the Malabar area. The rates of duty were revised in respect of energy consumed for industrial purposes. Energy consumed for domestic, commercial and agricultural purposes was also brought within the purview of the Act. The rate of duty for licensees continued without change. The new Act came into force from 15th April, 1963.

248. The Kerala Additional Tax on Entertainments and Surcharge on Show Tax Act XXII of 1963 provided for the levy of an additional tax on entertainments ranging from 5 paise to 20 paise on the payment for admission (including the amount of entertainment tax) and a surcharge on show tax at the rate of 25%. The Act came into force on 1st May, 1963. This additional tax on entertainments and the surcharge on show tax were collected by local authorities along with the entertainment tax and show tax levied by them. The entire proceeds of the additional tax and surcharge were to be made over to the Government after deducting 2% towards collection charges.

249. The Schedule to the Kerala Stamp Act 1959 was amended by the Amendment Act XIX of 1963 whereby the rates of stamp duties were generally enhanced by 50%. In some cases the increase was to the extent of 66 2/3%.

250. The Kerala Motor Vehicles Taxation Act XXIV of 1963 unified the Madras Motor Vehicles Taxation Act 1931 and the Travancore-Cochin vehicles Taxation Act 1950. The rates of tax in respect of all categories of vehicles were then considerably increased.

251. The Kerala Motor Vehicles (Taxation of Passengers & Goods) Act XXV of 1963 provided for the levy of a tax on passengers and goods throughout the State for the first time. (Prior to this, the Madras Motor Vehicles Taxation on Passengers and Goods Act of 1952 was operative in the Malabar area and there was no corresponding law in the Travancore-Cochin area). The rates specified were (i) ten paise in the rupee on the fares and freights payable to the operators of stage carriages and (ii) five paise in the rupee on the freights payable to the operators of public carrier vehicles. Provision was also made for compounding the tax at specified rates.

252. The Agricultural Income Tax Act 1950 was amended by Act XI of 1964. By this amendment the provision for compounding the income-tax

levied was extended to the assesseees in the income slab of Rs. 5000 to Rs. 7000, the rates fixed being Rs. 150 for incomes between Rs. 5000 and Rs. 6000, and Rs. 250 for incomes between Rs. 6000 and Rs. 7000. The rates of inter-State sales tax was raised from 2 to 3 per cent from 1st July, 1966.

253. The table of fees under Section 78 of the Registration Act was revised* with effect from 1st January, 1967, in order to bring it in line with that of the neighbouring States of Madras and Mysore.

254. In order to raise additional resources for implementing the Plan schemes, the Government ordered the lifting of prohibition in the State from 1st May, 1967. †

255. The Schedule to the Stamp Act was again revised in 1967 and the rates of duty in most cases enhanced by $3\frac{1}{2}\%$ from 28th August, 1967. The table of registration fees was also revised ‡ in 1967 in respect of certain items

256. The Kerala Motor Vehicles Taxation Act 1963 was amended by Act XXIV of 1967. The important changes made were (i) the introduction of a surcharge of 75% of the tax leviable in respect of vehicles owned by fleet owners having more than 150 vehicles, and (ii) the enhancement of the rate of tax for vehicles exceeding 10,500 kgs in laden weight. These changes came into effect from 1st July, 1967.

257. The private carrier vehicles were also brought under the scope of taxation on goods, the rate of tax being fixed as two paise per tonne-kilometer of the goods—vide Kerala Motor Vehicles (Taxation on Passengers and Goods) (Amendment) Act XXV of 1967. Besides, a slab system was introduced for the fixation of composition fee, higher rates being levied on vehicles exceeding 9500 Kg in registered laden weight. This provision was not, however, implemented having regard to the difficulties experienced by operators of motor vehicles.

258. The sales-tax system was further rationalised by the Kerala General Sales Tax (Second Amendment) Act XVI of 1967, when the rate of tax on a number of articles included in the "First Schedule" was enhanced from 10% to 12% with effect from 1st September, 1967.

259. The rates of plantation-tax were revised by the Kerala Plantations (Additional Tax) Amendment Act XIX of 1967. Every person holding plantation of more than 2 hectares in area was made liable to pay tax at the rate of Rs. 50 per hectare (about Rs. 20 per acre) except for one hectare. The measurement of land was also changed from acre to hectare. The amendment came into effect from 1-4-1968.

260. By the Agricultural Income Tax (Amendment) Act XVIII of 1967, the maximum rate of supertax payable by individuals, etc. was enhanced from 34 paise to 41 paise in the rupee and in the case of companies from 31 paise to 37 paise in the rupee.

* G.O. (P) 687/Rev. dated 17th December, 1966.

† Notification No. 7519/G3/67/RD dated 28th April, 1967.

‡ G.O. (P) 384/67/Rev. dated 28th August, 1967.

261. The Kerala Land Tax (Amendment) Act XXII of 1968 provided for the exemption from the levy of basic and land tax "on any land of a landholder, if the aggregate extent of land held by him in the State is less than 0.810 hectare". This amendment came into force from 1st April, 1968.

262. This resume on the evolution of the tax system in Kerala indicates the susceptibility of the fiscal fabric of the State to the political, economic and cultural changes that took place in the course of centuries. With the establishment of the British paramountcy in India, the princely States had to yield to the pressure of the British Government. After Independence, the autonomy of the State in the field of direct taxation was also circumscribed. The changes in the structure of the State's economy had also considerably influenced the moulding of the tax system. If land, the only form of wealth and the mainstay of the people, was the primary basis of State taxation in very early times, the importance gained by other forms of wealth in the modern era, especially after the World Wars, shifted the emphasis to taxation of commodities, incomes and profits. Along with the cultural advancement of the people, the State tried to abandon, in stages, so many vexatious and personal taxes, levied irrationally by the Suzerains in the past. At present, indirect taxation, within the permissible limits, forms the bulwark of the edifice of State taxation.

APPENDIX IX

**Report of the Survey of Agricultural Holdings
in Selected Villages**

With a view to assess the magnitude of evasion of agricultural income-tax, a survey of selected agricultural holdings in a few villages of the State was conducted by the staff of the Committee. The following are the villages covered by the survey; the period of the survey is also noted against the name of each village.

<i>Name of village</i>	<i>Name of District</i>	<i>Period of survey</i>
1. Vembayam	Trivandrum	15-5-1968 to 15-6-1968
2. Vettikavala	Quilon	11-9-1968 to 27-9-1968
3. Paravoor	Quilon	11-9-1968 to 22-9-1968
4. Chethakkal	Quilon	11-9-1968 to 25-9-1968
5. Anickad	Kottayam	24-6-1968 to 8-7-1968
6. Manimala	Kottayam	24-6-1968 to 9-7-1968
7. Mazhuvannur	Ernakulam	4-10-1968 to 23-10-1968
8. Udumbannur	Ernakulam	4-10-1968 to 26-10-1968
9. Pananchery	Trichur	20-8-1968 to 31-8-1968
10. Pazhanji	Trichur	20-8-1968 to 31-8-1968
11. Manathala	Trichur	20-8-1968 to 31-8-1968

Modus operandi

2. Data regarding the agricultural holdings in each village were first gathered from the concerned village office. Based on the discussions with the officials of the Revenue Department and the Agricultural Income Tax and Sales Tax Department it was decided that holdings below 2 acres in extent need not be surveyed as the net income from such holdings would rarely exceed the taxable minimum limit of Rs. 3,600 per annum. Holdings of two acres and above were categorised into three groups as follows:—

Group I	Ten acres and above
Group II	Five acres and above but below ten acres.
Group III	Two acres and above but below five acres.

Details of agricultural income-tax assesseees in the village, together with particulars of holdings in respect of which the assessments had been made were collected from the concerned Agricultural Income Tax Office. A list of holdings in each of the above area groups, which are not now assessed to tax was then prepared. As the time available for the survey in a village was generally two weeks, not all the holdings could be covered by the survey. From the above list, a percentage of the holdings which could be surveyed were therefore selected. The plots were selected on the basis of purposive sampling so as to have the maximum coverage of holdings of the first two groups. The staff engaged in the survey next visited each of the holdings selected and gathered the data necessary to estimate the gross yield and the cultivation

and other expenses. Particulars of the crops raised, the yield potential of the holdings, the number of yielding trees like coconut, arecanut etc., and their average yield were collected by inspecting the plots as well as by making oral enquiries. These details were tabulated in a suitable form and the gross income was calculated on the basis of these details. After allowing for reasonable expenses, the net income was arrived at and the tax liability determined. The results of the survey of the holdings inspected were then projected over the other holdings which could not be surveyed for want of time. The additional revenue under agricultural income-tax that could be realised from the village, if there had been no evasion was then estimated; the difference between this amount and the actual collections represents the order of evasion.

Personnel engaged in the survey

3. The survey was done by the Deputy Tahsildar/Assistant Sales Tax Officer/Research Assistant attached to the office of the Committee. More than one village was covered simultaneously as the above officials worked independently. They were assisted by the Junior Statistical Inspector and Gram Sevak of the N.E.S. Block having jurisdiction over the village, and by the Village Officer or Village Assistant of the concerned village office. It has to be mentioned that no additional staff was employed for this work and the only extra expenditure incurred was on travelling allowances paid to the staff.

Results of the survey

4. The results of the survey are briefly enumerated in the following paragraphs:

(i) Vembayam

This is a predominantly agricultural village; the major agricultural produce are paddy, pepper, coconut, arecanut, tapioca, jack fruits and mangoes. Certain areas are newly planted with rubber. Details of the holdings surveyed are indicated in the table below:

Category	Total No.	No. already assessed	Not assessed			
			Total No.	No. surveyed	No. found assessable out of (b)	No. that can be assessed out of (a) (d)
			(a)	(b)	(c)	(d)
1. Ten acres and above	37	11	26	18	17	25
2. Five acres and above but below ten acres	116	2	114	40	20	57
3. Two acres and above but below five acres	364		364	33		

The total tax leviable on the holdings that can be assessed to tax is estimated to be Rs. 19,600 per annum on the basis of the existing rates of tax.

(ii) *Vettikavala*

The agricultural produce of this village are paddy, tapioca, arecanut, coconut and rubber. The yield is below average. The survey disclosed the following position:

Category	Total No. of holdings	No. already assessed	Not assessed			
			Total No. (a)	No. surveyed (b)	No. found assessable out of (b) (c)	No. that can be assessed out of (a) (d)
Ten acres and above	33	4	29	29	22	22
Five acres and above but below ten acres	99	1	98	51	4	8
Two acres and above but below five acres	421		421	25		

The additional revenue on account of the tax leviable on the holdings referred to in the last column above is Rs. 4,800 a year at the existing rates.

(iii) *Paravoor*.

This is a coastal village having a high density of population. The holdings are small. The number of holdings of 2 acres and above but below 5 acres is 97, while that of holdings of 10 acres and above is only 3. Nine holdings fall in the intermediate group. All holdings of five acres and above and fifty per cent of the holdings below five acres but not below 2 acres were surveyed. The net income in none of the cases comes within the taxable limit.

(iv) *Chethakkal*

The major crops raised are rubber, pepper, coconut, arecanut, coffee and paddy. The soil is fertile and the yield is good.

Category	Total No.	No. already assessed	Not assessed			
			Total No. (a)	No. surveyed (b)	No. found assessable out of (b) (c)	No. that can be assessed out of (a) (d)
Ten acres and above	49	7	42	42	36	36
Five acres and above but below ten acres	143	5	138	69	45	90
Two acres and above but below five acres	692		692	30	13	300

If the holdings shown in the last column are assessed to tax, an additional revenue of Rs. 94,000 per annum can be realised.

(v) *Anickad*

The main sources of agricultural income are coconut, arecanut, pepper, tapioca, coffee and rubber.

Category	Total No.	No. already assessed	Not assessed			
			Total No.	No. surveyed	No. found assessable out of (b)	No. that can be assessed out of (a)
			(a)	(b)	(c)	(d)
Ten acres and above	60	22	38	38	19	19
Five acres and above but below ten acres	157	7	150	75	15	30
Two acres and above but below five acres	642	..	642	22	..	..

It is estimated that by bringing all assessable holdings within the tax net, the revenue can be increased by Rs. 6,200 per annum.

(vi) *Manimala*

The results of the survey are tabulated below:

Category	Total No.	No. already assessed	Not assessed			
			Total No.	No. surveyed	No. found assessable out of (b)	No. that can be assessed out of (a)
			(a)	(b)	(c)	(d)
Ten acres and above	62	26	36	22	19	31
Five acres and above but less than ten acres	134	14	120	56	21	45
Two acres and above but less than five acres	464	..	464	8	..	..

The additional revenue from the village by assessing holdings that now escape tax will be about Rs. 13,000 per year.

(vii) *Mazhuvannur.*

The survey of the holdings showed the following position:

Category	Total No.	No. assessed	Not assessed			
			Total No.	No. surveyed	No. found assessable under (b)	No. that can be assessed out of (a)
			(a)	(b)	(c)	(d)
Ten acres and above	98	9	89	89	32	32
Five acres and above but below ten acres	225	..	225	26	3	26
Two acres and above but below five acres	1563	..	1563	..	..	..

It is estimated that an additional revenue of Rs. 6,200 can be realised if the holdings referred to in the last column are also assessed to tax.

(viii) *Udumbannur*

The main crops raised are rubber, pepper, coconut, arecanut etc.

Category	Total No.	No. now assessed	Not assessed			
			Total No.	No. surveyed	No. found assessable out of (b)	No. that can be assessed out of (a)
			(a)	(b)	(c)	(d)
Ten acres and above	58	17	41	21	10	20
Five acres and above but below ten acres	163	6	157	40	14	55
Two acres and above but below five acres	568	7	561	27	..	..

There will be an increase of Rs. 14,000 per annum in the revenue if all assessable holdings are brought within the tax net.

(ix) *Pananchery*

Paddy is the main crop; coconut, arecanut, tapioca etc., are also raised. There are rubber plantations too. Besides, banana is cultivated on a large scale.

Category	No. of holdings	No. now assessed	Not assessed			
			Total No.	No. surveyed	No. found assessable out of (b)	No. that can be assessed out of (a)
			(a)	(b)	(c)	(d)
Ten acres and above	66	9	57	29	22	43
Five acres and above but below ten acres	126	..	126	32	14	55
Two acres and above but below five acres	347	..	347	..	..	..

Enquiries revealed that there is no scope for assessing holdings of the last group and hence none of them were surveyed. The additional revenue is estimated to be Rs. 25,000 a year.

(x) *Pazhanji*

Areca nut and paddy are the main produce. Coconut, pepper and yielding trees like mango and jack supplement the income.

Category	No. of holdings	No. now assessed	Not assessed			
			Total No.	No. surveyed	No. found assessable out of (b)	No. that can be assessed out of (a)
			(a)	(b)	(c)	(d)
Ten acres and above	2	..	2	2	2	2
Five acres and above but below ten acres	39	10	29	29	28	28
Two acres and above but below five acres	73	12	61	61	36	36

An additional revenue of Rs. 14,000 can be realised by assessing the holdings shown in the last column.

(xi) *Manathala*

The results of the survey are given below:

Category	No. of holdings	No. now assessed	Not assessed			
			Total No.	No. surveyed	No. found assessable out of (b)	No. that can be assessed out of (a)
			(a)	(b)	(c)	(d)
Ten acres and above	8	3	5	5	3	3
Five acres and above but below ten acres	33	13	20	20	6	6
Two acres and above but below five acres	29	4	25	25	..	..

The additional tax potential has been estimated to be Rs. 2,200 per annum.

5. It will be seen that villages of all types—coastal villages, villages in the interior and villages in the hilly belt—with widely varying yields and revenue potential have been covered by the survey. The estimated additional revenue varies from Rs. 2,200 in Manathala to Rs. 94,000 in Chethakkal. In one village, viz., Paravoor, there is no scope for additional revenue at all. It can therefore be assumed that the yield and income of the holdings in the selected villages represent the general pattern in the State. The average additional tax potential in a village covered by the survey works out to Rs. 18,000 a year at the existing rates of agricultural income-tax.

6. While drawing conclusions from the results of the survey, certain limitations inherent in the modus operandi adopted and arising from the inadequacies of time and personnel have to be borne in mind. Agricultural income-tax is levied on personal incomes derived from agricultural operations and is not a tax levied on lands as such based on their gross or net incomes. It may be possible that both the land owner and the cultivator may become liable to pay tax in respect of income accruing from the same plot. The survey was aimed only at finding out whether the holdings, in respect of which assessments have not been made till now, fall within the taxable slabs based on the incomes accruing therefrom. This method may not be adequate to unearth all cases of evasion. There are also instances where a person has holdings in more than one village. If the incomes are aggregated the person may be assessable, but on the basis of the incomes from one village alone the correct position cannot be ascertained. Such cases have not been pursued for lack of time. Even in regard to the holdings surveyed a wide margin has to be allowed for possible inaccuracies and imperfections in the estimations. On an average 8 holdings were surveyed by a team in a day. The staff barring a few members, did not have any previous experience or training in the job. Obviously in these circumstances the estimates cannot be very accurate. Nevertheless it can be stated without fear of contradiction that these limitations do not discredit the main conclusions, which are briefly given below:

- (i) There is considerable evasion of tax resulting from under-assessment of incomes and lack of a proper and efficient system of field inspections.
- (ii) By tightening up the assessment and collection procedures and toning up the administrative machinery the revenue from agricultural income-tax from non-company assesses (individuals, Hindu undivided families, etc.) can be easily doubled.

APPENDIX X

A note on the magnitude of evasion of sales-tax in respect of selected commodities

An attempt is made in this note to assess the magnitude of evasion of sales-tax in the case of certain agricultural commodities that are produced or manufactured in the State and that figure largely in inter-State transactions. The commodities selected are cocoanut and its products (copra, coconut oil and cake), arecanut and rubber. The procedure adopted is as follows:—

- (i) to find out the production for a few years;
- (ii) to determine the quantity consumed either by the producer or by others without the goods passing through any taxable stages of transactions;
- (iii) to estimate the value of the remaining quantity that should normally come to the market and compute the tax that could be levied on it; and
- (iv) to compare the possible realisations with actual collections of tax.

(a) Coconut and copra

2. Coconut and copra are articles which are declared as goods of special importance under the Central Sales Tax Act. The maximum rate of tax that could be levied on "declared goods" is 3% single point. The State is, however, levying tax on coconut and copra at 2% only at the last purchase point. To prevent cumulation of tax burden it has been provided that where a tax has been levied in respect of copra the tax if any levied and collected on coconut from which such copra is produced will be refunded.

3. The production of coconut for the years 1963-64 to 1965-66 and the monetary value of the produce is given below:

<i>years</i>	<i>Production (in millions)</i>	<i>Average price per 100</i>	<i>Value (Rs. in lakhs)</i>
1963-64	3262	25.80 (price for year 1963)	8416
1964-65	3278	24.66 (do. 1964)	8084
1965-66	3293	36.05 (do. 1965)	11871

*Note:—*The above figures have been taken from the Economic Review of Kerala published by the Bureau of Economics & Statistics. In estimating the value of production, the price in a representative centre, viz., Alleppey, is taken as the price for the whole State; again the price for the commodity for the calendar year which is nearest to the financial year is taken for computing the value.

4. Of the total production some portion is consumed by the producing households and therefore does not come to the market. A rough estimate of the quantity so consumed can be made on the basis of the consumption patterns disclosed by the family budget enquiry of working class in selected centres in the State conducted by the Bureau of Economics and Statistics for the year 1965-66.

Centre	Value of average consumption of coconuts (monthly)	Size of the family	Value of average per capita consump- tion (monthly)
	Rs.		Rs.
1. Trivandrum	6.40	5.20	1.231
2. Quilon	7.33	5.80	1.264
3. Punalur	5.32	6.24	0.853
4. Alleppey	3.72	6.07	0.613
5. Kottayam	5.87	6.18	0.950
6. Munnar	2.15	5.60	0.384
7. Ernakulam	4.73	6.33	0.747
8. Chalakudy	2.63	6.53	0.403
9. Trichur	2.78	6.65	0.418
10. Palghat	2.16	5.44	0.397
11. Kozhikode	4.99	6.26	0.797
12. Meppady	1.99	5.08	0.392
13. Cannanore	5.70	5.64	1.011

On taking simple average, the per capita monthly consumption of coconut works out to Re. 0.859* in terms of value and this may be deemed as the average for the whole State. Again the average size of a family is 6.19 members and the consumption per family in terms of value comes to Rs. 5.32 per mensem. At the rate of 36 paise per coconut, which is the average price for the year 1965-66 according to the data available with the Bureau of Economics and Statistics, the quantity consumed by a family on an average works out to 15 coconuts which is by and large a reasonable estimate.

*The Board of Revenue to whom the note on evasion was sent for comments is of the view that this estimation of domestic consumption is not realistic. In support of this view, it is pointed out that the figure relating to Meppady, i.e., Rs. 1.99 per mensem for a family of 5.08 members, would work out to only about 8 coconuts a month for a family. But the consumption figure in regard to the other centres is much higher and the low per capita consumption at Meppady is possibly due to non-availability of coconuts in that place (the area being hilly) and the food habits of the people who are mainly workers of tea estates migrated from the border districts of Madras.

5. The quantity of coconuts consumed in the State as kernel during 1965-66 may now be arrived at by multiplying the per capita consumption with the population of the State for that year as shown below:

Value of coconuts consumed by house holds	=Rs. 0.859 x 188.2 lakhs =Rs. 161.66 lakhs a month..
Estimated number of nuts consumed during 1965-66.	=Rs. 161.66 lakhs x 12 =Rs.0.3605 (i.e., price per nut) =5381 lakhs or 538 millions

Assuming that the consumption pattern of coconuts remained unchanged during the three years 1963-66, the total consumption during these years may be worked out as below:—

Estimated number of nuts consumed during 1963-64	=5381 x pop. 1963-64 pop. 1965-66 =5381 x 179.1 188.2
	=5121 lakhs or 512 millions
Estimated number of nuts consumed during 1964-65	=5381 x pop. 1964-65 pop. 1965-66 =5381 x 183.6 188.2
	=5249 lakhs or 525 millions

6. If all the coconuts left after domestic consumption come to the market for conversion into copra and oil and if sales tax is leviable on that entire quantity the following position would emerge:—

Year	Coconut coming to market (millions)	Price per 100	Value of coconuts entering the market (Rs. in lakhs)	Tax estimated at 2 per cent	Tax actually levied during the relevant assessment years*	Percentage of column 6 to column 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1963-64	2750	25.50	7095	141.90	27.45	19.3
1964-65	2753	24.66	6789	135.78	51.77	38.1
1965-66	2755	36.05	9932	198.64	43.01	21.7

*Note:—The year following the financial year given in Col. 1 is taken as the relevant assessment year.

During the period 1st October, 1963 to 31st March, 1966, Oil millers were exempt from tax on the purchase value of copra which was crushed in their mills according to notification G.O. MS. 781/63/Rev. dated 23rd September, 1963. But even in such cases tax would normally have been collected at the last purchase point of coconuts. Hence the figure in column 5 represents the likely order of tax collections under ideal conditions.

7. The direct conclusion from the figures given in the above statement will be that taking all the years together about 75% of the transactions of coconut and copra escape tax. A reasonable allowance has, however, to be made for the following factors:—

- (i) Coconuts purchased and consumed by temples or used as offering by devotees do not fall within the tax net. However, where coconut offerings amount to a sizeable quantity, they are likely to come to the market for sale.
- (ii) Nuts used for seeds etc., do not attract tax.
- (iii) There are cases where the producer extracts oil for his domestic consumption from the coconuts produced by him.
- (iv) Purchases of coconut or copra by owners of country chucks, single or multiple, are exempted from tax.

But the quantities involved in these cases are not considerable enough, except perhaps in the case of the last item, to have any impact on the calculations made above regarding the extent of evasion. Leaving a very wide margin for these, as well as for any other factors which have not been mentioned here, it can be concluded that the evasion is not less than fifty per cent.

(b) *Coconut oil and cake*

8. A small part of the coconut produced is exported outside the State as nuts. Again copra is both imported into the State and exported out of it. Taking all these factors into account the production of coconut oil and cake is estimated as follows:—

	1963-64	1964-65	1965-66
Indigenous production of coconut coming to the market (in millions)	2750	2753	2755
Export of nuts to places outside the State during the year (in millions)	85	76	119
Balance of nuts converted as copra (in millions)	2665	2677	2636
Copra at the rate of 100 Kg. for 700* nuts (in '000 tonnes)	381	382	377
Import of copra into the State (in '000 tonnes)	88	63	10
Export of copra to places outside the State (in '000 tonnes)	27	28	45
Total copra converted as oil (in '000 tonnes)	442	417	342
Production of oil at 62.5%* (in '000 tonnes)	276	261	214
Production of oil cake at *37.5% (in '000 tonnes)	166	156	128

*The conversion rates adopted here are those followed by the Department—vide Handbook on Agricultural Income-tax and Sales-tax.

9. On the basis of the above production figures the tax leviable is worked out below and shown alongside the tax actually levied for purposes of comparison.

Coconut Oil

Year	Coconut oil production ('000 tonnes)	Price of oil per tonne (Rs.)	Value of production (Rs. in lakhs)	Estimated tax at multipoint at 4% of value of production (Rs. in lakhs)	Tax actually levied during the relevant assessment year (Rs. in lakhs)	Percentage of Col. 6 to Col. 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1963-64	276	2775	7659	306.36	25.13	8.2
1964-65	261	2677	6986	279.44	60.51	21.7
1965-66	214	4116	8808	352.32	74.36	21.1

Coconut oil cake

Year	Coconut oil cake production ('000 tonnes)	Price of oil cake per tonne (Rs.)	Value of production (Rs. in lakhs)	Estimated tax at multipoint at 4% of value of production (Rs. in lakhs)	Tax actually levied during the relevant assessment year (Rs. in lakhs)	Percentage of Col. 6 to Col. 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1963-64	166	512	850	34.00	6.45	19.0
1964-65	156	523	816	32.64	11.66	35.7
1965-66	128	695	890	35.60	5.06	14.2

Note:—The rate of sales tax is 3 per cent multipoint; in most of the cases the tax may be leviable at two points. However, the average incidence of the tax is assumed at 4 per cent.

From the calculations made above it would appear that about 75 to 80% of the turnover of coconut oil and oil cake escape taxation. But a reasonable allowance has to be made for the coconuts used as seeds, and offerings in temples etc. Further the production of oil and cake by country chuck owners whose turnover falls below the taxable limit or by co-operative societies of country oil chuck owners or by individual producers of coconut will also have to be excluded.

10. Even after allowing a wide margin for all possible contingencies in which no sales tax is leviable under the law, it is more or less clear that there is tax evasion at least to the extent of 50% in the case of coconut and its products.

(c) *Areca nut*

11. In the case of areca nut no data are available to estimate the consumption of the commodity by the producing households. It is assumed that 15% of the production is consumed by the producing households and the remaining quantity comes to the market for sale. The position in respect of areca nut is set forth in the following table:

Year	Production (in millions of nuts)	Price (Rs.) per 100)	Value of production (Rs. in lakhs)	Value of marketable produce 85% (Rs. in lakhs)	Estimated tax at 5% sales tax (Rs. in lakhs)	Tax actually levied during the relevant assessment year	Percentage of column 7 to column 6
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1963-64	8522	2.49 (price for 1963)	2122	1804	90.20	81.39	90.2
1964-65	8945	3.14 (price for 1964)	2809	2388	119.40	72.23	60.5
1965-66	9681	3.74 (price for 1965)	3621	3078	153.90	56.95	31.0

Note:—Source:—‘An Economic Review of Kerala’ by the Bureau of Economics & Statistics.
The value of production is estimated on the same lines as in the case of coconut.

It is clear that there is now a high order of evasion of sales tax in the case of areca nut.

(c) *Rubber*

12. The position regarding rubber is indicated in the statement below:

Year	Production of raw rubber (tonnes)	Price per tonne (Rupees)	Value of produce (Rs. in lakhs)	Tax estimated at 2% (Rs. in lakhs)	Tax actually levied during the relevant assessment year (Rs. in lakhs)	Percentage of column 6 to column 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1963-64	33792	3101	1048	20.96	14.06	67.0
1964-65	40065	3113	1247	24.94	20.33	81.5
1965-66	46953	3456	1623	32.46	38.68*	119.2*

(* Increase possibly due to arrear assessments).

It is assumed that the entire production comes to the market for sale. Apart from evasion there is also avoidance of tax on a large scale by the producers directly selling rubber outside the State. There is, however, progressive improvement in the assessment of tax.

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TABLE—I

State Taxes—Tax/Income Ratio—(In Percentage) All States—Total State Taxes

<i>States</i>	1960-61	1961-62	1962-63	1963-64	1964-65	<i>Index of 1964-65 over 1960-61</i>
1. Andhra Pradesh	3.86	3.53	4.24	4.88	N.A.	
2. Assam	3.38	3.45	3.84	3.88	3.84	113.61
3. Bihar	3.43	3.70	4.08	3.96	3.62	105.54
4. Gujarat	2.99	3.42	4.57	4.70	4.96	165.89
5. Kerala	4.36	4.66	4.80	5.25	5.22	119.72
6. Madhya Pradesh	2.93	2.89	3.08	3.31	3.31	112.97
7. Madras	3.52	3.36	4.13	4.48	4.78	135.80
8. Maharashtra	4.19	4.20	4.47	4.94	5.05	120.53
9. Mysore	3.64	3.87	4.30	4.53	4.34	119.23
10. Orissa	1.94	2.45	2.96	N.A.	N.A.	..
11. Punjab & Haryana	3.29	3.48	3.88	4.27	3.97	120.67
12. Rajasthan	2.84	3.13	3.58	4.00	3.81	134.15
13. Uttar Pradesh	3.19	3.05	3.54	3.45	2.76	86.52
14. West Bengal	4.47	4.44	5.01	5.37	5.62	125.73
Average for all States	3.43	3.55	4.03	4.39	4.27	124.49

Tax/Income Ratio in percentage=Percentage of State Income received as Tax Revenue.
N.A.=Not available.

TABLE—II

State Taxes—Tax/Income Ratio—(In Percentage) All States—Direct Taxes

<i>States</i>	1960-61	1961-62	1962-63	1963-64	1964-65	<i>Index of 1964-65 over 1960-61</i>
1. Andhra Pradesh	1.33	1.05	2.11	1.87	N.A.	..
2. Assam	1.67	1.54	1.59	1.77	1.69	101.20
3. Bihar	1.38	1.45	1.90	1.50	1.25	90.58
4. Gujarat	0.91	0.95	1.28	1.09	1.14	125.27
5. Kerala	1.29	1.26	1.19	1.07	1.22	94.57
6. Madhya Pradesh	1.24	1.12	1.11	1.10	0.97	78.23
7. Madras	1.06	0.95	0.97	1.12	1.06	100.00
8. Maharashtra	0.95	0.82	0.83	0.81	0.76	80.00
9. Mysore	1.10	1.16	1.19	1.38	1.20	109.09
10. Orissa	0.66	0.81	0.89	N.A.	N.A.	..
11. Punjab & Haryana	0.96	1.06	1.17	1.11	0.88	91.67
12. Rajasthan	1.29	1.42	1.52	1.29	1.22	94.57
13. Uttar Pradesh	1.55	1.42	1.55	1.40	0.96	81.94
14. West Bengal	1.08	1.08	1.19	1.02	1.10	101.86
Average for all States	1.18	1.15	1.32	1.27	1.12	94.92

N.A.—Not available.

Direct taxes include:—(1) Agricultural Income-tax (2) Land Revenue & (3) Stamps & Registration.

TABLE—III

State Taxes—Tax/Income Ratio—(In Percentage) All States—Indirect Taxes

<i>States</i>	1960-61	1961-62	1962-63	1963-64	1964-65	<i>Index of 1964-65 over 1960-61</i>
1. Andhra Pradesh	2.53	2.48	2.13	3.01	N.A.	..
2. Assam	1.71	1.91	2.25	2.11	2.15	125.73
3. Bihar	2.05	2.26	2.18	2.46	2.37	115.61
4. Gujarat	2.09	2.47	3.29	3.61	3.82	182.78
5. Kerala	3.08	3.40	3.62	4.18	4.00	129.87
6. Madhya Pradesh	1.70	1.76	1.97	2.21	2.34	137.65
7. Madras	2.47	2.41	3.16	3.36	3.72	150.61
8. Maharashtra	3.24	3.38	3.64	4.13	4.29	132.41
9. Mysore	2.54	2.71	3.11	3.15	3.14	123.62
10. Orissa	1.28	1.64	2.07	N.A.	N.A.	..
11. Punjab & Haryana	2.34	2.42	2.71	3.16	3.09	132.05
12. Rajasthan	1.56	1.71	2.06	2.71	2.59	166.03
13. Uttar Pradesh	1.64	1.63	1.99	2.05	1.80	109.76
14. West Bengal	3.39	3.36	3.82	4.35	4.52	133.33
Average for all States	2.26	2.40	2.71	3.11	3.15	139.38

N.A.—Not available.

Indirect taxes include all State Taxes other than direct taxes.

TABLE—IV

State Taxes—Propensity to Tax average and Marginal Propensity to Tax—All States

States	1960-61		1961-62		1962-63		1963-64		1964-65	
	A.P.	M.P.	A.P.	M.P.	A.P.	M.P.	A.P.	M.P.	A.P.	M.P.
1. Andhra Pradesh	0.04	N.A.	0.04	..	0.04	0.20	0.05	0.12	N.A.	N.A.
2. Assam	0.03	N.A.	0.03	0.04	0.04	0.31	0.04	0.04	0.04	0.04
3. Bihar	0.03	N.A.	0.04	0.09	0.04	0.10	0.04	0.03	0.04	0.02
4. Gujarat	0.03	N.A.	0.03	0.09	0.05	2.65	0.05	0.06	0.05	0.07
5. Kerala	0.04	N.A.	0.05	0.09	0.05	0.08	0.05	0.12	0.05	0.05
6. Madhya Pradesh	0.03	N.A.	0.03	0.03	0.03	0.32	0.03	0.05	0.03	0.03
7. Madras	0.04	N.A.	0.03	0.01	0.04	0.26	0.04	0.08	0.05	0.08
8. Maharashtra	0.04	N.A.	0.04	0.05	0.04	0.07	0.05	0.08	0.04	0.06
9. Mysore	0.04	N.A.	0.04	0.08	0.04	0.13	0.05	0.06	0.04	0.03
10. Orissa	0.02	N.A.	0.02	0.17	0.03	N.A.	N.A.	N.A.	N.A.	N.A.
11. Punjab & Haryana	0.03	N.A.	0.03	0.07	0.04	0.10	0.04	0.06	0.04	0.03
12. Rajasthan	0.03	N.A.	0.03	0.07	0.04	0.25	0.04	0.51	0.04	0.03
13. Uttar Pradesh	0.03	N.A.	0.03	0.01	0.04	0.16	0.03	0.03	0.03	0.04
14. West Bengal	0.04	N.A.	0.04	0.04	0.05	0.17	0.05	0.09	0.06	0.08

Note:— A.P.—Average Propensity to tax= $\frac{\text{Tax}}{\text{Income}}$ ratio= $\frac{T_i}{Y_i}$

M.P.—Marginal Propensity to tax= $\frac{\text{Incremental tax}}{\text{Incremental Income}}$ ratio= $\frac{T_i - T_o}{Y_i - Y_o}$

Where T_i =Tax receipts of the current year
 T_o =Tax receipts of the previous year
 Y_i =State Income (in current prices) of the current year and
 Y_o =State Income (in current price) of the previous year
 N.A.=Not available.

TABLE—V
State Taxes—Elasticity of Tax effort—All States

<i>States</i>	<i>Period</i>	<i>Direct Taxes</i>	<i>Indirect Taxes</i>	<i>Total</i>
1. Andhra Pradesh	1960-61 to 1963-64	3.04	1.96	2.32
2. Assam	do.	1.05	1.90	1.49
3. Bihar	do.	0.71	1.48	1.17
4. Gujarat	do.	1.92	3.95	3.33
5. Kerala	do.	0.85	1.96	1.63
6. Madhya Pradesh	do.	0.36	2.09	1.38
7. Madras	do.	1.03	2.89	2.33
8. Maharashtra	do.	0.37	2.02	1.63
9. Mysore	do.	1.28	1.76	1.61
10. Orissa	1960-61 to 1962-63	18.50	33.00	28.00
11. Punjab & Haryana	1960-61 to 1964-65	0.79	1.81	1.51
12. Rajasthan	do.	0.79	3.62	2.32
13. Uttar Pradesh	do.	*	1.26	0.65
14. West Bengal	do.	1.06	2.32	2.00

Note :— Elasticity of tax effort=Rate of increase in tax receipt if the rate of increase in State Income is

$$\text{unity} = \frac{(T_i - T_o) \cdot Y_o}{(Y_i - Y_o) \cdot T_o} \quad \text{Or} \quad \frac{T_i - T_o}{Y_i - Y_o} \cdot \frac{Y_o}{T_o}$$

Where T_i = Tax receipts in the last year of the period
 T_o = Tax receipts in the first year of the period
 Y_o = State Income (in current prices) of the first year of the period and
 Y_i = State income (in current prices) of the last year of the period
 * = Increase in tax receipts is negligible.

TABLE—VI

Kerala State—Elasticity of Tax (State Taxes) and Elasticity of Tax Effort (State Taxes)

<i>Taxes and Duties</i>	<i>Period</i>	<i>Elasticity of tax</i>	<i>Elasticity of tax effort</i>
1. Land Revenue	1960-61 to 1964-65	1.01	1.01
2. Agricultural Income tax	do.	*	*
3. Stamps and Registration	do.	1.04	1.66
4. Excise Duty	do.	1.59	1.59
5. Vehicle Tax	do.	1.13	1.37
6. Sales tax	do.	0.74	1.67
7. Other taxes and duties	do.	1.62	25.98
Total	do.	0.87	1.63
Direct Taxes	do.	0.63	0.85
Indirect Taxes	do.	0.98	1.96

Note:—Elasticity of tax:

$$\frac{[T_i - (T_a + T_o)] Y_o}{(Y_i - Y_o) T_o} \text{ Or } \frac{T_i - (T_a + T_o)}{T_o} \times \frac{Y_i - Y_o}{Y_o}$$

=Rate of increase in tax receipts (without considering the receipts from additional tax measures taken up during the period) if the rate of increase in State Income is unity, during the period under study.

Elasticity of tax-effort:—Rate of increase in tax receipts (inclusive of the receipts from additional tax measures taken up during the period) if the rate of increase in State Income is unity during the period under study= $\frac{(T_i - T_o) Y_o}{(Y_i - Y_o) T_o}$ Or $\frac{T_i - T_o}{\frac{T_o}{\frac{Y_i - Y_o}{Y_o}}}$

- Where T_i = Tax receipts in the last year of the period
 T_o = Tax receipts in the first year of the period
 T_a = Receipt from additional tax measures taken up during the period (Source :—Statement XI—Additional Taxation—pp. 30 and 31 of “Financial Resources of the State of Kerala” and various Budget documents).
 Y_o = State Income (in current prices of the first year of the period and
 Y_i = State Income (in current prices) of the last year of the period

*Receipts in 1964-65 are lower (by Rs. 30 lakhs) than the receipts in 1960-61.

TABLE—VII

State Taxes—Per Capita Incidence—All States—Land Revenue

States	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
1. Andhra Pradesh	4.47	5.36	4.71	3.61	2.78	1.73	3.08
2. Assam	2.59	2.48	3.03	4.08	3.50	4.34	4.21
3. Bihar	3.22	2.56	2.41	2.35	1.04	0.74	0.97
4. Gujarat	3.18	2.72	3.36	3.16	2.65	2.71	2.91
5. Jammu & Kashmir	1.90	1.63	2.01	1.16	0.99	2.06	2.16
6. Kerala	0.64	0.43	1.33	1.41	1.04	1.06	0.89
7. Madhya Pradesh	2.88	3.10	3.11	1.94	1.49	2.21	2.31
8. Madras	1.28	1.73	1.54	1.86	1.05	1.31	0.92
9. Maharashtra	1.78	1.94	1.69	1.26	1.60	1.98	1.74
10. Mysore	2.14	3.32	2.79	2.14	1.45	2.38	3.24
11. Orissa	1.54	1.62	1.58	1.49	1.27	1.07	0.97
12. Punjab & Haryana	2.20	2.31	1.85	2.13	1.24	1.40	1.33
13. Rajasthan	4.49	3.49	3.97	3.06	2.97	4.16	4.02
14. Uttar Pradesh	3.31	3.24	2.56	2.97	2.47	2.61	2.64
15. West Bengal	2.17	1.73	2.05	1.79	1.49	1.40	1.49
Average for all States	2.52	2.51	2.53	2.29	1.80	2.08	2.19

TABLE—VIII

State Taxes—Per Capita Incidence—All States Agricultural Income Tax

States	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
1. Andhra Pradesh	..	..	..	..	..	..	..
2. Assam	2.83	3.24	2.98	2.11	1.98	2.17	2.21
3. Bihar	0.09	0.08	0.04	0.04	0.02	0.07	0.07
4. Gujarat	..	..	..	..	..	..	..
5. Jammu & Kashmir	..	..	..	..	..	0.02	0.02
6. Kerala	1.38	1.21	1.12	1.21	1.45	1.41	1.38
7. Madhya Pradesh	..	..	..	..	..	..	..
8. Madras	0.34	0.38	0.40	0.34	0.40	0.34	0.41
9. Maharashtra	..	..	0.25	0.06	0.07	0.04	0.07
10. Mysore	0.31	0.15	0.39	0.61	0.56	0.62	0.55
11. Orissa	0.06	0.04	0.04	0.04	0.03	0.03	0.03
12. Punjab & Haryana	..	..	..	..	..	..	..
13. Rajasthan	0.03	0.02	0.02	0.01	Neg.	0.01	Neg.
14. Uttar Pradesh	0.04	0.01	0.02	0.04	0.03	0.03	0.05
15. West Bengal	0.23	0.17	0.20	0.28	0.30	0.18	0.20
Average for all States	0.59	0.59	0.55	0.47	0.54	0.45	0.50

TABLE—IX

State Taxes—Per Capita Incidence—All States—State Excise Duties

<i>States</i>	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
1. Andhra Pradesh	2.45	3.15	3.24	3.51	3.61	3.81	4.00
2. Assam	1.73	1.57	1.41	1.61	1.81	1.80	1.79
3. Bihar	1.33	1.38	1.38	1.59	1.74	1.88	1.87
4. Gujarat	0.17	0.18	0.20	0.21	0.21	0.23	0.22
5. Jammu & Kashmir	1.82	1.82	2.12	2.35	3.37	4.30	4.58
6. Kerala	2.05	2.18	2.48	2.66	3.08	4.68	4.61
7. Madhya Pradesh	1.73	1.97	2.27	2.48	2.74	3.46	3.79
8. Madras	0.11	0.12	0.11	0.14	0.14	0.20	0.21
9. Maharashtra	0.36	0.41	0.71	0.74	0.83	0.90	0.96
10. Mysore	1.20	1.41	1.47	1.55	1.65	1.22	3.94
11. Orissa	1.00	1.06	1.13	1.15	1.24	1.33	1.34
12. Punjab & Haryana	2.81	3.39	4.77	6.36	6.04	8.09	8.07
13. Rajasthan	2.44	2.62	2.87	3.42	3.57	3.52	3.62
14. Uttar Pradesh	1.25	1.43	1.59	1.75	2.12	2.13	2.31
15. West Bengal	2.12	2.34	2.76	2.97	3.32	2.73	3.15
Average for all States	1.50	1.67	1.90	2.17	2.36	2.75	2.96

TABLE—X

State Taxes—Per Capita Incidence—All States— Stamps and Registration

States	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
1. Andhra Pradesh	1.02	1.21	1.42	1.59	1.62	1.83	1.99
2. Assam	0.53	0.59	0.64	0.62	0.71	0.78	0.78
3. Bihar	0.82	0.98	0.99	1.12	1.28	1.18	1.28
4. Gujarat	1.33	1.40	1.51	1.52	1.68	1.77	1.84
5. Jammu & Kashmir	0.66	0.71	0.72	0.71	0.81	0.82	0.81
6. Kerala	1.50	1.68	2.06	2.32	2.38	2.65	2.68
7. Madhya Pradesh	0.64	0.73	0.79	0.89	0.95	1.10	1.17
8. Madras	1.95	2.34	2.63	2.75	2.99	3.16	3.33
9. Maharashtra	1.76	2.01	2.01	2.05	2.18	2.38	2.40
10. Mysore	1.21	1.38	1.43	1.68	1.83	2.15	2.17
11. Orissa	0.61	0.75	0.79	0.85	0.86	0.89	0.88
12. Punjab & Haryana	2.63	3.00	3.22	3.22	3.20	3.17	3.31
13. Rajasthan	0.61	0.74	0.71	0.76	0.79	0.86	0.89
14. Uttar Pradesh	0.71	0.81	0.94	0.99	1.08	1.10	1.12
15. West Bengal	1.61	1.76	1.98	2.20	2.15	2.23	2.25
Average for all States	1.17	1.34	1.46	1.55	1.63	1.74	1.79

TABLE—XI
State Taxes—Per capita incidence—All States—Vehicle Tax

<i>State</i>	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
1. Andhra Pradesh	0.90	1.81	1.69	2.13	2.08	2.34	2.59
2. Assam	0.62	0.94	0.99	0.88	0.94	1.13	1.11
3. Bihar	0.15	0.21	0.32	0.36	0.29	0.46	0.52
4. Gujarat	2.00	1.46	1.52	1.66	1.76	2.02	2.13
5. Jammu & Kashmir	0.36	0.60	0.72	1.35	0.89	1.03	1.12
6. Kerala	1.73	2.09	2.13	2.21	2.28	2.55	2.74
7. Madhya Pradesh	0.65	0.66	0.74	0.79	0.79	0.84	0.88
8. Madras	2.96	3.52	3.65	3.67	4.06	4.38	4.62
9. Maharashtra	1.47	1.54	1.71	1.76	2.11	2.35	2.42
10. Mysore	2.29	2.89	2.13	2.19	2.29	2.56	2.58
11. Orissa	0.71	0.81	0.87	0.89	0.95	1.11	1.11
12. Punjab & Haryana	0.58	0.52	0.55	0.64	0.61	0.62	0.62
13. Rajasthan	0.58	0.71	0.72	0.75	0.90	0.99	1.06
14. Uttar Pradesh	0.49	0.49	0.53	0.54	0.54	0.56	0.57
15. West Bengal	0.74	1.31	1.40	1.43	1.43	1.31	1.34
Average for all States	1.08	1.30	1.31	1.42	1.46	1.62	1.69

TABLE—XII
State Taxes—Per Capita Incidence—All States—Sales Tax

<i>States</i>	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
1. Andhra Pradesh	4.16	5.06	5.99	6.29	7.54	8.42	8.56
2. Assam	3.30	4.27	5.21	5.94	6.06	7.18	7.23
3. Bihar	2.60	3.42	3.52	4.18	5.08	5.68	6.11
4. Gujarat	7.20	8.92	10.98	11.63	14.74	16.36	18.17
5. Jammu & Kashmir	1.13	2.06	2.25	2.01	2.84	3.43	3.89
6. Kerala	6.87	8.11	8.71	9.72	11.80	12.91	13.56
7. Madhya Pradesh	2.86	3.69	4.79	5.54	6.37	7.52	8.52
8. Madras	7.20	7.71	9.91	11.30	13.23	15.37	17.19
9. Maharashtra	9.91	13.08	14.49	15.98	19.30	20.98	23.51
10. Mysore	4.61	5.43	6.47	7.49	9.91	10.61	11.50
11. Orissa	3.05	4.03	4.76	5.14	5.56	6.55	6.55
12. Punjab & Haryana	4.71	6.45	7.87	10.17	9.78	11.00	11.53
13. Rajasthan	3.08	4.53	5.24	6.21	6.77	7.91	8.55
14. Uttar Pradesh	2.15	2.66	2.92	3.37	4.03	4.36	4.89
15. West Bengal	6.82	8.65	9.66	11.56	12.07	12.45	13.45
Average for all States	4.65	5.87	6.85	7.77	9.00	10.05	10.88

TABLE—XIII

State Taxes—Per Capita Incidence—All States—Other Taxes & Duties

State	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
1. Andhra Pradesh	0.90	0.57	0.51	0.67	0.88	0.99	1.01
2. Assam	0.75	0.76	0.86	0.83	0.92	1.03	1.08
3. Bihar	0.69	0.87	1.33	1.40	1.16	1.54	1.41
4. Gujarat	2.24	3.14	3.56	3.76	4.42	4.84	5.43
5. Jammu & Kashmir	0.19	0.60	0.62	0.77	0.91	1.11	1.42
6. Kerala	0.11	0.62	1.41	0.96	1.42	1.45	1.74
7. Madhya Pradesh	0.98	1.41	1.66	1.95	2.13	2.35	2.52
8. Madras	1.32	1.92	2.31	2.90	3.38	3.93	4.41
9. Maharashtra	3.80	4.93	5.29	5.86	7.51	8.04	8.93
10. Mysore	1.47	1.36	2.03	2.16	2.17	2.51	2.52
11. Orissa	0.41	0.67	0.89	0.67	0.81	1.55	1.72
12. Punjab & Hariyana	3.16	4.78	4.68	5.41	4.98	4.97	5.06
13. Rajasthan	0.85	1.09	1.12	1.31	1.57	1.65	2.03
14. Uttar Pradesh	1.31	1.34	1.56	2.08	2.14	1.93	2.03
15. West Bengal	3.12	3.32	3.59	3.76	3.82	3.96	4.17
Average for all States	1.42	1.83	2.09	2.30	2.55	2.79	3.03

TABLE—XIV

State Taxes—Per Capita Incidence—All States—All State Taxes and Duties

State	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
1. Andhra Pradesh (Index)	13.90 (100)	17.16 (123)	17.56 (126)	17.80 (128)	18.52 (133)	19.12 (137)	21.24 (153)
2. Assam (Index)	12.41 (100)	13.85 (112)	15.12 (122)	16.07 (129)	15.93 (128)	18.43 (148)	18.43 (148)
3. Bihar (Index)	8.90 (100)	9.50 (107)	9.99 (112)	11.04 (124)	10.62 (119)	11.56 (130)	12.23 (137)
4. Gujarat (Index)	16.12 (100)	17.82 (111)	21.13 (131)	21.94 (136)	25.46 (158)	27.93 (173)	30.70 (190)
5. Jammu & Kashmir (Index)	6.06 (100)	7.42 (122)	8.44 (139)	8.35 (138)	9.82 (162)	12.78 (211)	14.02 (231)
6. Kerala (Index)	14.28 (100)	16.32 (114)	19.24 (135)	20.49 (143)	23.43 (164)	26.71 (187)	27.61 (193)
7. Madhya Pradesh (Index)	9.74 (100)	11.56 (119)	16.36 (168)	13.59 (140)	14.48 (149)	17.48 (179)	19.18 (197)
8. Madras (Index)	15.16 (100)	17.72 (117)	20.55 (136)	22.96 (151)	25.25 (166)	28.69 (189)	31.09 (205)
9. Maharashtra (Index)	19.08 (100)	23.91 (125)	26.15 (137)	27.71 (145)	33.61 (176)	36.67 (192)	40.05 (210)
10. Mysore (Index)	13.23 (100)	15.94 (120)	16.71 (126)	17.82 (135)	19.87 (150)	23.04 (174)	26.50 (200)
11. Orissa (Index)	7.38 (100)	8.98 (122)	10.06 (136)	10.23 (139)	10.72 (145)	12.53 (170)	12.60 (171)
12. Punjab & Haryana (Index)	16.09 (100)	20.45 (127)	22.94 (143)	27.93 (174)	25.87 (161)	29.24 (182)	29.92 (186)

<i>States</i>	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	R.E. Rs.	B.E. Rs.
13. Rajasthan (Index)	12.08 (100)	13.20 (109)	14.65 (121)	15.52 (128)	16.59 (137)	19.10 (158)	20.18 (167)
14. Uttar Pradesh (Index)	9.26 (100)	9.98 (108)	10.12 (109)	11.74 (127)	12.40 (134)	12.73 (137)	13.61 (147)
15. West Bengal (Index)	16.81 (100)	19.28 (115)	21.64 (129)	23.98 (143)	24.58 (146)	24.26 (144)	26.07 (155)
Average for all States	12.70 (100)	14.87 (117)	16.71 (132)	17.81 (140)	19.15 (151)	21.35 (168)	22.89 (180)

TABLE—XV
State Taxes—Per Capita Incidence—All States—Direct Taxes

<i>State</i>	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	(R.E.) Rs.	(B.E.) Rs.
1 Andhra Pradesh	5.49	6.58	6.13	5.20	4.40	3.56	5.07
(Index)	(100)	(120)	(112)	(95)	(80)	(65)	(92)
2. Assam	5.95	6.31	6.65	6.82	6.19	7.29	7.20
(Index)	(100)	(106)	(112)	(115)	(104)	(123)	(121)
3. Bihar	4.13	3.61	3.45	3.51	2.34	1.99	2.32
(Index)	(100)	(87)	(84)	(85)	(57)	(48)	(56)
4. Gujarat	4.51	4.13	4.87	4.68	4.33	4.48	4.75
(Index)	(100)	(92)	(108)	(104)	(96)	(99)	(105)
5. Jammu & Kashmir	2.56	2.34	2.73	1.87	1.80	2.90	2.99
(Index)	(100)	(91)	(107)	(73)	(70)	(113)	(117)
6. Kerala	3.52	3.32	4.51	4.94	4.87	5.12	4.95
(Index)	(100)	(94)	(128)	(140)	(138)	(145)	(141)
7. Madhya Pradesh	3.52	3.83	3.90	2.83	2.44	3.31	3.48
(Index)	(100)	(109)	(111)	(80)	(69)	(94)	(99)
8. Madras	3.57	4.45	4.57	4.95	4.44	4.81	4.66
(Index)	(100)	(125)	(128)	(139)	(124)	(135)	(131)
9. Maharashtra	3.54	3.95	3.95	3.37	3.85	4.40	4.21
(Index)	(100)	(112)	(112)	(95)	(109)	(124)	(119)
10. Mysore	3.66	4.84	4.62	4.43	3.84	5.15	5.96
(Index)	(100)	(132)	(126)	(121)	(105)	(141)	(163)
11. Orissa	2.21	2.41	2.41	2.37	2.16	1.99	1.88
(Index)	(100)	(109)	(109)	(107)	(98)	(90)	(85)
12. Punjab & Haryana	4.83	5.31	5.07	5.36	4.44	4.57	4.64
(Index)	(100)	(110)	(105)	(111)	(92)	(95)	(96)
13. Rajasthan	5.13	4.26	4.70	3.83	3.76	5.03	4.91
(Index)	(100)	(83)	(92)	(75)	(73)	(98)	(96)
14. Uttar Pradesh	4.06	4.06	3.52	3.99	3.58	3.74	3.81
(Index)	(100)	(100)	(87)	(98)	(88)	(92)	(94)
15. West Bengal	4.01	3.66	4.23	4.26	3.94	3.81	3.94
(Index)	(100)	(92)	(106)	(107)	(98)	(95)	(98)
Average for all States	4.05	4.20	4.35	4.16	3.76	4.14	4.32
(Index)	(100)	(104)	(108)	(103)	(93)	(102)	(107)

TABLE—XVI

State Taxes—Per Capita Incidence—All States—Indirect Taxes

State	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
	Rs.	Rs.	Rs.	Rs.	Rs.	(R. E.) Rs.	(B.E.) Rs.
1. Andhra Pradesh	8.41	10.58	11.43	12.60	14.12	15.56	16.17
(Index)	(100)	(126)	(134)	(150)	(168)	(185)	(192)
2. Assam	6.46	7.54	8.47	9.25	9.74	11.14	11.23
(Index)	(100)	(117)	(131)	(143)	(151)	(172)	(174)
3. Bihar	4.77	5.89	6.54	7.53	8.28	9.57	9.91
(Index)	(100)	(124)	(137)	(158)	(174)	(201)	(208)
4. Gujarat	11.61	13.69	16.26	17.26	21.13	23.45	25.95
(Index)	(100)	(118)	(140)	(149)	(182)	(202)	(224)
5. Jammu & Kashmir	3.50	5.08	5.71	6.48	8.02	9.88	11.03
(Index)	(100)	(145)	(163)	(185)	(229)	(282)	(315)
6. Kerala	10.76	13.00	14.73	15.55	18.59	21.59	22.66
(Index)	(100)	(121)	(137)	(145)	(173)	(201)	(211)
7. Madhya Pradesh	6.22	7.73	9.46	10.76	12.04	14.17	15.70
(Index)	(100)	(124)	(152)	(173)	(194)	(228)	(252)
8. Madras	11.59	13.27	15.98	18.01	20.81	23.88	26.43
(Index)	(100)	(115)	(138)	(155)	(180)	(206)	(228)
9. Maharashtra	15.54	19.96	22.20	24.34	29.76	32.27	35.84
(Index)	(100)	(128)	(143)	(157)	(192)	(208)	(231)
10. Mysore	9.57	11.10	12.09	13.39	16.03	17.89	20.54
(Index)	(100)	(116)	(126)	(140)	(168)	(187)	(215)
11. Orissa	5.17	6.57	7.65	7.86	8.56	10.54	10.72
(Index)	(100)	(127)	(148)	(152)	(166)	(204)	(207)
12. Punjab & Hariyana	11.26	15.14	17.87	22.57	21.43	24.67	25.28
(Index)	(100)	(135)	(159)	(201)	(190)	(219)	(225)
13. Rajasthan	6.95	8.94	9.95	11.69	12.83	14.07	15.27
(Index)	(100)	(129)	(143)	(168)	(185)	(202)	(220)
14. Uttar Pradesh	5.20	5.92	6.60	7.75	8.82	8.99	9.80
(Index)	(100)	(114)	(127)	(149)	(170)	(173)	(188)
15. West Bengal	12.80	15.62	17.41	19.72	20.64	20.45	22.13
(Index)	(100)	(122)	(136)	(154)	(161)	(160)	(173)
Average for all States	8.65	10.67	12.16	13.65	15.39	17.21	18.58
(Index)	(100)	(123)	(140)	(158)	(178)	(199)	(215)

TABLE—XVII

State Taxes—Per Capita Incidence—Rural and Urban —1962-63 (Accounts)—All States

States	Direct Taxes		Indirect Taxes		Total Taxes		Urban/Rural Ratio (1961 Census)
	Rural Rs.	Urban Rs.	Rural Rs.	Urban Rs.	Rural Rs.	Urban Rs.	
1. Andhra Pradesh	5.64	4.78	4.06	29.56	9.70	34.34	17:83
2. Assam	6.04	5.20	2.79	48.20	8.83	53.40	8:92
3. Bihar	3.79	8.29	2.09	35.89	5.88	44.18	8:92
4. Gujarat	4.66	4.13	5.39	29.65	10.05	33.78	26:74
5. Jammu & Kashmir	2.47	3.17	2.00	11.17	4.47	14.34	17:83
6. Kerala	2.74	8.03	4.19	48.01	6.93	56.04	15:85
7. Madhya Pradesh	3.51	3.62	3.02	25.87	6.53	29.49	14:86
8. Madras	2.75	5.78	5.07	29.27	7.82	35.05	27:73
9. Maharashtra	2.97	4.99	7.77	35.45	10.74	40.44	28:72
10. Mysore	3.45	4.43	4.59	27.47	8.04	31.90	22:78
11. Orissa	1.85	8.00	1.98	54.55	3.83	62.55	6:94
12. Punjab & Haryana	3.41	10.62	6.34	31.17	9.75	41.79	20:80
13. Rajasthan	5.53	3.09	3.52	25.33	9.05	28.42	16:84
14. Uttar Pradesh	4.01	4.38	2.64	22.35	6.65	26.73	13:87
15. West Bengal	3.58	5.36	6.84	31.66	10.42	37.02	24:76
All States Average	3.76	5.59	4.15	32.37	7.91	37.96	

Note:—See Table XVIII.

Though based on this data, it can generally be said that the agricultural sector is undertaxed, some limitations have to be borne in mind. The income-receivers of the agricultural sector have not been stratified into slabs or classes for purposes of analysis. It is obvious that those who command higher incomes in the sector have greater ability to pay and therefore can bear a higher burden of taxation.

TABLE—XVIII

State Taxes—Per Capita Incidence—Rural and Urban —1967-68 (Budget Estimate)—All States

States	Direct Taxes		Indirect Taxes		Total Taxes		Urban/Rural Population Ratio (1961 Census)
	Rural	Urban	Rural	Urban	Rural	Urban	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
1. Andhra Pradesh	0.41	7.67	6.76	54.43	7.17	62.10	17:83
2. Assam	7.64	8.18	4.33	96.18	11.97	104.36	8:92
3. Bihar	2.75	11.17	3.68	61.81	6.43	72.98	8:92
4. Gujarat	4.31	5.41	10.55	59.92	14.86	65.33	26:74
5. Jammu & Kashmir	2.66	3.38	5.91	32.92	8.57	36.30	17:83
6. Kerala*	3.54	14.15	9.11	92.29	12.65	106.44	15:85
7. Madhya Pradesh	2.43	5.88	6.28	57.41	8.71	63.29	14:86
8. Madras	2.99	8.99	10.33	56.76	13.32	65.75	27:73
9. Maharashtra	3.01	6.39	16.57	75.11	19.58	81.50	28:72
10. Mysore	4.94	6.95	7.67	50.21	12.61	57.16	22:78
11. Orissa	1.20	10.86	4.03	106.95	5.23	117.81	6:94
12. Punjab & Haryana	2.59	12.52	12.11	59.84	14.70	72.86	20:80
13. Rajasthan	4.47	3.92	7.15	54.53	11.62	58.45	16:84
14. Uttar Pradesh	3.36	6.15	4.30	39.17	7.66	45.32	13:87
15. West Bengal	2.93	7.16	10.53	56.96	13.46	64.12	24:76
All States average	3.07	7.52	7.62	58.99	10.69	66.51	

Note:—Incidence of taxes on Rural and Urban population are worked out based on the following distribution :

	Rural (%)	Urban (%)
1. Land Revenue	100	..
2. Agricultural Income Tax	100	..
3. Stamps & Registration	20	80
4. Excise duty	60	40
5. Vehicles Tax	35	65
6. Sales Tax	24	76
7. Other taxes and duties	65	35

*1967-68—Revised Estimate.

TABLE—XIX

State Taxes—Average Tax Incidence in the Agricultural and Non-Agricultural Sectors (Kerala)

	Agricultural			Non-agricultural		
	Tax Revenue (Rs. lakhs)	Agricultural Income (State Income) at current prices (Rs. lakhs)	Incidence	Tax Revenue (Rs. lakhs)	Non-agricul- tural Income (State Income) (Rs. lakhs)	Incidence
		1959-60				
Direct Taxes	363.6	22093.5	0.016	138.4	21041.3	0.007
Indirect Taxes	404.3		0.018	796.7		0.038
Total	767.9		<u>0.034</u> (3.4%)	935.1		<u>0.045</u> (4.5%)
		1962-63				
Direct Taxes	406.6	25981.9	0.016	210.4	26018.4	0.008
Indirect Taxes	621.5		0.024	1258.5		0.048
Total	1028.1		<u>0.040</u> (4.0%)	1468.9		<u>0.056</u> (5.6%)
		1964-65				
Direct Taxes	525.4	37216.2	0.014	301.6	30409.8	0.010
Indirect Taxes	962.7		0.026	1742.3		0.057
Total	1488.1		<u>0.040</u> (4.0%)	2043.9		<u>0.067</u> (6.7%)

Ratio

	Agricultural Sector	Non-agricultural Sector
1959-60	0.034	0.045
1962-63	0.040	0.056
1964-65	0.040	0.067

TABLE—XX

Kerala—Relative per capita tax burden (State Taxes) and per capita income of the Rural and Urban People

<i>Year</i>	<i>Per Capita rural tax/ urban tax ratio*</i>	<i>Per capita rural income/ urban income ratio **</i>
1957-58	5.88	5.45
1960-61	7.23	5.29
1964-65	7.94	4.72

* Per capita tax burden on urban people where the per capita tax burden on rural people is one.

** Per capita income of urban people where the per capita income of the rural people is one.

Rural and urban population are estimated on the ratio (85 : 15) according to the 1961 Census.

Income contributed by the "Agricultural Sector" alone is taken as "Rural Income". In fact a portion of the income contributed by other sectors like "Mining and Industries", "Commerce, Transport and Communication" and "Services" too, come under "Rural Income". But paucity of reliable data makes it difficult to strictly compartmentalise the income contributed by these sectors into "Rural" and "Urban". Hence the "Rural Income" estimated for the purpose of the above statement is to a certain extent, an under estimate.

TABLE—XXI
Kerala—Trends in State Taxes and Duties

(Rs. in lakhs)

	1957-58 <i>Accounts</i>	1961-62 <i>Accounts</i>	1965-66 <i>Accounts</i>	1966-67 <i>Accounts</i>	1967-68 <i>Revised Estimate</i>	1968-69 <i>Budget Estimate</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Land Revenue	121	158	265	200	210	180
Percentage to total	9.10	6.86	6.87	4.42	3.97	3.21
2. Taxes on Agricultural Income	183	246	228	280	280	280
Percentage to total	13.77	10.68	5.91	6.18	5.30	5.00
3. State Excise Duties	216	327	501	595	926	935
Percentage to total	16.26	14.20	12.99	13.14	17.51	16.70
4. Stamp Duty	113	172	374	390	435	453
Percentage to total	8.50	7.47	9.70	8.61	8.23	8.09
5. Registration Fees	35	48	63	70	90	91
Percentage to total	2.63	2.08	1.63	1.55	1.70	1.63
6. Taxes on Vehicles	154	268	415	440	504	555
Percentage to total	11.59	11.64	10.76	9.72	9.53	9.91
7. Sales Tax	492	1056	1830	2278	2555	2751
Percentage to total	37.02	45.85	47.46	50.31	48.33	49.13
8. Other Taxes and Duties	15	28	180	275	287	354
Percentage to total	1.13	1.22	4.68	6.07	5.43	6.33
9. Total	1329	2303	3856	4528	5287	5599
Index	100	173	290	341	397	421

TABLE—XXII
Kerala—Trends in Non-Tax Revenue

(Rs. in lakhs)

	1957-58 <i>Accounts</i>	1961-62 <i>Accounts</i>	1965-66 <i>Accounts</i>	1966-67 <i>Accounts</i>	1967-68 <i>Revised Estimate</i>	1968-69 <i>Budget Estimate</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Receipts from major items of Non-Tax Revenue:						
A.						
1. Forest	292	392	570	666	650	714
2. Irrigation Works	5	23	27	43	40	40
3. Civil Works	34	49	30	47	47	48
4. Road and Water—Transport Schemes	201	367	..	..	..	..
5. Dividends etc., from Commercial and other undertakings	17	40	23	21	22	25
Total—A	549	871	650	777	759	827
B. Others:						
1. Debt Services (Interest)	102	161	274	240	594	664
2. Administrative Services*	22	51	91	98	103	103
3. Social and Developmental Services**	283	428	537	704	715	615
4. Miscellaneous†	16	100	163	183	141	175
Total—B	423	740	1065	1225	1553	1557
C. Grants-in-aid (including Miscellaneous Adjustments):						
1. Statutory grants-in-aid	182	251	632	2090	2086	2086
2. Other grants-in-aid (including Miscellaneous adjustments)‡	240	501	847	786	1306	1366
Total—C	422	752	1479	2876	3392	3452
D. Total Non-Tax Revenue (A+B+C)	1394	2363	3194	4878	5704	5836
Index of A	100	159	118	142	138	151
Index of B	100	175	252	290	367	368
Index of C	100	178	350	682	804	818
Index of D	100	170	229	350	409	419

Note:—

* Consists of Administration of Justice, Jails, Police and Miscellaneous Departments.

** Includes Education, Medical, Public Health, Agriculture, Rural Development, Animal Husbandry, Co-operation, Industries, Community Development, N. E. S, etc., and Miscellaneous Social & Developmental Organisations.

† Includes Ports & Pilotage, Famine Relief, contribution & recoveries towards pensions etc., Stationery & Printing, Miscellaneous and Extraordinary receipts.

‡ Includes share in Taxes on Railway Passenger Fares or Grant in lieu thereof.

TABLE—XXIII

Kerala—Additional Tax Efforts—I Plan (1951-'56)

<i>Measure</i>	<i>Yield 1951-56*</i> (Rs. lakhs)
(i) Larger receipts from forests as compared to 1950-51 level	130
(ii) Larger receipts from agricultural income-tax as compared to 1950-51 level	270
(iii) Larger receipts from mining as compared to 1950-51 level	80
(iv) Avoidance of loss under excise revenue anticipated earlier	30
(v) Licence fee on sale of tobacco	70
(vi) Yield from other miscellaneous measures	20
	600**

* Relates to the erstwhile Travancore-Cochin State.

** Details of year-wise yield are not available.

TABLE—XXIV
Kerala—Additional Tax Efforts—II Plan (1956-61)

(Rs. lakhs)

Measure	Yield during					Total 1956-61
	1956-57	1957-58	1958-59	1959-60	1960-61	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. Measures undertaken in 1956-57						
II. Measures undertaken in 1957-58						
A. TAXES AND DUTIES.						
1. Extension of the T. C. Agricultural Income Tax Act to Malabar area	..	16	16	16	18	66
2. Change in the rate of sales-tax	..	85	146	206	250	687
3. Introduction of surcharge on Agricultural Income-tax and Supertax	..	3	6	13	12	34
4. Introduction of surcharge on sales-tax	..	14	11	14	20	59
5. Enhancement of the rate of supertax on Agricultural Income	..	15	20	21	22	78
6. Enhancement and unification of the rates of motor vehicles tax	..	20	43	46	50	159
7. Revision of the rate of basic land tax and the extension of the system to Malabar area (loss of revenue)	..	(—)30	(—)14	(—)16	(—)11	(—)71
B. NON TAX ITEMS
Total of II	..	123	228	300	361	1012
III. Measures undertaken in 1958-59.						
A. TAXES AND DUTIES.						
1. Enhancement of the rates of electricity duty	2	8	9	19
2. Enhancement of the rate of sales tax on diesel oil	19	40	47	106

B. NON-TAX ITEMS						
1. Enhancement of bus fares	..	..	15	16	18	49
Total of III	..	..	36	64	74	174
IV. Measures undertaken in 1959-60						
A. TAXES AND DUTIES						
1. Enhancement and unification of the rates of stamp duty in the T. C. and Malabar areas	..	..	..	6	15	21
B. NON-TAX ITEMS						
Total of IV	..	..	..	6	15	21
V. Measures undertaken in 1960-61						
A. TAXES AND DUTIES						
1. Introduction of Plantation tax	..	..	..	..	5	5
B. NON-TAX ITEMS						
Total of V	..	..	..	..	5	5
Total of I to V	..	123	264	370	455	1212

TABLE—XXV
Kerala—Additional Tax Efforts—III Plan (1961-66)

(Rs. lakhs)

<i>Measure</i>	<i>Yield during</i>					<i>Total</i>
	1961-62	1962-63	1963-64	1964-65	1965-66	1961-66
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. Measures undertaken in 1961-62						
A. TAXES AND DUTIES						
1. Additional land tax	..	1	..	..	..	1
2. Levy of sales tax on food grains and enhancement of sales tax on foreign liquor	73	77	82	66	20*	318
3. Tax on buildings	..	4	14	11	1	30
B. NON-TAX ITEMS						
1. Increase in transport fares	40	40	40	40	40	200
Total of I	113	122	136	117	61	549
II. Measures undertaken in 1962-63						
A. TAXES AND DUTIES						
1. Rationalisation of the rates of sales tax	..	50	54	57	60	221
B. NON-TAX ITEMS						
Total of II	..	50	54	57	60	221
III. Measures undertaken in 1963-64						
A. TAXES AND DUTIES						
1. Enhancement of stamp duty	..	..	60	61	62	183
2. Broadening the base of the levy of electricity duty and increasing the rate	..	..	1	65	54	120

* Fall due to channelling of trade in food grains through fair price shops.

(Rs. lakhs)

Measure	Yield during					Total 1961-66
	1961-62	1962-63	1963-64	1964-65	1965-66	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
3. Levy of additional tax on entertainments and surcharge on show tax	..	..	12	25	34	71
4. Revision of the rate of sales tax on selected commodities from 7% to 10%	..	..	20	21	22	63
5. Revision of the rate of general sales-tax (multi point) from 2% to 3%	..	..	150	158	170	478
6. Revision of the rate of Central Sales tax	..	..	80	84	88	252
7. Revision of the rates of tax on motor vehicles and the introduction of a tax on passengers and goods	..	..	90	160	168	418
B. NON-TAX ITEMS						
1. Enhancement of bus fare	..	..	30	40	40	110
2. Enhancement of college fees	..	..	5	5	6	16
3. Revision of Electricity tariff*	..	..	30	40	40	110
Total of III	..	..	478	659	684	1821
IV. Measures undertaken in 1964-65.	..	..	..	..	..	..
V. Measures undertaken in 1965-66						
A. TAXES AND DUTIES	..	..	..	..	..	..
B. NON-TAX ITEMS						
1. Revision of electricity tariff*	..	..	..	..	30	30
Total of V	..	..	..	..	30	30
Grand total of I to V	118	172	668	833	835	2621

* The receipt from this source goes to the Kerala State Electricity Board.

TABLE—XXVI
Kerala—Additional Tax Efforts —Annual Plans—(1966-69)

<i>Measure</i>	<i>Yield in 1966-67 (Rs. in lakhs)</i>
I. Measures undertaken in 1966-67	
A. TAXES AND DUTIES	
1. Cancellation of exemption from sales-tax on the excise duty in the determination of taxable turn-over*	40
2. Raising the rates of Central sales-tax from 2% to 3%	40
3. Enhancement of the rates of registration fees	5
B. NON-TAX ITEMS	
	..
Total of I	85
II. Measures undertaken in 1967-68	
	<i>Yield in 1967-68 (Rs. in lakhs)</i>
I. TAXES AND DUTIES	
1. Rationalisation of sales-tax including revision of rates of tax on declared goods	30
2. Revision of the rates of Motor Vehicles Tax and tax on goods and passengers	
(a) Surcharge on fleet owners	36
(b) Additional tax on goods vehicles	8
(c) Revision of rates of tax on passengers and goods	4
3. Enhancement of stamp duty	10
4. Lifting of prohibition	340
B. NON-TAX ITEMS	
1. State lotteries	20
Total of II	448
III. Measures undertaken in 1968-69.	
	<i>Estimated yield in 1968-69 (Rs. lakhs)</i>
A. TAXES AND DUTIES.	
1. Enhancement of supertax payable by individuals and companies on their agricultural income	4
2. Enhancement of the rate of plantation tax	40
3. Exemption from basic land tax granted for holdings of 0.81 hectare and below (loss in revenue)	(—)40
B. NON-TAX ITEMS	
1. General Insurance scheme	15
2. Introduction of a surcharge on electricity tariff**	125
Total of III	144

* Introduced towards the close of the year 1965-66.

** The receipt from this measure goes to the Kerala State Electricity Board.

TABLE—XXVII

Development Expenditure of States—1951-52

(Rs. Crores)

State	Education	Medical & Public Health	Agriculture Veterinary & Co-operation	Irrigation	Civil Works	Total (incl. others)
Andhra Pradesh	6.07 (32.3)	2.59 (13.8)	2.19 (11.7)	1.80 (9.6)	3.40 (18.1)	18.78 (100.0)
Assam	1.72 (30.4)	0.78 (13.8)	0.79 (14.0)	0.16 (2.8)	2.04 (36.1)	5.66 (100.0)
Bihar	3.58 (20.3)	2.01 (11.4)	2.36 (13.4)	2.27 (12.9)	6.51 (37.0)	17.62 (100.0)
Bombay	13.57 (36.8)	5.02 (13.6)	4.26 (11.5)	2.31 (6.3)	4.80 (13.0)	36.86 (100.0)
Kerala	3.39 (34.7)	1.59 (16.2)	0.54 (5.5)	0.89 (9.1)	2.45 (25.1)	9.76 (100.0)
Madhya Pradesh	3.47 (31.3)	1.58 (14.3)	1.40 (12.6)	0.68 (6.1)	2.59 (23.4)	11.07 (100.0)
Madras	5.67 (29.8)	2.67 (14.0)	2.34 (12.3)	1.65 (8.7)	3.93 (20.6)	19.07 (100.0)
Mysore	6.06 (28.2)	2.32 (10.8)	1.82 (8.5)	1.60 (7.4)	3.24 (15.1)	21.48 (100.0)
Orissa	1.25 (20.6)	0.68 (11.2)	0.80 (13.2)	0.99 (16.3)	1.74 (28.7)	6.06 (100.0)
Punjab & Haryana	2.48 (29.9)	1.17 (14.1)	1.21 (14.5)	0.63 (7.6)	2.06 (24.8)	8.29 (100.0)
Rajasthan	2.29 (35.9)	1.44 (22.6)	0.57 (5.8)	0.52 (8.2)	0.88 (13.8)	6.37 (100.0)
Uttar Pradesh	7.43 (28.5)	3.06 (11.7)	5.03 (19.3)	2.56 (9.8)	3.16 (12.1)	26.09 (100.0)
West Bengal	3.36 (20.2)	4.30 (25.8)	2.58 (15.5)	0.91 (5.5)	4.18 (25.1)	16.64 (100.0)

Source : Eastern Economist dated 26th July, 1968.

Note:—Figures in brackets are percentages to total.

TABLE—XXVIII
Development Expenditure of States—1968-69

(Rs. crores)

State	Education	Medical & Public Health	Agriculture, Veterinary & Co-operation	Irrigation	Civil Works	Total (including others)
Andhra Pradesh	34.09 (31.2)	17.06 (15.6)	12.12 (11.1)	8.5 ^F (8.1)	9.82 (9.0)	109.00 (100.0)
Assam	17.49 (33.2)	6.66 (12.7)	7.79 (14.8)	1.6 (3.0)	12.28 (23.3)	52.62 (100.0)
Bihar	24.35 (29.4)	14.07 (17.1)	18.22 (22.1)	1.09 (1.3)	3.93 (4.8)	82.35 (100.0)
Bombay	87.02 (36.8)	40.61 (17.2)	29.55 (12.5)	20.57 (8.7)	19.83 (8.4)	236.16 (100.0)
Kerala	44.44 (50.9)	14.14 (16.2)	8.11 (9.3)	2.68 (3.1)	6.53 (7.5)	87.29 (100.0)
Madhya Pradesh	44.14 (42.5)	16.40 (15.8)	12.25 (11.8)	2.06 (2.0)	12.38 (11.9)	103.96 (100.0)
Madras	56.28 (41.1)	18.25 (19.3)	20.90 (15.3)	7.39 (5.4)	10.61 (7.8)	136.87 (100.0)
Mysore	36.08 (37.1)	12.28 (12.6)	13.36 (13.7)	11.03 (11.3)	13.49 (13.8)	97.38 (100.0)
Orissa	17.62 (26.4)	8.54 (12.8)	9.82 (14.8)	4.69 (7.2)	6.88 (10.3)	66.65 (100.0)
Punjab & Haryana	36.58 (38.1)	12.31 (12.8)	14.28 (14.9)	7.30 (7.6)	8.86 (9.2)	96.10 (100.0)
Rajasthan	29.19 (37.4)	15.46 (19.8)	8.40 (10.7)	4.48 (5.7)	10.39 (13.3)	78.06 (100.0)
Uttar Pradesh	58.44 (35.6)	23.88 (14.5)	20.13 (12.2)	8.24 (5.0)	16.65 (9.2)	164.37 (100.0)
West Bengal	43.83 (36.6)	21.40 (17.9)	19.11 (16.0)	3.78 (3.2)	7.81 (6.5)	119.69 (100.0)

Source : Eastern Economist dated 26th July, 1968.

TABLE—XXIX

Non-Development Expenditure of States—(1951-52)

(Rs. crores)

State	Direct Demands	Debt Services	Civil administration	Famine	Miscellaneous	Total (including others)
Andhra Pradesh	3.71 (19.7)	0.82 (4.4)	10.48 (55.6)	0.12 (0.6)	3.39 (18.0)	18.85 (100.0)
Assam	0.97 (18.4)	0.09 (1.7)	2.28 (43.3)	0.05 (0.9)	1.46 (27.7)	5.27 (100.0)
Bihar	1.76 (11.6)	-0.09 (-0.6)	8.63 (56.7)	2.08 (13.7)	2.64 (17.3)	15.21 (100.0)
Bombay	6.87 (17.7)	2.30 (5.9)	20.45 (52.6)	0.85 (2.2)	8.05 (20.7)	38.89 (100.0)
Kerala	1.74 (18.6)	0.80 (10.1)	3.15 (34.2)	0.02 (Neg.)	1.83 (20.1)	9.22 (100.0)
Madhya Pradesh	2.61 (22.2)	0.28 (2.4)	6.28 (59.4)	0.07 (0.6)	2.60 (22.1)	11.74 (100.0)
Madras	3.04 (21.6)	-0.44 (-3.1)	9.22 (65.4)	0.07 (0.5)	1.73 (12.3)	14.09 (100.0)
Mysore	2.76 (18.0)	2.01 (13.1)	6.98 (45.5)	0.15 (1.0)	2.79 (18.2)	15.34 (100.0)
Orissa	0.83 (17.3)	0.34 (7.0)	3.02 (62.9)	..	0.55 (11.4)	4.80 (100.0)
Punjab & Haryana	1.95 (15.7)	0.81 (6.5)	6.52 (52.6)	0.01 (0.1)	3.05 (24.6)	12.39 (100.0)
Rajasthan	3.02 (21.7)	0.20 (2.1)	4.68 (49.9)	0.20 (2.1)	1.78 (19.0)	9.37 (100.0)
Uttar Pradesh	5.47 (18.6)	1.43 (4.9)	14.74 (50.2)	0.12 (0.4)	5.29 (18.0)	29.37 (100.0)
West Bengal	1.89 (9.1)	0.18 (0.9)	10.22 (49.4)	0.27 (1.3)	4.53 (21.9)	20.68 (100.0)

Source : Eastern Economist dated 26th July 1968.

Note:—Figures in brackets are percentages to total.

TABLE—XXX
Non-Development Expenditure of States—1968-69

(Rs. crores)

State	Direct Demands	Debt. Services	Civil administration	Famine	Miscellaneous	Total (including others)
Andhra Pradesh	4.47 (5.0)	31.33 (34.8)	27.91 (31.0)	2.25 (2.5)	18.35 (20.4)	90.01 (100.0)
Assam	2.57 (7.3)	12.65 (36.1)	13.52 (38.5)	1.41 (4.0)	3.53 (10.1)	35.08 (100.0)
Bihar	6.59 (9.6)	34.00 (49.8)	20.90 (30.6)	0.77 (1.1)	4.03 (5.9)	68.30 (100.0)
Bombay	36.88 (16.2)	75.97 (33.3)	64.44 (28.3)	5.15 (2.3)	34.15 (15.0)	227.60 (100.0)
Kerala	4.53 (8.2)	16.09 (29.2)	27.39 (49.9)	0.17 (0.3)	1.90 (3.5)	54.94 (100.0)
Madhya Pradesh	6.44 (9.3)	29.21 (42.2)	22.02 (31.8)	0.45 (0.6)	4.42 (6.4)	69.24 (100.0)
Madras	4.53 (4.8)	33.36 (35.3)	36.83 (38.9)	2.23 (2.4)	11.47 (12.1)	94.52 (100.0)
Mysore	4.97 (7.4)	33.86 (50.8)	16.34 (24.5)	0.50 (0.8)	6.37 (9.6)	66.60 (100.0)
Orissa	4.93 (10.3)	25.22 (52.4)	11.36 (23.6)	1.39 (2.8)	3.54 (7.4)	48.15 (100.0)
Punjab & Haryana	4.03 (5.7)	33.72 (48.1)	19.13 (27.3)	1.03 (1.5)	8.06 (11.5)	70.07 (100.0)
Rajasthan	5.46 (8.8)	33.81 (54.5)	15.92 (25.6)	1.00 (1.6)	2.40 (3.8)	62.10 (100.0)
Uttar Pradesh	16.92 (12.0)	63.33 (45.1)	44.87 (31.9)	1.02 (0.7)	7.17 (5.1)	140.57 (100.0)
West Bengal	8.44 (9.2)	30.39 (33.1)	31.67 (34.5)	3.75 (4.1)	12.35 (13.5)	91.76 (100.0)

Source : Eastern Economist dated 26th July, 1968.

Note:—Figures in brackets are percentages to total.

TABLE—XXXI

Indebtedness—Debt position of the Kerala State showing separately the total Outstanding Debt to (i) Public (ii) The Central Government and (iii) Any Other Institution on 1st April, 1952, 1st April, 1957, 1st April, 1961 and on the 1st April of each of the years 1966, 1967 and 1968 and the Interest yielding Assets held against such Debt

(The position of liabilities and assets under some important heads)

(1)	(2)	(3)	Outstanding as on		(6)	(7)
			1st April 1952	1st April 1957			1st April 1961	1st April 1966
					(Rs. lakhs)	
					(Rs. lakhs)	
A. INDEBTEDNESS :	(Travancore-Cochin)					
1. Loans from the Public	550	1268	2274	3441	3868	4215
2. Loans from the Centre	240	2289	5328	15521	17521	19336
3. Loans from Reserve Bank of India	..	..	58	115	109	119
4. Loans from Life Insurance Corporation	..	..	178	304	363	416
5. Loans from the National Cooperatiye Development Corporation	..	..	8	83	100	93
6. Floating Debt*	..	Neg.	229	930	..	..
7. Unfunded debt	707	854	841	1175	1366	1636
8. Any other loans	..	..	8	8	4	5
B. CASH BALANCES & HOLDINGS OF SECURITIES :						
1. Cash balance	312	102	(—)78	1011	(—)69	36
2. Securities held in cash balance investment Account (see details at foot)	811	893	599	567	1584	1302
3. Securities held in Sinking Fund Investment Account	194	82	44	36	67	95
4. Securities held on account of other Reserve Funds	1	1	..	..	..	..
C. LOANS AND ADVANCES BY THE STATE :						
1. To local bodies	126	122	178	216	202	203
2. To Agriculturists for various purposes	2	36	89	250	280	291
3. To Kerala State Electricity Board	..	..	1035	8067	9277	10511
4. To Kerala State Road Transport Corporation	..	..	..	..	504	548
5. To others	178	318	653	1421	1730	2171

**HOLDINGS OF STOCKS OF ESSENTIAL COMMODITIES
ON GOVERNMENT ACCOUNT****

	279	..	31	..	..	..
<i>Note :— (i) A Loans from the Public:—The figures given from 31-3-1957 onwards include the net liability passed on from Madras as per the States Reorganisation Act, as shown below.</i>						
Public Loans raised by T-C. Government and Kerala Government	550	683	1764	3111	3538	4036
<i>Add :—Share of Public Loans transferred from Madras Government</i>	..	+ 651	+ 565	+ 351	+ 351	+ 200
<i>Deduct :—Share of Public Loans transferred to Madras Government</i>	..	(—)66	(—)55	(—)21	(—)21	(—)21
	550	1268	2274	3441	3868	4215

Note :— (ii) Details under B2—Cash Balance

Investment Account

1. Gilt edged securities	578	806	552	492	504	502
2. Fixed Deposits in Banks	101	65	25	..	..	..
3. Debentures and Bonds of Banks and other Concerns	127	19	19	72	72	72
4. Treasury Bills	..	..	..	..	1005	725
5. Deposits with State Bank of India	2	..	..	..	..	..
6. Bullion	3	3	3	3	3	3
	811	893	599	567	1584	1302

Note :— (iii) Under B4, investments in the Treasury Savings Bank are not included as the balances stand merged in the general cash balance.

(iv) Under C3, the figure as on 1-4-1966, is inclusive of the Capital Outlay on Power incurred by Government prior to the formation of the Electricity Board which is treated as loan from the State Government.

(v) Under C4, the figures as on 1-4-1967 represents the Capital Outlay on Road and Water Transport schemes incurred by the Government prior to the formation of the State Road Transport Corporation, which is treated as a loan from the State Government.

* This includes outstanding ways and means advances from R. B. I. and cash credit advances from the S. B. I.

** Value of the stock and not the quantity is indicated.

Source :—“Material on Subsidiary Points”—presented to the Fifth Finance Commission by Government of Kerala page 135

TABLE—XXXII

Central Assistance and Central Investment during the three Plan Periods—All States

(Rs. crores)

State	*First Plan		Second Plan		Third Plan	
	Central Assistance	Central Investment	Central Assistance	Central Investment	Central Assistance	Central Investment
Andhra Pradesh	61	8.29	96	1.70	220	46.99
Assam	22	..	31	..	100	27.50
Bihar	55	8.15	84	24.90	216	192.59
Gujarat	32	..	50	..	111	41.75
Jammu & Kashmir	10	..	20	..	61	..
Kerala	24	1.02	38	0.90	122	23.20
Madhya Pradesh	61	..	96	236.90	220	230.11
Madras	42	5.84	95	3.39	187	73.48
Maharashtra	48	2.08	74	1.91	165	44.20
Mysore	47	7.12	67	5.24	157	17.67
Orissa	77	6.54	66	226.00	137	117.08
Punjab	141	..	88	23.69	134	6.09
Rajasthan	60	..	59	0.30	161	13.89
Uttar Pradesh	87	..	121	..	356	71.44
West Bengal	113	5.84	73	179.32	155	141.55
Total	880	44.88	1058	704.15	2502	1107.54

* Central investment as indicated here is confined to the industrial projects and programmes.

Source :— Economic and Political Weekly dated October 5, 1968.

TABLE—XXXIII

Power—Installed Capacity—All States
(At the end of the period)

State	(In 000 kW)	
	1951	1966-67
Andhra Pradesh	59	427
Assam	3	161
Bihar	47	147
Gujarat	142	676
Jammu & Kashmir	6	36
Kerala	33	365
Madhya Pradesh	39	377
Madras	155	1381
Maharashtra	339	1455
Mysore	115	461
Orissa	5	318
Punjab & Haryana	71	919
Rajasthan	31	307
Uttar Pradesh	200	925
West Bengal	546	1207
DVC	..	944
Union Territories Delhi	43	127
Other Union Territories	8	13
Total	1835	10,246

*Source : Eastern Economist dated 26th July, 1968

TABLE—XXXIV

Per capita Consumption of Electricity—All States

State	(KWH)	
	1957-68	1966-67*
Andhra Pradesh	8.1	21.0
Assam	1.6	5.8
Bihar	10.8	40.9
Bombay	55.6	93.8
Jammu & Kashmir	8.2	25.1
Kerala	23.2	46.2
Madhya Pradesh	6.1	21.6
Madras	31.4	92.1
Mysore	23.4	74.4
Orissa	4.0	26.9
Punjab & Haryana	20.1	101.6
Rajasthan	4.0	11.9
Uttar Pradesh	11.0	24.6
West Bengal	65.7	107.5
All India (including others)	24.0	54.1

* Provisional

Source : Eastern Economist dated 26th July, 1968.

TABLE—XXXV

Financial Returns of State Electricity Boards—1962-63

(Rs. Crores)

State	Capital Assets	Loans from Govt.	Loans from public	Internal resources	Percentage of Returns on Loan* on Capital	Percentage of Returns on Government Loans**
Andhra Pradesh	83	68	8	2	1.10	0.49
Assam	17	16	1	..	-0.98	-1.28
Bihar	52	46	..	6	1.50	1.50
Gujarat	58	47	8	3	1.69	1.50
Kerala	59	44	4	11	2.84	2.71
Madras	170	129	11	30	5.67	5.82
Madhya Pradesh	55	53	..	..	4.90	4.90
Maharashtra	54	39	6	9	1.05	0.74
Orissa	20	18	2	..	0.46	0.28
Punjab	116	105	..	11	4.70	4.70
Rajasthan	32	32	..	..	0.60	0.60
Uttar Pradesh	96	96	..	..	4.20	4.02
West Bengal	23	21	4	1	-0.78	-1.27

* Before payment of interest and excluding government subsidies

** After payment of interest on the public loan and including government subsidies

Note:— In some cases total of resources does not tally with capital assets.

Source:—Economic and Political Weekly dated July 20, 1968.

TABLE—XXXVI

Outlays on Rural Electrification—All States

(Rs. Crores)

State	Estimated outlay 1966-67	Tentative ly agreed Estimates for 1966-67
Andhra Pradesh	4.50	3.00
Assam	0.90	0.60
Bihar	8.75	6.50
Gujarat	4.20	3.50
Jammu & Kashmir	0.59	0.45
Kerala	0.60	0.40
Madhya Pradesh	1.75	2.17
Madras	7.50	6.00
Maharashtra	2.47	7.20
Mysore	4.50	6.00
Orissa	1.10	0.88
Punjab	3.97	3.50
Haryana	1.00	1.50
Rajasthan	3.00	1.75
Uttar Pradesh	15.00	7.50
West Bengal	2.50	2.00
Nagaland	..	0.06
Total (States)	62.33	53.01
Union Territories	1.00	1.60
Total	63.33	54.61

Source : Economic and Political Weekly dated July 20, 1968.

TABLE—XXXVII

Kerala—Financial Results of Irrigation Works

(Rs. in lakhs)

Year	Capital Outlay (Progressive)	Total Revenue Receipts	Working expenses	Net revenue (Col. 3— Col. 4)	Rate of return on capital outlay (percent)	Interest on capital	Net profit/ loss	Rate of net profit on capital outlay (percent)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1957-58	832.52	2.33	4.31	(-)1.98	(-)0.24	36.34	(-)38.32	(-)4.60
1958-59	876.59	4.01	7.64	(-)3.63	(-)0.41	38.25	(-)41.88	(-)4.78
1959-60	1122.73	4.08	7.32	(-)3.24	(-)0.29	49.31	(-)52.55	(-)4.68
1960-61	1231.29	5.89	10.22	(-)4.33	(-)0.35	54.49	(-)58.82	(-)4.78
1961-62	1261.21	10.90	12.89	(-)1.99	(-)0.16	49.70	(-)51.69	(-)4.09
1962-63	1577.61	18.25	14.43	(+)3.82	(+)0.24	72.79	(-)68.97	(-)4.37
1963-64	1673.23	22.44	12.46	(+)9.98	(+)0.60	77.37	(-)67.39	(-)4.03
1964-65	1771.77	18.12	13.02	(+)5.10	(+)0.28	91.03	(-)85.93	(-)4.84
1965-66	1908.70	9.30	13.18	(-)3.88	(-)0.20	110.41	(-)114.29	(-)5.98
1966-67	1979.30	15.75	15.86	(-)0.11	(-)0.01	116.78	(-)116.89	(-)5.91

TABLE—XXXVIII
Spread of Education (State-wise)

(Enrolment in lakhs)

State/Union Territory	Class I to V			Classes VI to VIII			Classes IX to XI		
	1955-56	1960-61	1965-66*	1955-56	1960-61	1965-66*	1955-56	1960-61	1965-66*
Andhra Pradesh	23.59 (56.7)	29.76 (68.3)	37.29 (75.7)	3.09 (13.5)	4.08 (16.9)	6.53 (25.1)	1.82 (8.4)	1.96 (8.7)	2.72 (11.4)
Assam	88.15 (59.4)	11.26 (67.7)	15.09 (75.8)	1.46 (21.9)	2.20 (25.8)	3.15 (31.2)	0.68 (11.6)	1.26 (16.8)	2.02 (22.4)
Bihar	17.81 (35.7)	31.84 (50.7)	43.60 (59.8)	2.77 (10.3)	5.35 (17.1)	7.78 (20.3)	1.43 (5.9)	3.28 (12.1)	5.09 (15.1)
Gujarat	15.03 (66.5)	20.30 (72.0)	28.31 (87.5)	2.20 (18.1)	3.87 (26.3)	6.11 (35.7)	0.97 (8.6)	1.71 (13.1)	2.60 (16.5)
Jammu & Kashmir	1.26 (24.7)	2.10 (46.7)	3.43 (72.8)	0.33 (11.9)	0.59 (24.4)	0.94 (36.4)	0.15 (5.5)	0.22 (10.0)	0.28 (11.6)
Kerala	19.73 (109.1)	24.32 (110.0)	28.99 (116.8)	3.81 (36.8)	6.61 (55.4)	9.48 (70.9)	1.95 (19.5)	1.77 (16.3)	3.70 (45.5)
Madhya Pradesh	14.00 (40.9)	19.96 (48.8)	27.30 (63.6)	1.70 (9.3)	3.17 (15.5)	5.84 (23.3)	0.50 (3.0)	1.24 (6.8)	2.2 (10.5)
Madras	25.74 (66.4)	33.33 (85.4)	58.34 (132.4)	4.66 (21.3)	6.91 (31.6)	143.1 (31.6)	1.94 (9.3)	2.68 (12.9)	4.60 (20.9)
Maharashtra	30.04 (66.5)	34.49 (77.9)	54.04 (92.2)	4.39 (18.1)	7.48 (27.8)	12.51 (40.2)	1.93 (8.6)	3.38 (14.0)	6.44 (22.1)
Mysore	15.78 (57.8)	21.68 (73.8)	32.89 (93.9)	2.47 (16.5)	3.63 (22.4)	4.95 (28.1)	1.29 (9.2)	1.69 (11.2)	3.77 (23.2)
Orissa	6.51 (34.9)	14.11 (63.7)	19.07 (76.8)	0.72 (7.2)	1.06 (9.5)	3.12 (23.4)	0.31 (2.9)	0.45 (4.2)	1.31 (10.8)
Punjab	12.25 (56.6)	14.57 (51.4)	27.54 (85.2)	3.07 (25.8)	4.38 (29.3)	6.18 (35.5)	1.25 (11.3)	1.69 (12.2)	2.60 (16.8)
Rajasthan	5.36 (24.2)	11.15 (40.9)	18.65 (58.0)	1.07 (9.0)	2.07 (14.5)	4.00 (24.1)	0.45 (4.1)	0.85 (6.7)	1.62 (10.9)

Uttar Pradesh	28.05 (33.5)	40.93 (44.7)	68.00 (63.5)	6.36 (14.0)	8.68 (16.9)	13.80 (25.0)	2.17 (7.6)	4.53 (11.3)	7.80 (15.5)
West Bengal	24.68 (73.6)	29.27 (64.9)	41.88 (78.0)	3.78 (19.4)	4.58 (21.7)	8.10 (29.9)	1.72 (9.1)	2.18 (10.1)	4.18 (17.1)
Delhi	1.86 (78.4)	2.72 (79.1)	4.11 (95.8)	0.68 (48.5)	1.07 (58.5)	1.83 (78.2)	0.25 (18.6)	0.53 (31.4)	1.07 (48.4)
Total (including others)	251.78 (52.9)	349.90 (62.2)	515.00 (78.5)	42.89 (16.5)	67.00 (22.5)	110.00 (32.2)	18.80 (7.8)	29.60 (11.7)	52.40 (17.8)

Source : Eastern Economist dated 26th July, 1968.

* Provisional.

Note:—Figures within brackets indicate percentage of children enrolled to population in the relevant age-group.

TABLE—XXXIX
Consumption of Fertilisers—All States
(Per acre of agricultural land)

(In pounds)

States	1959				1966-67			
	N	P205	K20	Total	N	P205	K20	Total
Andhra Pradesh	2.00	0.63	0.005	2.635	11.05	2.25	0.66	13.96
Assam	0.56	0.06	..	0.62	0.45	0.69	0.28	1.42
Bihar	1.16	0.19	..	1.35	4.61	1.63	0.24	6.48
Maharashtra					3.78	1.37	0.89	6.04
Gujarat	1.08	0.21	0.07	1.36	3.02	2.17	0.25	5.44
Jammu & Kashmir	1.00	..	..	1.00	7.69	3.10	1.24	12.03
Kerala	1.82	0.32	2.51	4.65	9.66	2.52	6.41	18.59
Madhya Pradesh	0.46	0.05	..	0.51	0.16	0.35	0.04	0.55
Madras	3.90	0.72	0.76	5.38	10.90	4.11	3.34	18.35
Mysore	0.78	0.18	0.07	1.03	3.47	1.33	0.91	5.71
Orissa	0.75	0.02	..	0.77	1.63	1.01	0.18	2.82
Punjab and Haryana	0.65	0.02	..	0.67	7.41	1.02	0.54	8.96
Rajasthan	0.17	0.04	..	0.21	0.74	0.28	0.04	1.06
Uttar Pradesh	1.69	0.18	..	1.87	3.81	1.29	0.41	5.51
West Bengal	1.18	0.41	0.24	1.83	3.39	1.17	1.48	6.04
Delhi	2.10	0.14	..	2.24	6.66	1.76	0.02	8.44
Himachal Pradesh	0.30	0.24	..	0.54	0.69	0.24	..	0.93
Total (including others)	1.34	0.24	0.13	1.71	4.20	1.26	0.68	6.14

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Source : Eastern Economist dated 26th July, 1968.

TABLE—XL

Companies at Work—All States

<i>State</i>	1956-57	1966-67
Andhra Pradesh	568	561
Assam	369	402
Bihar	491	360
Bombay	5,597	5,558
Kerala	1,236	988
Madhya Pradesh	470	354
Madras	2,395	2,919
Mysore	795	716
Orissa	186	199
Punjab & Haryana	1,027	824
Rajasthan	520	871
Uttar Pradesh	1,524	1,093
West Bengal	12,661	9,134
Delhi	1,546	2,582
All India (including others)	29,357	27,247

Source : Eastern Economist dated 26th July, 1968.

TABLE—XLI

New Registrations—All States

(Rs. Crores)

<i>State</i>	<i>No. of companies</i>		<i>Authorised Capital</i>	
	1956-57	1966-67	1956-57	1966-67
Andhra Pradesh	9	39	0.20	7.86
Assam	10	6	0.41	2.57
Bihar	17	19	50.40	3.34
Bombay	170	288	55.87	36.75
Kerala	39	20	3.62	6.30
Madhya Pradesh	5	10	30.15	2.33
Madras	93	91	32.63	21.99
Mysore	5	47	0.13	6.21
Orissa	6	6	0.61	0.21
Punjab and Hariyana	29	56	1.14	8.42
Rajasthan	15	5	1.83	0.10
Uttar Pradesh	38	45	6.64	7.51
West Bengal	301	246	16.69	29.91
Total (including others)	848	1039	207.09	161.22

Source : Eastern Economist dated 26th July, 1968.

TABLE XLII

Capital, Output and Value added by manufacture*—(All States)

(Rs. Crores)

State	Productive Capital		Output (ex-factory value)		Value added by manufacture	
	1959	1965	1959	1965	1959	1965
Andhra Pradesh	57.8	239.1	94.7	252.8	19.8	52.7
Assam	67.5	141.7	88.6	114.3	32.4	22.0
Bihar	246.2	504.6	230.2	439.1	74.9	120.1
Gujarat	127.2	394.8	237.3	518.0	77.8	142.0
Jammu & Kashmir	1.8	3.6	2.1	4.9	0.7	2.6
Kerala	37.0	89.1	70.2	129.9	21.7	33.1
Madhya Pradesh	31.7	524.2	55.5	228.0	13.2	48.9
Madras	83.9	511.5	167.9	545.3	51.0	149.8
Maharashtra	411.1	1047.6	668.6	1515.7	214.6	417.0
Mysore	59.5	240.2	80.0	228.9	25.8	75.4
Orissa	37.9	347.1	25.7	141.2	8.7	38.7
Punjab	41.2	348.1	82.0	248.7	16.8	60.0
Rajasthan	20.6	111.1	24.8	79.6	6.6	20.5
Uttar Pradesh	116.0	492.5	208.9	463.0	47.3	106.8
West Bengal	377.1	1218.7	598.0	1375.5	187.6	364.9
Delhi	19.2	78.0	54.2	118.5	13.7	27.9
All India (Including others)	1737.4	6300.4	2691.4	6419.6	813.4	1686.5

*Relates to factories employing 50 or more workers with the aid of power or 100 or more workers without the aid of power.

Source : Eastern Economist dated 26th July, 1968.

TABLE—XLIII
Motor Vehicles in use—All States

<i>State</i>		<i>Motor Cycles</i>	<i>Auto Rickshaws</i>	<i>Jeeps</i>	<i>Private Motor Cars</i>	<i>Motor Cabs</i>	<i>Other Public Service Vehicles</i>	<i>Goods Vehicles</i>	<i>Miscella- neous Vehicles</i>	<i>Total</i>
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	1956-57	1,210	..	5,176	..	272	3,019	4,588	1,418	15,683
	1966-67	23,060	490	4,418	26,649	1,129	4,630	16,891	5,835	84,102
Assam	1956-57*	*586	..	..	5,648	248	1,056	5,493	3,407	16,438
	1966-67(E)	1,480	60	2,560	8,340	380	2,000	9,900	5,820	30,540
Bihar	1956-57	2,080	..	..	8,160	519	1,685	5,549	48	18,041
	1966-67	12,377	32	5,614	14,036	1,336	3,071	11,532	2,037	50,035
Bombay	1956-57	11,749	919	2,324	54,298	5,349	2,799	27,411	4,911	1,09,760
	1966-67	56,530	4,764	12,517	89,935	11,542	12,122	61,491	21,829	2,70,721
Jammu & Kashmir	1956-57	126	..	198	896	109	640	1,974	15	3,758
	1966-67(E)	1,500	30	440	1,600	210	900	3,800	150	8,630
Kerala	1956-57	351	7	91	3,925	65	452	2,714	1,790	9,395
	1966-67	6,611	450	1,616	21,067	5,176	4,273	9,184	1,129	49,506
Madhya Pradesh	1956-57	1,492	61	1,465	7,032	169	2,419	7,534	1,886	22,058
	1966-67(E)	11,800	400	4,800	12,200	590	4,600	15,900	5,000	55,290
Madras	1956-57	4,405	464	415	21,747	950	4,353	8,158	554	41,046
	1966-67	15,384	832	3,000	31,304	4,200	6,410	14,568	2,063	77,761
Mysore	1956-57	2,072	218	492	6,889	449	1,140	7,203	997	19,460
	1966-67	18,945	2,132	3,483	21,804	1,181	6,810	16,443	4,984	75,782
Orissa	1956-57	765	10	692	2,735	7	763	3,462	182	8,616
	1966-67(E)	3,600	..	3,500	4,000	90	1,250	8,800	1,450	22,690
Punjab	1956-57	2,062	27	566	3,337	271	2,323	4,317	1,289	14,192
	1966-67(E)	11,800	900	1,420	7,200	750	2,800	9,800	2,400	37,070

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Rajasthan	1956-57	1,110	..	379	7,754	146	2,705	4,429	1,826	18,349
	1966-67(E)	7,600	250	1,250	13,850	290	6,100	12,900	6,700	48,940
Uttar Pradesh	1956-57	4,371	2	2,174	12,579	539	5,446	10,649	1,439	37,199
	1966-67(E)	7,400	20	5,400	16,500	460	7,300	20,000	3,000	70,080
West Bengal	1956-57	5,500	..	44,000	5,387	8,425	25,918	74	89,304	
	1966-67(E)	19,600	300	9,600	77,200	6,320	7,800	40,900	7,400	1,69,120
Delhi	1956-57	5,058	1,116	224	9,737	1,474	874	2,725	15	21,223
	1966-67	35,094	6,085	1,745	27,294	2,751	1,683	5,543	1,793	81,988
All India	1956-57	43,044	2,824	14,622	1,88,890	16,027	38,415	1,23,386	20,091	4,47,229
(including others)	1966-67	2,45,926	17,455	62,421	3,77,671	37,158	74,318	2,64,806	72,431	11,52,186

Source : Eastern Economist dated 26th July, 1968.

(E) Estimated. (*) Taxed only.

TABLE—XLIV

Mileage of surfaced roads—All States

(In Kilometres)

State	March 1956	March 1966
Andhra Pradesh	23,271	27,892
Assam	2,317	5,135
Bihar	8,629	13,237
Bombay	29,633	42,326
Jammu & Kashmir	1,406	2,663
Kerala	4,833	10,357
Madhya Pradesh	18,495	25,396
Madras	24,322	38,807
Mysore	18,492	32,986
Orissa	6,109	8,998
Punjab	6,978	11,776
Rajasthan	8,919	17,292
Uttar Pradesh	17,960	23,462
West Bengal	9,483	15,306

Source : Eastern Economist dated 26th July, 1968.

TABLE—XLV

Nationalised Passenger Buses in States

States	March 31, 1961			March 31, 1967		
	Buses			Buses		
	Nationalised (1)	Total (2)	Percentage of (1) to (2)	Nationalised (4)	Total (5)	Percentage of (4) to (5)
Andhra Pradesh	1,302	4,453	29.2	2,026	5,630	36.0
Assam	444	1,180	37.6	459	2,348	19.6
Bihar	613	1,982	30.9	1,221	3,895	31.4
Gujarat	2,228	10,237	57.0	3,516	4,100	85.8
Maharashtra	3,608			5,774	8,227	70.2
Jammu & Kashmir	143	640	22.3	271	980	27.7
Kerala	559	3,199	17.5	1,006	4,273	23.5
Madhya Pradesh	673	3,088	21.8	1,277	4,770	26.8
Madras	692	5,179	13.4	1,374	6,870	20.0
Mysore	1,657	4,015	41.3	2,264	7,100	31.9
Orissa	386	789	48.9	862	1,400	61.6
Punjab	722	2,930	24.6	1,463	3,000	48.8
Rajasthan	177	3,491	5.1	483	6,400	7.6
Uttar Pradesh	2,984	7,512	39.7	3,664	7,500	48.9
West Bengal	730	4,000	18.3	1,267	8,150	15.6
Delhi	668	742	90.0	1,024	1,950	52.5
All India (including others)	17,701	53,555	33.1	28,500	78,245	36.4

Source : Eastern Economist dated 26th July, 1968.

TABLE—XLVI
Population Trends—All States

	(In millions)								
<i>State</i>	1951	1961	1965	1966	1967	1968	1969	1970	1971
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	31.12	36.12	39.10	39.88	40.71	41.56	42.43	43.32	44.22
Assam	8.83	11.99	13.45	13.85	14.29	14.73	15.19	15.67	16.16
Bihar	38.78	46.81	51.28	52.48	53.77	55.09	56.44	57.82	59.24
Gujarat	16.26	20.82	23.20	23.84	24.50	25.18	25.88	26.60	27.39
Haryana	N.A.	7.67	8.66	8.93	9.21	9.49	9.79	10.09	10.40
Jammu & Kashmir	3.25	3.58	3.78	3.83	3.89	3.94	4.00	4.05	4.11
Kerala	13.55	17.04	18.82	19.30	19.79	20.29	20.81	21.34	21.87
Madhya Pradesh	26.07	32.64	36.03	36.94	37.86	38.82	39.80	40.81	41.83
Madras	30.12	33.88	36.23	36.86	37.52	38.19	38.87	39.57	40.26
Maharashtra	32.00	39.89	44.18	45.31	46.48	47.67	48.89	50.15	51.41
Mysore	19.40	23.77	26.06	26.68	27.32	27.99	28.66	29.36	30.06
Nagaland	0.21	0.37	0.40	0.40	0.41	0.42	0.43	0.43	0.44
Orissa	14.65	17.68	19.30	19.74	20.20	20.68	21.16	21.66	22.16
Punjab	16.14*	11.25	12.71	13.10	13.51	13.93	14.36	14.81	15.26
Rajasthan	15.97	20.35	22.82	23.48	24.16	24.86	25.58	26.32	27.06
Uttar Pradesh	63.22	74.29	81.16	83.00	84.93	86.90	88.92	90.98	93.06
West Bengal	26.30	35.24	39.24	40.31	41.43	42.58	43.76	44.97	46.21
All India (including others)	361.13	442.74	486.99	498.86	511.30	524.05	537.12	550.51	564.07

Source : Eastern Economist dated 26th July, 1968.

* Including Haryana.