EROSION OF RESOURCE BASE OF STATE:

Since the States' share of corporation tax was snapped by the Finance Act of 1959, they started experiencing financial stringency and their repeated demand for restoration of the tax in the divisible pool has gone unheeded by the Centre. The Finance Commissions have tried to satisfy the State by raising their share of income tax from 55 per cent in 1952 to two-third in 1961 and then to 75 per cent in 1965 and onward to 85 per cent in 1978 (under Seventh Finance Commission Award which remains unchanged for the Eighth Commission period 1984-89). This gradual rise in the percentage of States' share, however, veils a heavy erosion in tax from the divisible pool, while the sharable income tax as proportion of direct taxes of the Centre drastically declined from 98 per cent in 1955-56 to 44 per cent in 1986-87, the corresponding proportion for Corporation tax which becomes non-sharable since 1961 rose from 21.5 per cent to 53.5 per cent during the same period. In absolute terms, while the revenues from income tax increased from Rs. 1.31 crore in 1955-56 Rs. 2580 crore in 1986-87, that from Corporation tax rose by many more times from Rs. 37 crore to Rs. 3120 crore in the same period. Moreover, a distinct tendency, unfavourable to the States' share, which can be read from the trend of growth of these tax revenues is that income has increasingly become inelastic to the tax base. This is clear from the steady decline of percentage share of income tax in total tax revenue of the Central Government from 27.0% in 1955-56 to 8.4 per cent in
1985-86 as against the rise in corresponding share of Corporation tax from 7.6 per cent to 10.9 per cent during the period.

JUSTIFICATION OF STATES' SHARE IN CORPORATION TAX:

The claim of the States that Corporation tax be brought back to the perview of divisible pool is well grounded on economic justification since their contribution to development of Corporate Sector is considerable. The corporate sector use many infrastructural facilities like power, water, raw materials, lands, roads etc. which are provided by the States. They also provide considerable financial incentives for the setting up of industries. The denial of even a small fraction of the corporate profits by way of tax sharing by the States has undoubtedly been a great fiscal injustic done to them by the Centre and is bound to effect the federal financial relationship.

On the other hand, many commoditiy items which were taxed by States have gradually gone under the net of Central Excise duties. The divisible pool of excise duties has been limited to the basic duties and additional excise duties. Though the States' shares of these duties were increased from 20% during Sixth Commission upward period to 40 per cent by the Seventh Finance Commission and to 45 per cent by the Eighth Commission, the States have been arguing for its enhancement to 60 per cent in view of their growing financial stringency.

The Special and Auxiliary duties which earn a considerable
amount of revenue every year have remained outside the perview of financial devolution.

It is interesting to note that the Centre takes resort to enhancement of rates for those taxes which are not shared by the States, while it tries not to displease tax payers further by raising the rates of taxes on those items which are within the divisible pool. This has the effect of reducing the expected gains of the States on one hand and of increasing the funds of Central exchequer on the other.

Moreover, States share from income tax is also affected due to continued lowering the marginal tax rate on income with upward shift of exemption limits and admissible deductions. Thus the popularity gained from the Income Tax payers against benefits given to them have largely been at the cost of States' exchequer since this revenue is shared by them at the rate of 85% and the Centre retains only 15%.

The present state of economy of Assam may be briefly discussed.

That Assam, with its geographically isolation from the mainstream of India and acting as a gate-way for a vast tract of land that is the north eastern region, plagued with legion of special problems is widely acknowledged.

A proud possessor of beautiful natural resources, Assam is
yet to be touched by the wave of industrial growth which has swept the country as a whole. These natural resources mostly remain unharnessed due to the combination of a host of hindering factors, prominent among them, to name a few, are geographical isolation, lack of a network of transport and communication systems, a proverbial dearth of industrial infrastructural facilities, low inflow of capital, inflationary trends, flood, international borders, and above all, the mighty Brahmaputra that plays the tormentors role in State's economic activities.

Again, lack of adequate infrastructural facilities is one of the major road blocks to speedy industrialisation of Assam, blessed though she is with bountiful natural resources. Industrial sheds, industrial areas, power, approach roads etc. are grossly inadequate in the State.

The per capita saving and internal capital formation rates are low. Due to a hostile industrial climate, capital inflow into the State is also low.

The State Domestic product (SDP) measuring the economic growth, of the State registered a sharp decline to 3.6 percent in 1986-87 from 6.7 percent in the previous year, though during 1987-88, it might have registered a nominal rise. But the overall growth has been sluggish mainly due to the fact that in the absence of industrial growth, agriculture, itself afflicted with a series of maladies, remains a predominant sector in Assam's economy. In this background, the per capita income of
Assam in real terms rose from Rs. 535 in 1970-71 to Rs. 604 in 1985-86, registering an annual compound growth rate of 0.8 percent against the national per capita income of Rs. 633 and Rs. 789 respectively during the corresponding period. And this stands in sharp contrast to the 35 percent decennial growth of population against an All India growth of 22 percent.

Although there are 793 tea Gardens producing more than 50 percent of tea of the country, profits made out of the tea industry are not reinvested in the State. The tax structure on tea is also more in favour of the Central Government.

It may be recalled the Ninth Finance Commission while estimating the Assam's revenue position assumed that the State would get Rs. 144 crores by way of oil royalty. As the centre has not so far revised the rate the State is incurring a loss of Rs. 48 crores per annum. However, oil royalty from 1.4.87 was increased to 314 PMT. Now it is 'due from 1.4.90 and State's demand is 500 PMT. as the royalty based on 20 point of the international price of crude at which the Govt. of India imports. Assam's annual crude production is about 5.2 million tons. While the Central Government is delaying the revision of royalty rates, the oil development cess which goes to the centre was trevled to Rs. 900 PMT from Rs. 300 thus fattening the Central exchequer. It is this context the State Government contemplating the move to impose more stringent conditions for grant of exploration lease to Oil India and O.N.G.C., not withstanding consequence to the country's oil industry or for foreign exchange implication. By declaring oil as a national asset the
Central Government and the oil companies controlled by it are squeezing the State's resources depriving it the legitimate share. This perhaps has prompted the State Government to adopt a tough stand. It has however to be ensured that the State regulations are imposed in such that the Centre cannot flout them by repeating the old argument that the oil is national resources and therefore, it has a right to exploit in the manner it likes. At least the oil industry should not be allowed to bypass the State's legitimate interests.

It may be noted that the State Government attempt at raising revenue from its own resources like Tea, oil and coal etc. is being hindered by the deliberate policy of the vested interest. It is well known fact that all the major industries located in the State are controlled by the Central Government and private capitalists and the benefits from these are flowing out of the State. The scope for expanding revenue resources is seriously hindered by large scale income transfer out of the State.

Comtemplating to raise additional resources from Tea, Coal, and Crude Oil etc. Government enacted a legislation-the Assam Rural Employment and Plantation Labour Welfare Act in 1986, which is still pending with the Govt. of India for about three years awaiting Presidential assent. Subsequently in 1988 the State Assembly passed another legislation - the Assam Rural Development Cess Act - envisaging imposition of a cess on Crude oil field in line with the Gujarat Government, expecting annually Rs. 198 crores to be utilised for rural development.
The oil companies have already moved the Supreme Court against the decision and according to the indications it is unlikely to obtain the expected revenue from the measure as the legislation may be declared void. This being the situation the Assam Government cannot expect to get additional revenue resources from Tea, Oil, etc., and therefore, the hope is pinned on the royalty from crude oil. It is in this context that the need for a suitable enhancement of oil royalty has assumed much importance and the improvement of State's deteriorating financial position largely depend on this.

It is noticed that the inelasticity in the State's own resources and the inescapable need to maintain the respectable level of plan investment has resulted in the large resources gap and that is the crux of the problem.

Assam's special problems need special treatment, particularly in context of dispersal of diversification of industries based on her own resources, if only to translate into action the avowed of attaining balanced growth for the country by eradicating wide regional disparities.

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