

# Finance Commission

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**Finance Commission**

Vitta Ayoga



सत्यमेव जयते  
Emblem of India

- Establishment Year: 22<sup>nd</sup> Nov., 1951
- Head Quarter : New Delhi
- Chairman : Mr. N. K. Singh, I.A.S.
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सत्यमेव जयते

भारतीय वित्त आयोग

FINANCE COMMISSION OF INDIA

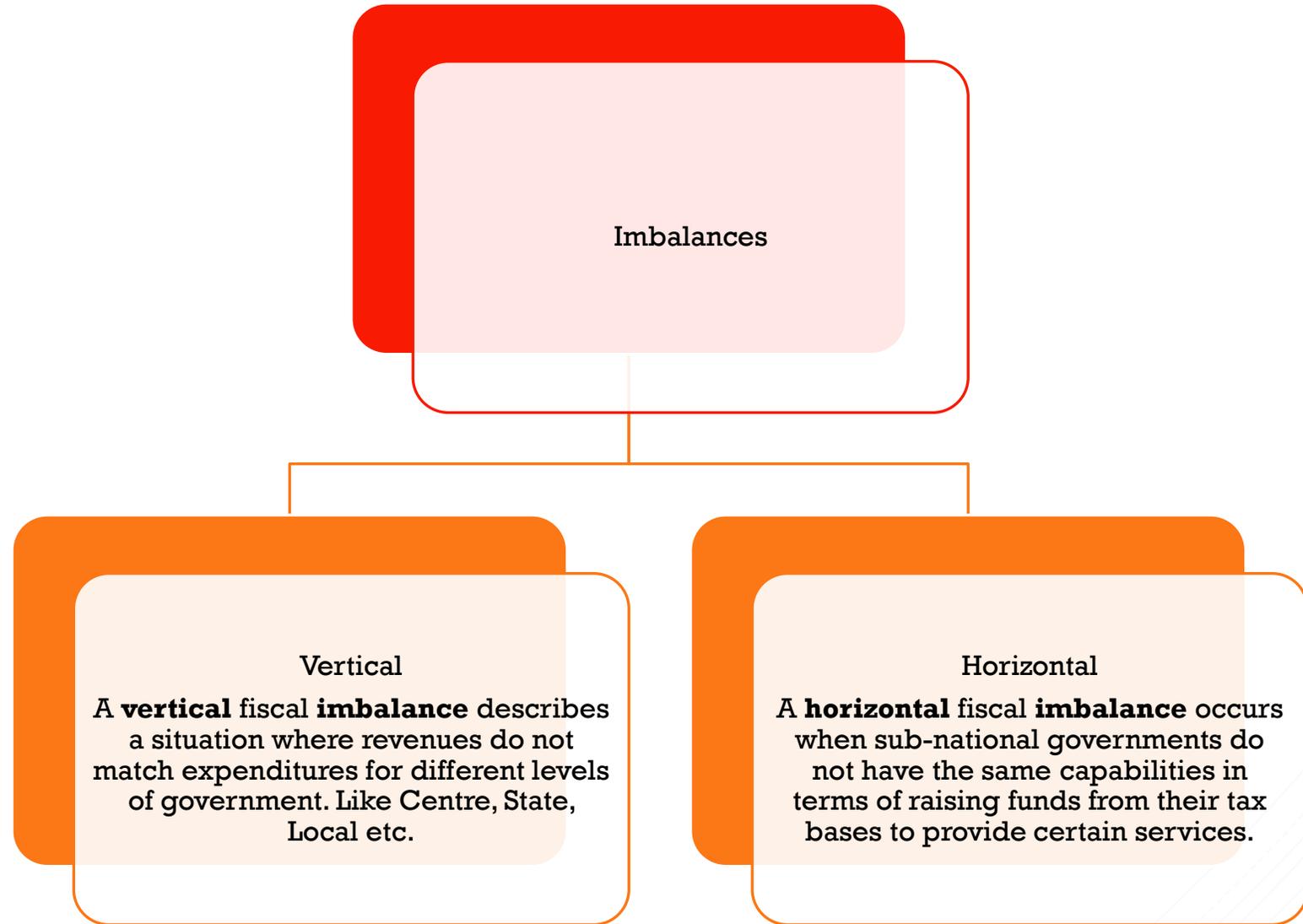
FIFTEENTH FINANCE COMMISSION 9/21/22 FLOOR, JAWAHAR VYAPAR BHAWAN, TOLSTOY MARG. New Delhi 110001

# What is Federal Finance?

- **Federal finance** refers to the system of assigning the source of revenue to the Central as well as State Governments for the efficient discharge of their respective functions i.e. clear-cut division is made regarding the allocation of resources of revenue between the central and state authorities.
- **Principles of Federal Finance:**

The theory of fiscal federalism assumes that a federal system of government can be efficient and effective at solving problems governments face today, such as *just distribution of income, efficient and effective allocation of resources, and economic stability.*

# Fiscal Imbalances



# Introduction

- The **Finance Commission** (*Vitta Āyoga*) was established by the President of India in 1951 under **Article 280** of the Indian Constitution..
- It was formed to define the financial relations between the central government of India and the individual state governments.
- As per the Constitution, the Commission is appointed every five years and consists of a chairman and four other members.
- There have been fifteen commissions to date. The most recent was constituted in 2017 and is chaired by N. K. Singh, a former member of the Planning Commission.
- The Finance Commission was established in 1951 by Dr. B.R. Ambedkar, the then-incumbent law minister, to address the fiscal imbalances. Several provisions to bridge the fiscal gap between the Central and the States were already enshrined in the Constitution of India, including **Article 268**, which ***facilitates levy of duties by the Central but equips the States to collect and retain the same.***
- Since the institution of the First Finance Commission, stark changes in the macroeconomic situation of the Indian economy have led to major changes in the Finance Commission's recommendations over the years.

## Scope of Finance Commission

- **Article 280 of the Indian Constitution** defines the scope of the commission:
  1. **The President will constitute a finance commission** within two years from the commencement of the Constitution and thereafter at the end of every fifth year or earlier, as the deemed necessary by him/her, which shall include a chairman and four other members.
  2. **Parliament may by law determine the requisite qualifications for appointment as members** of the commission and the procedure of selection.
  3. The commission is constituted **to make recommendations to the president about the distribution of the net proceeds of taxes between the Union and States** and also the allocation of the same among the States themselves. It is also under the ambit of the finance commission to define the financial relations between the Union and the States. They also deal with the devolution of unplanned revenue resources.

# Functions of the Commission

## **Key Functions:**

1. To distribution of net proceeds of taxes between Centre and the States, to be divided as per their respective contributions to the taxes.
2. To determine factors governing Grants-in-Aid to the states and the magnitude of the same.
3. To make recommendations to the president as to the measures needed to augment the Fund of a State to supplement the resources of the panchayats and municipalities in the state on the basis of the recommendations made by the finance commission of the state.
4. Any other matter related to it by the president in the interest of sound finance.
5. A finance commission is an autonomous body which is governed by the Government of India.

Finance  
Commission  
So far...

<b>Finance Commission</b>	<b>Year of Est.</b>	<b>Chairman</b>	<b>Duration</b>
First	1951	K. C. Neogy	1952–57
Second	1956	K. Santhanam	1957–62
Third	1960	A. K. Chanda	1962–66
Fourth	1964	P. V. Rajamannar	1966–69
Fifth	1968	Mahaveer Tyagi	1969–74
Sixth	1972	K. Brahmananda Reddy	1974–79
Seventh	1977	J. M. Shelat	1979–84
Eighth	1983	Y. B. Chavan	1984–89
Ninth	1987	N. K. P. Salve	1989–95
Tenth	1992	K. C. Pant	1995–00
Eleventh	1998	A. M. Khusro	2000–05
Twelfth	2002	C. Rangarajan	2005–10
Thirteenth	2007	Dr. Vijay L. Kelkar	2010–15
Fourteenth	2013	Dr. Y. V Reddy	2015–20
Fifteenth	2017	N. K. Singh	2020–25
Sixteenth	2024	Dr. Arvind Panagariya	2025-30

# Fourteenth Finance Commission

▪ **Key Recommendations of 14<sup>th</sup> Finance Commission Chaired by Prof. Y.V. Reddy are as follows:**

1. The share of states in the net proceeds of the shareable Central taxes should be 42%. This is 10 percentage points higher than the recommendation of 13th Finance Commission.
2. Revenue deficit to be progressively reduced and eliminated.
3. Fiscal deficit to be reduced to 3% of the GDP by 2017–18.
4. A target of 62% of GDP for the combined debt of centre and states.
5. The Medium Term Fiscal Plan (MTFP) should be reformed and made the statement of commitment rather than a statement of intent.
6. FRBM Act needs to be amended to mention the nature of shocks which shall require targets relaxation.
7. Both centre and states should conclude 'Grand Bargain' to implement the model Goods and Services Act(GST).
8. Initiatives to reduce the number of Central Sponsored Schemes (CSS) and to restore the predominance of formula-based plan grants.
9. States need to address the problem of losses in the power sector in time bound manner.

# Transfers By 14<sup>th</sup> FC

**Table 54.7**  
**Transfers Recommended by Fourteenth Finance Commission**

	(₹ crore)
	2015-2020
1. Tax Devolution to States	39,48,187
2. Total Grants to States from Finance Commission (A + B + C)	5,37,354
A. Post Devolution Revenue Deficit Grants to States	1,94,821
B. Disaster Relief Grant to States	55,097
C. Grants to Local Bodies of States	2,87,436
3. Aggregate Transfers to States from Finance Commission (1 + 2)	44,85,541
4. Divisible Pool	94,00,444
5. Fiscal Space Available with the Union Government (4 - 3) of which	49,14,904
6. Provision for other transfers (expected) to States (7 - 2)	14,77,943
7. Total Grants from the Union to States	20,15,297
8. Aggregate Transfers to States (1 + 7)	59,63,484
<b>As a Percentage of Divisible Pool</b>	
1. Tax Devolution to States	42.00
2. Grants from FC to States	5.72
3. Tax Devolution and FC Grants to States	47.52
4. Fiscal Space with the Union of which	52.28
5. Provision for other transfers (expected) to States	15.72
6. Aggregate Transfers to States	63.44

Source: Government of India, Report of the Fourteenth Finance Commission 2015-20 (Delhi, 2014), Volume II, Annexure 6.3, p.437.

CS

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# Fifteenth Finance Commission

- The Fifteenth Finance Commission was constituted by the Government of India, after the approval from the President of India, through a notification in the Gazette of India in November 2017.
- Nand Kishore Singh was appointed as the commission's chairman, with its full-time members being Shaktikanta Das and Anoop Singh and its part-time members being Ramesh Chand and Ashok Lahiri. However Ajay Narayan Jha was appointed replacing Shaktikanta Das who resigned from the commission to serve as the governor of the Reserve Bank of India.

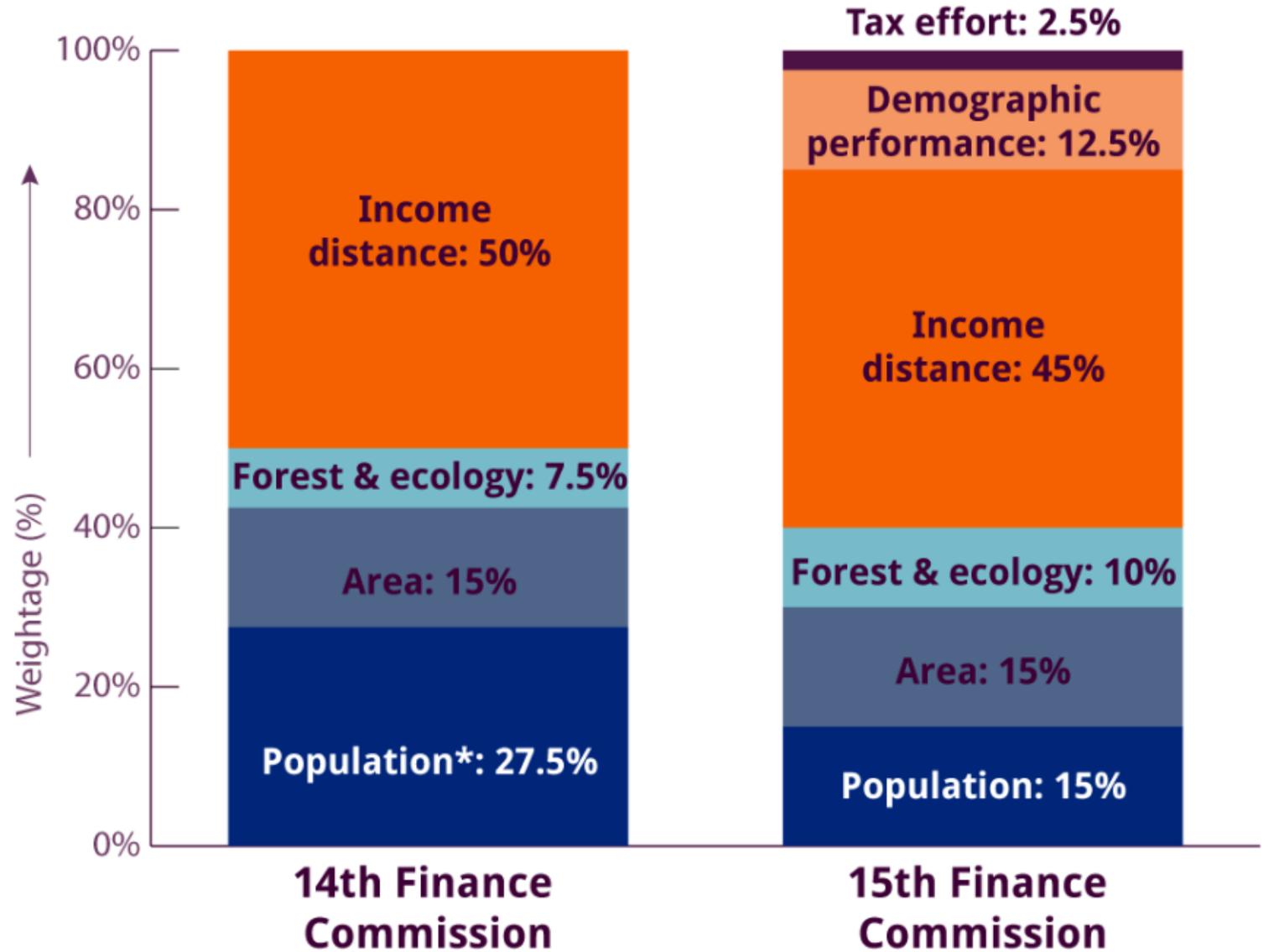
## 15<sup>th</sup> Finance Commission

- The commission was set up to give recommendations for five years commencing on 1 April 2020.
- The main tasks of the commission were to "**strengthen cooperative federalism, improve the quality of public spending and help protect fiscal stability**". Some newspapers like *The Hindu* and *The Economic Times* noted that commission's job was harder because of the rollout of goods and service tax (GST), as, it had taken certain powers related to taxation away from states and the Union and had given it to the GST Council.

## Recommendations of 15<sup>th</sup> FC

- 15th Finance Commission has made several significant recommendations that would be applicable for a period of six years, from 2021 to 2026. These recommendations encompass various aspects of fiscal distribution, economic impact assessment, and incentivizing state governments. Following are the recommendation of 15th Finance Commission:
- **Distribution of Tax Proceeds:** The Commission has recommended a fair distribution of tax proceeds between the central government and the states, ensuring a balanced fiscal sharing mechanism.
- **Impact of GST:** The Finance Commission emphasizes the need to study the impact of the Goods and Services Tax (GST) on the economy. This assessment aims to understand the implications of GST implementation and its effects on various sectors.
- **Performance-based Incentives:** The Commission suggests providing performance-based incentives to state governments. These incentives would be based on their efforts to address issues such as population control, ease of doing business, and other relevant factors.
- **Grants to States:** The Finance Commission has proposed the provision of revenue deficit grants, grants to local bodies, and **disaster management** grants to the states. These grants aim to support the financial needs of the states and ensure effective governance.
- **Sector-specific and Performance-based Grants:** In addition to the above, the Commission has also recommended the establishment of a framework for sector-specific and performance-based grants. These grants would encourage states to focus on specific sectors and reward their performance in achieving developmental targets.

# Revenue Sharing Formula in 14<sup>th</sup> & 15<sup>th</sup> FCs



# Problems of Federal Finance in India

## ■ The Problems....

1. Gaps between needs & resources of the State Governments.
2. The question of State autonomy.
3. Reduced importance of finance commission.
4. Failure to tackle the problem of regional imbalances to any satisfactory extent.

# Reference

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Any Queries

Thank You