

ANNEXURE

MEMORANDUM CONCERNING MATTERS RELATING TO TAXES ON INCOME

I. INTRODUCTORY

1. This Memorandum deals with—
- (1) The stages by which rates of Income-tax, Super-Tax, and Corporation Tax in States and Unions of States may be raised to the level of the corresponding Indian rates ;
- (2) Certain technical matters which will arise when Indian Acts and Ordinances relating to “ federal ” taxes on income are extended to Indian States and Unions of States in consequence of the integration of their “ federal ” finances with those of the Centre.
2. In this Memorandum, except where the context otherwise requires, the expression—
- (1) “ States ” should be understood as including “ Unions of States ; States ”, and as excluding those States whose administrations have been integrated with those of certain Provinces of India or into new Chief Commissioner’s Provinces.
- (2) “ Rates of tax ” should be understood to mean—
- (i) in relation to Companies, the maximum rate of Income-tax plus the maximum rate at which Corporation Tax is leviable upon Indian Companies in India, or upon locally registered companies in States, as the case may be ;
- (ii) in relation to all other assesses, the “ combined average-tax-rate curve ” for Income-tax and Super-tax (taken together) in respect of incomes of individuals*.
- (3) “ Prescribed date ” means the date from which federal financial integration becomes effective.
- (4) “ Pre-existing rates of tax ” means the rates of tax in force in States on the day preceding the prescribed date ; and where there are no taxes on income in any State, it shall mean the rates of tax in force in the Saurashtra Union—the lowest scale of rates—on the day preceding the prescribed date.
- (5) “ Amount of tax ” means the amount of Income-tax and Corporation Tax taken together.
- Scope of Memorandum.
- Definitions:
- Rates of Tax ;
- Prescribed date ;
- Pre-existing rates of tax
- Amount of tax.

II. GRADUAL RAISING OF STATE RATES OF INCOME-TAX

3. On the general question of introducing income-tax in States and the stages by which State rates should be raised to the level of Indian rates, we observed in paragraph 33 of Part I of our Report as follows :—

Income-tax in States ;
gradual raising of State rates to Indian level ;

“ We consider, accordingly, that Income-tax should be imposed throughout the territories of the Union of India, assessed

*Where a distinction is made—as in the Indian rates—between “ earned ” and “ unearned ” incomes, the rates relevant to the latter should be taken.