CHAPTER IV.

MYSORE

A. "REVENUE—GAP" ARISING OUT OF FEDERAL FINANCIAL INTEGRATION

28. Statements I and II appended hereto are designed to bring out the net revenue effect on the finances of Mysore of complete integration of its ' federal ' finances with those of the Central Government. The figures in the statements relate to the ' actuals ' of the State financial year 1946-47 and are subject to certain limitations, as explained in paragraph 6 of Chapter I. These figures have been referred to in the following paragraphs to illustrate the scheme of financial (Revenue) adjustments required for Mysore ; the final computations must be made in due course, on the same basis and following the same principles, when the actuals for the ' basic period ' are known.

29. The *net* dependence of Mysore on " federal " revenues during 1946-47 was as follows :—

	Rs. in lakhs
(*i*) ' Federal ' revenues collected in the State (Statement I)	321·59
(*ii*) ' Federal ' expenditure in the State (Statement II)	51·64
Net " Revenue-gap ", resulting from federal financial integration	269·95

Financial adjustments required

30. We recommend the following scheme of financial adjustments on revenue account as appropriate to the circumstances of the case ; the scheme has been evolved after full discussion with the Mysore Government and with their general concurrence.

(1) There should be a guaranteed reimbursement by the Government of India to the Mysore Government of the net ' federal ' revenue-gap of the State (amounting to Rs. 270 lakhs in round figures, *cf.* para. 29 above), for the first *five* years after federal financial integration. Thereafter, the guaranteed amount should be gradually reduced under a tapering arrangement to 60 per cent. of the net ' revenue-gap,' in the 10th year.

Thus, if ' R ' represents the net ' revenue-gap ' as ultimately computed with reference to the actuals of the "basic period", the guaranteed amount will be :

Rs. R per annum for the first five years
Rs. 23/25 R per annum for the 6th year
Rs. 21/25 R per annum for the 7th year
Rs. 19/25 R per annum for the 8th year
Rs. 17/25 R per annum for the 9th year
Rs. 15/25 R (or 60 per cent of R) per annum for the 10th year

(2) The above guarantee of reimbursement should be implemented by the Central Government as follows :—

(*a*) By paying to the Mysore Government its share of divisible Income-tax (and of all other divisible federal taxes, such as they may be from time to time) computed in the same manner, on the same basis and in accordance with the same principles as applicable to the Provinces of India ; *and*

(*b*) to the extent that the amount payable under (*a*) should fall short of the guaranteed amount, in any year, by paying to the Mysore Government an amount equal to the shortfall, as a special *ad hoc* grant-in-aid in that year ;

(*c*) on the other hand in any year in which the amount payable under (*a*) does *not* fall short of the guaranteed amount, the Mysore Government will receive the amount due under (*a*) and the guarantee will be inoperative for that year.

(3) If the Constituent Assembly should ultimately accept the amendment already tabled by the Drafting Committee for an extension of the transition period prescribed in Article 258 of the Draft Constitution to 15 years, the guaranteed amount, as it would be in the 10th year under the above scheme, *i.e.*, 60 per cent of R, should be continued for a further period of 5 years.

(4) With effect from the prescribed date, the Mysore Government should, as a direct consequence of federal financial integration, be entitled to receive food subsidies, at the enhanced rate of 75 per cent of the loss on the sale of imported foodgrains, as in the case of Provinces. These subsidies, and all grants-in-aid, 'bonuses' and other forms of financial and technical assistance from the Centre, whether in cash or kind, whether on revenue or capital account, and whether by way of loans or outright grants, should be payable to the Mysore Government by the Government of India quite independently of the above scheme of transitional adjustments, *i.e.*, *in addition* to the

amounts guaranteed under sub-paras (1) to (3) above, and *computed on the same basis and principles as applicable to Provinces.*

(5) **Privy Purse**

It has been assumed in the foregoing computations and in our proposals for revenue adjustments that no portion of His Highness the Maharajah's Civil List will be treated as a 'federal' charge after the prescribed date. A reference is invited in this connection to the remarks in paragraph 24 of Part I of our Report on the subject of Privy Purses of Rulers. In the case of Mysore, there is no question of fixing a 'Privy Purse' for the Ruler; but if it is ultimately decided, in the case of *Unions* of States, that the Central Government should assume financial responsibility for 'Privy Purse', it would follow that in regard to Mysore also, there should be a classification of the existing Civil List payments under two heads, one corresponding to allowances payable to the Rajpramukhs of Unions or to Governors of Provinces, and the other corresponding to "Privy Purse" of Rulers of covenanting States; the former will be a charge on the revenues of the State, while the latter must be taken up by the Central Government.

The computations relating to the *net* revenue-gap of Mysore would then require a corresponding revision, with reference to the figure for the 'Privy Purse' of the Ruler to be taken over by the Centre. Assuming a figure of Rs. 'P' for this purpose, the *net* revenue-gap of Mysore would be reduced to Rs. (R-P) lakhs; and this would be the figure to be adopted in sub-paragraph (1) above for purposes of computing the transitional financial adjustments. No other change in the scheme of transitional financial adjustments will be called for.

31. **Gradualness in taking up the burden**

The foregoing scheme, in effect, requires the Mysore Government to take up *gradually* from the 6th to the 10th year of federal financial integration a portion of the *net* revenue-gap working up to 40 per cent. thereof. By the 10th or the 11th year, if not earlier, we expect that Mysore's share of divisible federal taxes will exceed the guaranteed amount.

As already indicated, if in any year during the transitional period, the Mysore Government's share of divisible federal taxes should *exceed* the reimbursement guaranteed for that year, it would be the larger sum that they would receive.

For the rest, our proposals are designed to secure for the Mysore Government an immediate financial parity of treatment with the Provinces of India, in *all* respects, by the Central Government

On the termination of the transitional period under Article 258, there would be no guaranteed reimbursements; in other words, there would thereafter be no distinction at all between the financial rights of the Mysore Government and those of any Province *vis-a-vis* the Central Government.

32. Scope for development of 'Provincial' Revenues in Mysore

We are satisfied that a scheme of federal financial integration on the above lines will not cause any sudden dislocation of the finances of the Mysore Government, nor will it necessitate a reversal of any well established and desirable administrative and social policies in this State. The present dependence of Mysore on "federal" sources of revenue is indeed considerable and the immediate scope for the development of 'provincial' taxes is rather limited. Having regard to these factors, we are satisfied that a maximum period of five years during which the entire *net* 'revenue-gap' would be guaranteed in full is justified. The possible directions in which the Mysore Government's 'provincial sources of revenue might be developed are indicated below; it can be confidently expected that Mysore will take up its share of the burden from the 6th year onwards without difficulty and also be able to improve its financial position generally.

(i) The question of introducing Agricultural Income-tax requires examination. It should be possible to devise a scheme which will not press harshly on the poorer sections of the people. To begin with, the rates need not be higher than those at present in force in Cochin.

(ii) We understand that Resettlement of Land Revenue is long overdue in as many as 33 out of 82 Talukas, and that the Mysore Government have themselves set up a Committee to enquire into the matter.

(iii) Sales Tax is already levied in Mysore; the general rates structure is similar to that in Madras. The list of exemptions is however more liberal, and a careful review of this list might be undertaken. Judging by past experience in the Provinces, the revenue from Sales Tax is bound to show a progressive increase; and there is every reason to expect that in a few years' time, the yield of Sales Tax in Mysore would substantially go up.

(iv) The rates of registration fees and stamp duties in Mysore are, generally speaking, appreciably lower than those prevailing in Madras Province. The question of the gradual enhancement of the rates should be examined.

(v) There is some scope for an increase in the revenue under the head "Motor Vehicles Tax" by gradually raising the level of taxation to that in Madras Province.