

V. SUMMARY

13. The Committee's main conclusions and recommendations in respect of the matters dealt with in this Memorandum are summarised below :—

Summary of
recommendations.

- (1) Income-tax should be imposed in all States under a common "federal" law and should be administered by the Centre; but the immediate application of full Indian rates will give rise to difficult problems in some States. (Para. 3)
- (2) In States where there is no Income-tax at present, it should be imposed from 1st April, 1950, or the date from which federal financial integration becomes effective (whichever may be earlier) at rates not lower than the pre-existing rates of the Saurashtra Union. (Para. 4)
- (3) The wide range of pre-existing State rates compared with the Indian rates, and the need to avoid any sudden dislocation of private and "corporate" finance in States, such as would result from the immediate imposition of the full Indian rates of tax, necessitates a certain measure of gradualness in reaching the Indian level of rates; but the degree of gradualness required is far less than is commonly believed. (Para. 5)
- (4) We have worked out a scheme which embodies the principle of gradualness to the extent we consider justifiable. (Para 6).
- (5) The essential features of the scheme are the initial imposition of income-tax in all States, the "freezing" of pre-existing rates for two assessment years, thereby ensuring *inter alia* the taxation of incomes earned upto the prescribed date at pre-existing rates, and thereafter the gradual assimilation of pre-existing rates to Indian rates. Incomes which would, in any case, have been chargeable at the full Indian rates, would continue to be so charged. The procedure suggested is simple, abandons (after the first two years) all calculations with reference to the pre-existing rates, and takes account automatically of changes in Indian rates effected by the annual Finance Acts. The whole process requires a period of three to six years only, depending upon the level of pre-existing rates. (Paras 7 and 8)
- (6) Certain matters of general importance affecting all "federal" subjects have been dealt with in paragraph 11 of Chapter II in Part II of our Report; the suggestions made there relating to legal matters are reproduced in this Memorandum. (Para. 9)
- (7) We have also dealt with certain further legal matters especially concerning Income-tax. (Para. 10)
- (8) Important technical problems arise in connection with Income tax, concerning remittances, Double Income-tax Relief, "Immunities" from Taxation (in respect of Rulers, Political Pensioners, Industrial Corporations and State Governments),

Powers of the Indian Income-tax Investigation Commission, cases now pending with the similar Commission of Travancore, treatment of collections made by the States by way of "advance payment" under the "Pay—as you—Earn" Scheme or by "provisional assessment" of tax in anticipation of final assessment, revision of the arrangements connected with the "divisible pool" of Income-tax, and treatment of "Royalties" on Income levied in certain States. We have dealt with all these. (Para. 11).

- (9) Cases pending under the Excess Profits Tax Acts of States should be disposed of, according to the law and rates of the State concerned, by officers of the Central Government. The Centre must assume liability in respect of returnable E. P. T. deposits, refundable portion of the E. P. T. previously levied, and for giving credit for collections made against "provisional" E. P. T. assessments; but where there was no E. P. Tax but only E. P. Deposits, it should be left to the States concerned to return such deposits in accordance with the pre-existing laws.

Capital Gains Tax should not be levied in respect of capital gains accruing prior to federal financial integration.

The commencing date of the first "chargeable" period for purposes of Business Profits Tax should be the date of federal financial integration.

Pending cases under the Industrial Profits Tax Acts of the former Indore State (now included in Madhya Bharat Union) should be taken over by the Centre and disposed of, in the same way as pending Income-tax cases, in accordance with the pre-existing law of that State. The liability in respect of any "returnable" portion of this tax should be dealt with in the same manner as the liability for the refundable portion of E. P. T.

"Income-tax" levied on 'minor' factories in Bikaner State (now included in Rajasthan Union) should be discontinued as from the date preceding the date of federal financial integration, if it is not already discontinued before that date. Pending cases, if any, should be taken over by the Centre and disposed of in accordance with the pre-existing Bikaner law. The liability in respect of any "returnable" portion of this tax should be dealt with in the same manner as the liability for the refundable portion of E.P.T.

If and when Estate duty, or any taxes on the capital value of assets (exclusive of agricultural land) of individuals and companies, or on the Capital of companies, are imposed by the Centre, they would be leviable in the States in the same way as in Provinces and their distribution should be governed by similar principles for States as for Provinces. (Para. 12).