

## Annexure I

**Distribution of the States' Share in the Net Proceeds of  
Non-Corporate Income-tax**

Finance Commission	Net Proceeds distributed to the States	Criteria for Distribution			Others
		1 Contribution	2 Population	3 Per Capita SDP	
First	55	20	80	-	-
Second	60	10	90	-	-
Third	66.67	20	80	-	-
Fourth	75	20	80		
Fifth	75	10	90		
Sixth	80	10	90		
Seventh	85	10	90		
Eighth	85	10	22.50	45*	
				22.5*	
Ninth (First Report)	85	10	22.5	45* 11.25*	11.25 (proportion of poor in the States to total poor population)
Ninth (Second Report)	85	10	22.5	45* 11.25*	11.25 Composite index of backwardness.@

\* According to "distance" formula - see notes under Annexure II

\*\* According to "inverse" formula - see notes under Annexure II.

@ The variables included are (i) the population of scheduled castes and tribes; and (ii) number of agricultural labourers. Equal weights are assigned to the two factors.

## Annexure II

## Distribution of States' Share in the Net Yield from Union Excise Duties

Criteria used for distribution among the States						
Finance Commission	Coverage	States' share (per cent)	Proportion of population of the States of the total population of all States	Per capita income	Economic or social backwardness	Other criteria
(1)	(2)	(3)	(4)	(5)	(6)	(7)
First	Three commodities: Tobacco, matches & vegetable products	40	100	-	-	-
Second	Eight commodities: (Tobacco, matches, vegetable products, sugar, coffee, tea, paper and vegetable non-essential oils)	25	90	-	-	10 per cent used for adjustment
Third	All commodities on which Union excise duties collected in 1960-61 amounting to Rs 50 lakh or more (about 35)	20	Mainly on population basis along with relative financial weakness and economic backwardness as other factors.			
Fourth	All commodities excluding regulatory duties, special excises and earmarked cesses	20	80	-	20	According to relative backwardness as indicated by seven factors, which are: (i) per capita gross value of agricultural production (ii) per capita value added by manufacture (iii) Percentage of workers to total population (iv) Percentage of enrolment in class 1 to 5 to the population in the age group 6-11. (v) Population per hospital bed (vi) Percentage rural population (vii) Percentage of scheduled caste population

(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Fifth</b>	For 1969-70 to 1971-72 all types of Union excise duties excluding regulatory duties, special excises and duties and earmarked cesses; for 1972-73 and 1973-74 all types of Union excise duties including regulatory duties and earmarked cesses	20	80	13.3 Distributed among only those States whose per capita SDP was below the all States average: in proportion to the shortfall of the State's per capita SDP from all States average multiplied by the population of the concerned State	6.7 According to an integrated index of backwardness as indicated by six factors, which are: (i) scheduled caste population (ii) number of factory workers per lakh of population (iii) net irrigated area per cultivator (iv) length of railways and surfaced roads per square km area (v) enrolment ratio of school going age children and (vi) number of hospital beds per thousand persons	
<b>Sixth</b>	For 1974-75 and 1975-76 all articles on which Union excise duties were levied excluding auxiliary duties of excise and cesses levied under special Acts and earmarked for special purposes.	20	75	25 According to the 'distance' formula**		
<b>Seventh</b>	Net proceeds from all Union excise duties collected on all commodities excluding the net proceeds of the duty on the generation of electricity	40	25	25 Inverse* of per capita SDP formula	25 Percentage of poor or people below the poverty line	25 According to a formula of revenue equalisation. This represents equalisation of revenue capacity which has been computed by regressing States' capita revenue on per capita SDP and substituting the actual values of per capita SDP in the equation.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Eighth	Net proceeds excluding cesses levied under special Acts and earmarked for special purposes	45 40 per cent to all States and 5 per cent to the States having deficits after taking into the devolution of taxes and duties	25	25 Inverse per capita* SDP formula. Distance formula**	50	(5 per cent to deficit States) in proportion to the deficit of a State to the total deficit of the States in that year.
Ninth-First Report (1989-90)	Net proceeds excluding cesses levied under special Acts and earmarked cesses	45 40 per cent all States and 5 per cent to the States having post-devolution deficits	25	50 Distance formula** 33.5 Distance formula*	12.5 Percentage of people below poverty line	
Ninth-Second Report (1990-95)	Net proceeds excluding cesses levied under Special Acts and earmarked cesses	45	25	12.5 Inverse formula* 33.5 Distance formula**	12.5 Index of backwardness computed with equal weights assigned to population of scheduled castes and tribes and a number of agricultural labourers	16.5 On the basis of deficits computed after devolving assigned taxes and the non-corporate income-tax.

$$\text{Inverse formula} = \frac{P_i/Y_i}{\sum_i P_i/Y_i}$$

\*\* Distance formula =  $(Y_h - Y_i) P_i / \sum (Y_h - Y_i) P_i$   
 where  $Y_i$  and  $Y_h$  represent per capita SDP of the  $i^{\text{th}}$  and the highest per capita SDP State,  $P_i$  = the population of the  $i^{\text{th}}$  State  
 $(Y_h - Y_i)$  for the 'h' State is taken to be the distance between the highest and the next highest per capita SDP.