In a system of Government where the Centre and the States have been given separate responsibilities and functions, there is the basic difficulty in allocating taxing powers commensurate with those responsibilities and functions. Any imbalance in this matter is bound to create Centre-State tensions. In assigning taxing powers to the Centre and the States a number of factors are relevant and have to be balanced. Firstly, taxes with local base have to be given to the States, but because of economical disparities amongst the States and exceptions may have to be made even in this regard. Secondly, where the basis of tax and its impact is nation-wide, it will not be advisable to empower the regional units to levy the tax. Thirdly, where there are possibilities of multiple burdens, it will be a strong factor in favour of centralisation of the tax. The dangers of multiple burdens are real in a federation where the Centre and the regional units operate on the same people, commodities and transactions. Apart from multiple burdens being imposed by the different units it creates the difficult problem of administrative compliance by the individual. Fourthly, diversity in the State laws imposing same kind of tax within their local limits, e.g., sales tax, may create its own economic problem.

Fifthly, as R.J. Chelliah, Director, National Institute of Public Finance and Policy and Member, Planning Commission, has rightly emphasised, "in a country with great regional disparities, the Centre must have a substantial surplus of revenue over its own "needs". Sixthly, in spite of the presence of different factors warranting non-assignment of certain taxing powers to the States, still some concessions may have to be made in favour of the States on account of their needs. The Constitution-makers being conscious of these problems provided for an elaborate scheme of centralisation of certain taxes and then assignment of the proceeds thereof through tax sharing and other means.

The Constitution makes an elaborate scheme of devolution to the States of the proceeds of taxes assigned to the Centre. The idea is to avoid overlapping and multiple burdens, to achieve uniformity, and to ensure efficient working of the economic system on the one hand, and to meet the financial needs of the States. There are three methods adopted by the Constitution whereby the Central tax proceeds go to the States. Firstly, under Article 270, income-tax is to be compulsorily shared between the Centre and the States, except the surcharge on income tax which the Centre may levy. Secondly, under Article 272 Excise duties (other than duties of excise on medicinal and toilet preparation) may be shared between the Centre and the States. Thirdly, under Articles 268 and 269, a number of taxes are levied by the Centre and collected and retained by the States. In this category falls the Central Sales tax whose
primary aim had been economic regulation rather than tax collection.

This is an ideal scheme from the points of view of the economic system, individual and administrative compliances—the difficulties faced by other federations which our Constitution-makers so sagaciously avoided. Without such a scheme our economic difficulties would have been enormous as is shown by the two taxes which have been assigned to the States, namely, sales tax and taxes on motor vehicles. For instance to tackle the economic problems arising out of State Sales tax several things had to be done: enactment of Article 286 which had to be amended in 1956, enactment of the Central Sales Tax Act, 1956, levying additional excise duties in lieu of Sales tax on a few commodities; and creation of the four Sales Tax Zonal Councils in 1968. In spite of all these efforts, the situation is not entirely satisfactory from the economic point of view. Similarly, a tax on motor vehicles imposed by the States within their local limits gives rise to the problem of multiple burdens on a vehicle passing from one State to another.

DEMAND FOR SHIFTING OF CENTRAL TAXES TO THE STATES:

The problems of ensuring fair shares of the country's total revenue resources between the centre and the states continue to remain a source of conflicting views in spite of a fairly clear-cut demarcation of taxing and spending powers in the constitution, quinquennial reviews by statutory Finance Commissions supplemented by Plan grants, and the Centre's discretionary allocations. Those with a bias towards the Centre tend to consider, as Dr. Raja J. Chelliah does in his recent
study, that excessive devolution to the States over the years has weakened the Centre's fiscal position and has not facilitated efficient and economic use of the money. The assumption behind this thesis will not be shared by political exponents of our federal polity who point out that the trend towards excessive centralisation in a modern state has not been conducive to promoting initiative at the grassroots.

In this country we have witnessed the spectacle of excessive central authority in the fiscal sphere being utilized for reckless deficit financing (a power that States lack), generating inflation in the economy which affects all other sections of society. Many fiscal experts may feel that a rewriting of the constitutional demarcation of powers may be desirable to accord with their own theories of what ought to be the right methods of ordering the system. Can macroeconomic policies work with a reasonable degree of equity in the development problems of a people at different levels of poverty and affluence, in widely varying demographic conditions and different social systems? However, it is good that such different points of view are raised and debated in a democratic system of government even though the experts' views on what ought to be a fully rational system may not gain acceptance except in principle in a popular approach to current issues of policy.

The states, as we know, have been pressing for more taxing powers and a greater share in the Central tax proceeds,
as they feel that they have been given comparatively inelastic taxing powers and the financial powers given to them are not commensurate with their responsibilities. This demand has acquired intensity in recent years. Almost all the States represented for more financial powers before the Sarkaria Commission for Centre-State Relations. However, the Rajamannar Committee appointed by the Tamil Nadu Government, did not recommend the shifting of any Central tax to the States. The A.R.C. Study team on Centre-State Relationships was also against any such transfer. It stated: "The first thing to consider in this connection is whether some of the sources or revenue at present allotted to the Centre could be transferred to the States. This, in fact, would be the only method of reducing dependence as such. But the country being a single economic unit, any transference of sources that occurs is for reasons of administrative convenience, more likely to take place in the opposite directions, sales tax affords a good illustration, for here is a State tax which for reasons of economy and efficiency of effort, should perhaps give way to Central Excise duties. Another method of assisting the State could be exploitation of the taxes mentioned in Article 267, which are leviable only by and at discretion of the Centre with the proceeds going to the States. But this would have only a limited impact and may not provide a solution to the problem of dependance on the Centre. With these two possibilities rules out, it would appear that the phenomenon of financial dependence of the States is, in a sense, unavoidable". On the problem of shifting the taxing powers, the analysis was made by Dr. R.J. Chelliah, Member Planning Commission. His suggestion is "partial retreat by the Union
Government from the field of excise taxes". This does not necessarily mean that Union Government should remove excises on some commodities. The retreat may take the form of reducing excise tax rates on a range of commodities which would then enable the States to impose a higher rate of sales tax. The Union could also give up taxing some commodities, say, tobacco. But this can only be thought of, the State Sales tax is transformed by each State on its residents. As of now, the sales tax falls on final goods as well as on inputs. It also falls within certain limits on the exports of one State to the other States. The tax on inputs leads to tax cascading and distortions on the allocation of resources; and the takes on inputs together with the inter-state sales tax (or C.S.T.) enable some states to pass on their taxes, to a varying extent, to the residents of the other states".

Thus, we find that any substantial change in the division of taxing powers between the Centre and the states have so far been ruled out. On the basis of examination of the constitutional scheme of distribution of resources between Union and the states and on the basis of operation of this scheme in practice, a learned author\textsuperscript{34} thinks that there are certain unmistakable trends. First, the Central revenues were expected to be surplus. The state revenues were expected to be insufficient and they are insufficient to meet the growing,

\textsuperscript{34} Prasad Centre-State Relations in India (Constitutional Provisions, Judicial Review, Recent trends).
States responsibility in the area of social service and welfare activities, secondly, the confidence reposed by constitution makers in the parliament that parliament would hold certain taxing powers in trust for the benefit of the States has not proved to be well-founded. Parliament has failed to discharge its responsibility under Article 269. Thirdly, due to insufficient devolution of revenues from Centre to the states under the various modes devised by the framers of the Constitution, the States have to depend on the discretionary grants by the Centre. Fourthly chronic dependence of the States on Central revenues has generated a sense of financial irresponsibility in the states. Fifthly the Finance Commission has failed to fulfill the role expected of the States. Sixthly the whole thing has generated discontent amongst the States.

The learned author summarises the suggestions as follows:

1) Residuary taxing power should be rested in the States instead of the Centre as is the case at present.
2) The State should be authorised to levy Stamp duties in respect of Bill of Exchange, Cheques etc. as envisaged in Article 268.
3) Divisible pool should be broad based and corporation tax. Custom and excise duties and tax on the capital value of assets should form part of the divisible pool. All excise duties and taxes, special, regulatory or otherwise, which are sharable at the option of the union, should be made compulsorily divisible between the Union and States.
(4) 75% of the total revenue raised by the Centre from all source for allocation to different states be distributed among the States on the recommendation of the Finance Commission or on the basis of the principle devised by the Finance Commission.

(5) Grants by the Centre to the States should be made only on recommendation of an independent and impartial body like the Finance Commission, or some other similar statutory body. Finance Commission should be a permanent body with its own Secretariat. The Commission should not be merely a 'non-plan gap filling body' taking consideration only revenue accounts; it should adopt the "Total Budgetary Needs" criterion in recommending the transference of resources from the Centre to the States and the recommendation of the States should be binding on Centre as well as the States.

Fortunately the Ninth Finance Commission for the first time, has proposed to take a 'holistic view' of the entire revenue expenditures of the Centre and the States without making a distinction between the plan and the non-plan sides and without interfering with the planning process. The basic objection of the normative approach, which is being adopted for the first time by the Commission, is to wipe out not only the combined revenue deficits of the Centre and the States by the end of the Eight Plan (1994-95) but also separately balance or create surpluses in their revenue budget.
The Ninth Finance Commission, unlike its predecessors, has been called upon to make its recommendation for six years instead of the usual five years. As such it will submit two reports - one for 1989-90, the last year of the current 7th plan and another one for the entire Eighth Plan period 1990-95.

In fact the Ninth Finance Commission has already recommended a higher transfer of resources to the State at Rs. 13,662.42 crore as their share of Union taxes, duties and non-plan grants for 1989-90. The commission has recommended that the States receive 85 percent of the net income tax proceeds which is likely to amount to Rs. 2990.38 crore.

It has suggested continuing with the existing arrangement of sharing 45 percent of the sharable resources from excise duty. But it has recommended that administered prices be raised through excise duties so that the state get their share. The states have been accusing the Centre of enriching itself through hikes in administered prices without bothering about the impact of States' budget.

The Commission's report was tabled in Parliament on 2.9.88 by the Union Finance Minister Mr. S.B. Chavan who said the Union Government accepts the recommendation.

However, since recent past, the states have been continuously agitating for radical changes in the matter of devolution of resources. They hopefully awaited the
recommendation of the Sarkaria Commission which was constituted to examine the Centre State relation in all sphere including financial relation. The Sarkaria Commission has since submitted its recommendation which are now under scrutiny by the different State Governments. Let us examine briefly what were the States' expectations from the Commission and how far those were accommodated in the sphere of financial relations. Most of the States pointed out before the Commission that the Constitution has assigned to them the responsibility for building up vital social and industrial infra-structure which is an essential prerequisite for rapid socio-economic development (Report: 10.3.02).

State also argue that in order to enable them to discharge their responsibilities properly, there is need for ensuring correspondence between their obligation and resources.

It has been further pointed out by some of the States that the heavy dependence of the States on Centre for financial resources has resulted in progressive erosion of the jurisdiction, authority and initiative of the States in their own constitutionally defined sphere.

However some of the States were not in favour of any substantial changes of the existing division of the areas of the taxation envisaged in the constitution on the plea that any transfer of taxation fields now with the Union to the States would make the rich states richer and the poor States poorer.
On the other hand, some State Governments are of the view that their fiscal powers should be enlarged. Some specific suggestions have been made to empower the States to levy taxes and duties including those enumerated in Article 268 and Article 269 as well as to remove some of the restrictions on States' taxation powers. It has also been suggested that States may be enabled to levy any taxes not mentioned List-I and List-II of the seventh schedule. It has been further suggested that the Union Government should voluntarily withdraw from excise duties on certain commodities and give up additional excise duties now imposed on certain commodities in Lieu of Sales Tax. (Report: 10,3,10)

The Commission observed "It has to be recognised that, given our terms of reference we have to examine basically constitutional arrangements between the Union and states and their working. In the realm of financial relation, therefore, it is not expected of us to determine to what extent the sharing of revenues should be altered and in what manner the inter state allocations among the States made.

**ADDITIONAL EXCISE DUTIES IN LIEU OF SALES TAX:**

The State Governments always made objection of Centres' imposition of additional excise duties in lieu of Sales Tax on selected commodities - mill made Textiles, sugar and tobacco. On the recommendations of the Report of the Indirect Taxation Enquiry Committee 1978 (Chairman: L.K. Jha) a proposal for extending the scheme of additional excise duties in lieu of
Sale Tax to five more commodities: (1) Vanaspati, (ii) Drugs and Medicines; (iii) Cement, (iv) Paper and Paper Boards; and (v) Petroleum Products, was made. Some of the States expressed reservation about the proposed extension of the scheme. The commission noted "The experience of the States during the past decade and more, in regard to Additional duties of Excise on mill-made textiles, sugar and tobacco has given room for genuine apprehensions. Unless those misgivings are removed by devising a suitable formulas acceptable to the States any extension of the scheme to additional commodities likely to create quite an amount of the Union-State friction". However the Commission is not in favour of withdrawal of the scheme.

However, in conformity with the growing demand for larger resources, the Commission suggested to bring corporation tax in divisible pool. Suitable adjustment in sharing income and Excise duties, levy of a tax on advertisement on media broadcasts to be distributed to the States under article 269 of the Constitution, review of royalty rates every two years as against present practice of four years, determination of the terms of reference of the Finance Commission in Consultation with the State Govt.

Lastly the commission concluded "Evolution of healthy Union-State relation in respect of all financial matters is basic to the proper functioning of a two-tier polity. We have noted that in the constitution the thorny problem of division of resources between the Union and the States and among the States has been removed from the political arena by providing for a Finance Commission. Transfer of resources for plan purposes also
to a very large extent, is based on accepted formulas and objective Criteria. However, apart from the question of devolution of resources, there is a large area having interface between the Union and the States in respect of financial and economic relations. There is imperative need for organic linkage and co-ordination between the two levels of Government in raising resources and controlling of expenditures". (Report: 10.9.46)

Commission further recommended that an expert committee named as National Economic and Development Council should be constituted under Article 263 as the apex institution for Inter-Governmental consultations on all economic and social developmental policies. Therefore any forum for discussing financial aspects should be integrated fully into this arrangement. (Report: 10.9.49)

Thus it appears that Commission did not suggest any substantial changes of the existing constitutional provisions in the sphere of financial relations between the Union and the States and obviously the States expectation of the Commission were not fulfilled.

Whatever may be the out-come, in absence of any radical change in the existing provisions of the Constitution, the States have to depend on Centre for resources and at the moment they are to hopefully await the final report of the Ninth Finance Commission.