
सत्यमेव जयते
FINANCE COMMISSIONS
A LEGACY OF TRUST
₹
UNION
STATES

Index

The Finance Commission has been assigned a significant role in the overall fiscal architecture of the country. Under Article 275 and 280 of the Constitution and the subsequent 73rd and 74th amendments, its core responsibility is to evaluate the state of finances of the Union and State Governments, lay down the principles determining the distribution of the divisible pool of taxes between the Union and the States and also the inter-se share among the States. Its recommendations are also designed towards improving the quality of public spending and fostering fiscal stability.

The First Finance Commission was set up in 1951, and the fourteen that have followed have all faced unique set of challenges covering diverse issues such as review of public finances, fiscal sustainability of States, GST revenues, performance based incentives and augmenting the resources of local bodies. Though it is not a permanent body, the institution has maintained its credibility by promoting fiscal democracy in the country.

We celebrate seventy-five years of fiscal federalism in the year 2026. This is a solemn occasion and we hope that this book would be helpful in understanding the evolution of fiscal federalism in India. We have given the composition of previous Finance Commissions, their major recommendations and the explanatory memoranda of the Union Government. We are sanguine that this chronicle of an important pillar of federalism will enhance the understanding of all stakeholders.

N. K. Singh

Shri N.K. SINGH
Chairman
Fifteenth Finance Commission

New Delhi
6th March 2020

Foreword

ROLE
OF FINANCE COMMISSION

The Finance Commission is a constitutional body notified under Article 280 (1) of the Constitution by a Presidential Order every five years to advise on Union-State financial relations. Article 280(3) stipulates the duties of the Finance Commission and, accordingly, each Commission is required to make recommendations on:

(i) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution;

(ii) allocation between the States of the respective shares of such proceeds;

(iii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of grants-in-aid of their revenues under Article 275 of the Constitution for purposes other than those specified in clause (1) of that article;

(iv) measures needed to augment the Consolidated 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; and

(v) any other matter referred to it in the interests of sound finance.

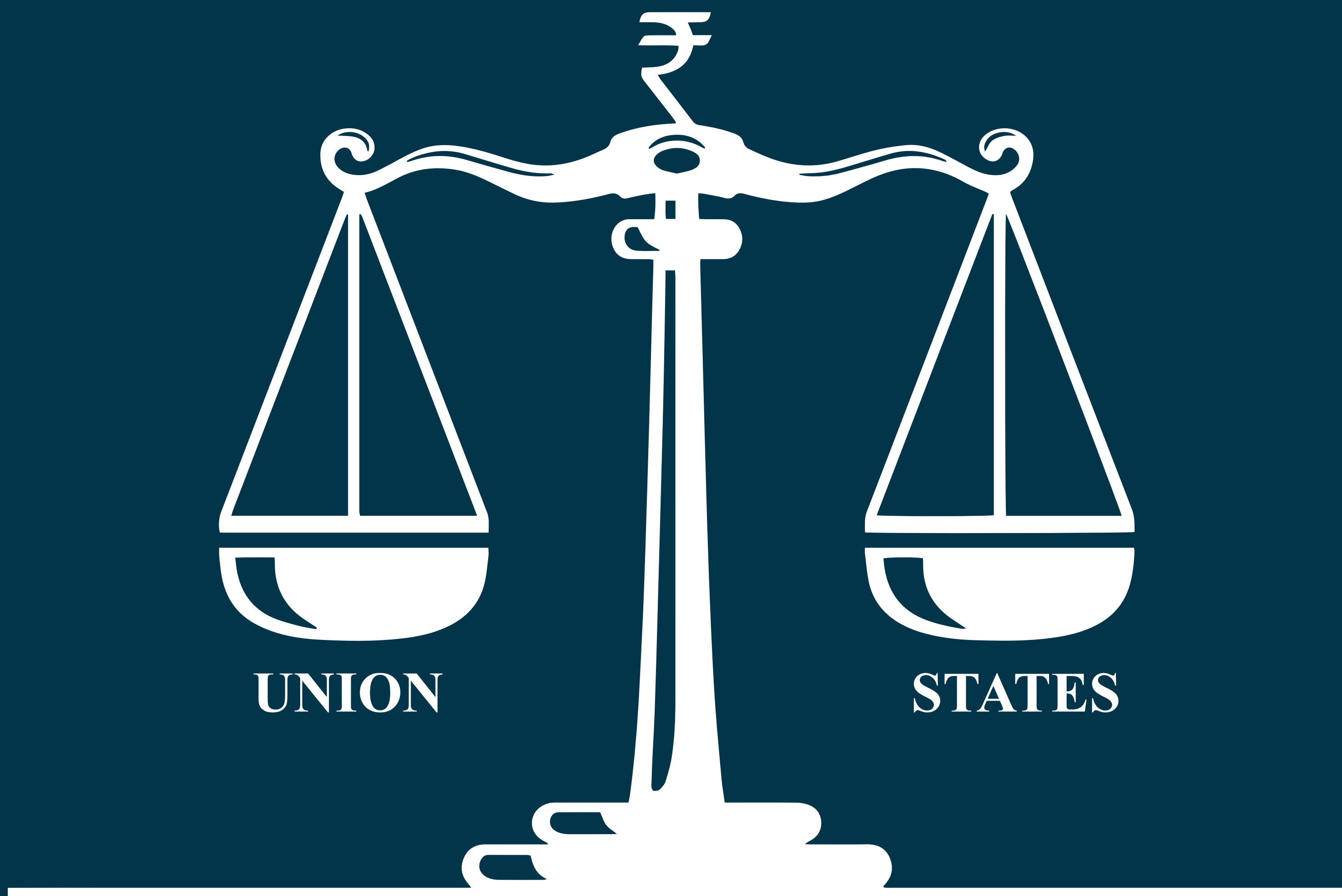
The Indian federal system allows for the division of power and responsibilities between the Union and States. Correspondingly, the taxation powers are also broadly divided between the Union and States. State legislatures may devolve some of their taxation powers to local bodies.

By virtue of enjoying economies of scale, the Union Government collects the maximum tax revenue.

States, on the other hand, have the responsibility of delivering public goods in their areas due to the responsibilities assigned to them in the Seventh Schedule as well as their proximity to local issues and needs. Sometimes this leads to States incurring expenditures that exceed the revenue generated by them. Further, due to vast regional disparities and the fiscal disabilities stemming from them, some States are unable to raise adequate resources as compared to others. To address these imbalances, the Finance Commission recommends the extent of Union taxes to be shared with States.

A major part of the Union taxes devolved to States are untied funds, and States can spend them according to their discretion. Over the years, tax devolved to States by the Finance Commissions has been about 80 per cent to 90 per cent of the total Finance Commission transfers while grants have constituted 10 per cent to 20 per cent of such transfers. The devolution component has remained free from any conditions while Finance Commissions have imposed certain conditions on the use of funds transferred as grants-in-aid.

Over the years, the core mandate of the Commission has remained unchanged, though it has been given the additional responsibility of examining various issues. For instance, the Twelfth Finance Commission evaluated the fiscal position of States and offered relief to those that enacted their Fiscal Responsibility and Budget Management laws.


UNION
STATES

CONSTITUENT ASSEMBLY & FINANCE COMMISSION

- The financial provisions in the Draft Constitution were referred by the Constituent Assembly to an Expert Committee under the chairmanship of Nalini Ranjan Sarker, with V.S. Sundaram and M.V. Rangachari as members.

i. The Committee recommended a pattern of division of tax sources between the Union and States that was broadly adopted in the Constitution. Customs and excise duties were to be retained by the Union while income tax was to be shared.

ii. Significantly, the Committee recommended the sharing of corporation tax with the States, whereby 20 per cent, 35 per cent and 5 per cent of the proceeds would be distributed on the basis of population, collections and an adjusting factor respectively.

iii. The Committee did not favour the Australian model of grants-in-aid but recommended a Finance Commission with a High Court Judge as Chairman for considering such grants.

iv. After detailed discussions in the Constituent Assembly, the provisions currently in the Constitution were agreed to.

- During the period between attainment of independence in 1947 and the coming into force of the Constitution in 1950, the unification of the country through the peaceful integration of the Princely States took place under the leadership of Sardar Patel. Some major Princely States like Hyderabad and Mysore remained as states. Others were either merged with a neighbouring state or formed into sizeable units (PEPSU, Madhya Bharat, Travancore-Cochin, etc.) All such states were designated Part 'B' states in the Constitution. Chief Commissioners' Provinces became Part 'C' States.

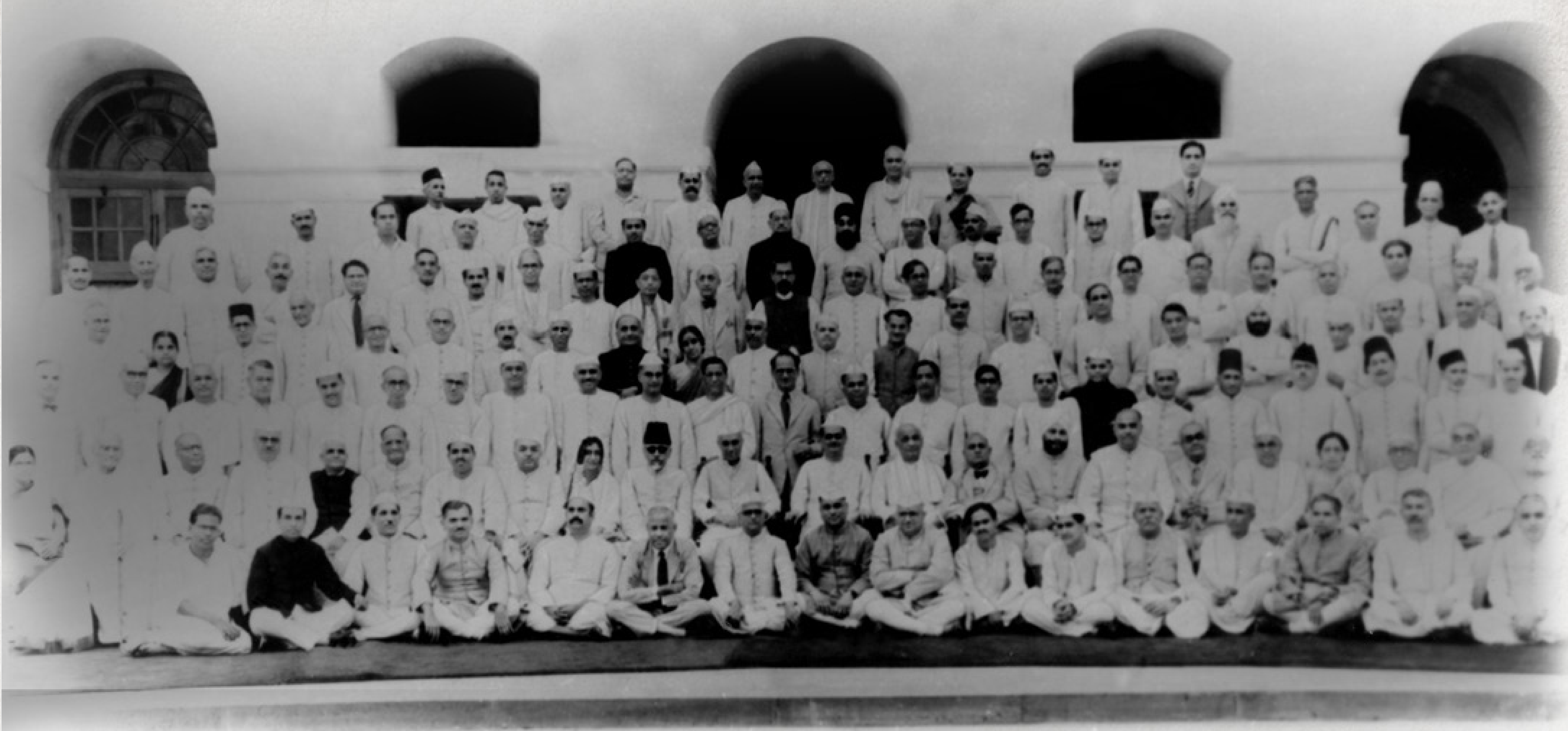
- The Indian States Finances Enquiry Committee was set up in October 1948 under the chairmanship of V.T. Krishnamachari with the objective of achieving financial integration of the Part 'B' states. The Committee's recommendations were accepted and, with slight modifications, embodied in the agreements entered into by the Government of India with the Princely States.

- As the Finance Commission could be set up only after the Constitution came into force on 26 January 1950, the States' share of income tax and its distribution and the payment of grants-in-aid under Articles 273 and 275 of the Constitution had to be regulated by a Presidential order for the period between the commencement of the Constitution and the appointment of a Finance Commission. Some States had expressed dissatisfaction with the arrangements for the allocation of income tax and jute export duty made by the Government of India immediately after Partition. Hence, it was decided that these matters should be referred to an impartial authority for reconsideration.

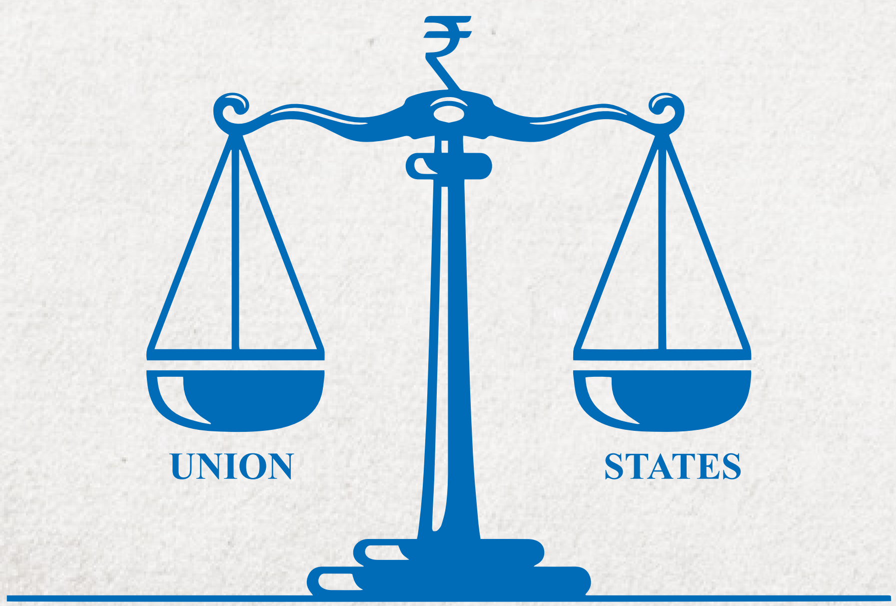
- Towards the end of 1949, C.D. Deshmukh was requested to look into these matters. The Deshmukh Award was given effect to from 1 April 1950 and remained in force for two years ending in 31 March 1952.

- The First Finance Commission was constituted by a Presidential Order dated 22 November 1951. K.C. Neogy was the chairman.

Source: SASTRY VITHAL, *Fiscal Federalism in India,* Oxford University Press, 2000



Group photograph of the Constituent Assembly in 1949



Constituent Assembly Debates

Some of the debates in the Constituent Assembly regarding income tax which are relevant today are given below:

Art. 251 of the Draft Constitution corresponds to Article 270 of the Constitution of India. Art.251 (income tax) was taken up for discussion in the Constituent Assembly on 5 August 1949. A number of amendments were proposed but only some of them were moved. The main speakers who participated in the debate on Article 251 were U.N. Burman, Shibban Lal Saxena, Biswanath Das and H.N. Kunzru.

Burman, in his amendment, proposed that:

i. Union emoluments should not be excluded from the computation of the tax on income, as the Expert Committee had suggested.

ii. The share of the provinces should be fixed in the Constitution itself. He proposed a share of 60 per cent.

iii. As for the distribution of income tax among the provinces, a fixed minimum percentage should be assured for each province and the balance should be left to the Committee.

Saxena's main point was that the phrase 'prescribed by President by Order' mentioned in the Draft Article should be substituted by 'pre-scribed by Parliament by Law'. He was not very comfortable with the fact that 'such wide powers of distribution of hundreds of crores of rupees between the Centre and the Provinces should be vested in the President. It should be done by Parliament by Law and not by President by Order'. Biswanath Das stated that the Expert Committee had not given sufficient explanation as to why the Union should retain 40 per cent of the net proceeds of income tax and why 60 per cent should go to the provinces, when the Commonwealth of Australia retained only 25 per cent of income tax to itself.

Till 1935, income tax was not a provincial source of revenue. British banker and civil servant Sir Otto Niemeyer was given the task of making recommendations on discretionary fiscal transfers. He awarded 50 per cent of the net proceeds of income tax to the Provinces and this continued till 15 August 1947. The Expert Committee had recommended that the share of the Provinces be raised to 60 per cent, but Das was of the opinion that the Committee should have given even more.

Das vehemently objected to collection being a major criteria for distribution of income tax among the Provinces, as Niemeyer had recommended. He felt this was not justified as it did not do justice to the underdeveloped provinces. The Federal Finance Committee, in its report submitted in 1933, had recommended that population be the principal basis. Das cited the recommendations of the B.N.Adarkar-B.K. Nehru Committee (set up to study the financial relation in Australia and its applicability to India) that population, area and collection be the criteria, with collection having the lowest weight.

Kunzru made a spirited defence of the Draft Article. He argued that Burman's proposal could not be accepted because the financial position of the Union had deteriorated since December 1947 when the Expert Committee had submitted its report recommending the provincial share at 60 per cent. He suggested that the fiscal relations between the Union and the provinces could be reconsidered if the financial position improved and that this was one of the purposes of the proposed Finance Commission. As regards distribution among the provinces, the basis of collection could not, according to him, be accepted as a sound one. Pandit Kunzru further said:

"…..if federation means anything, it means that there should be a transfer of wealth from the richer to the poorer provinces; just as the very concept of social welfare implies that there should be a transfer of wealth from the richer to the poorer people, so the concept of federation, the concept of national solidarity implies that the richer provinces should part with a portion of what may, in strict theory, due to them, for the benefit of the poorer Provinces. ... I was amazed to find that any committee of experts could propose such a basis for the distribution of the provincial share. I think that it is a matter for satisfaction that the Government of India have rejected the recommendations of the Expert Committee which would have placed them in a dangerous position."

Kunzru did not agree with the point made by Saxena. He felt that:

"If the Finance Commission inspires general confidence, if the provinces and the Centre feel that its members do not allow themselves to be influenced by the opinions of any authority, I have no doubt that a convention will grow up in this country, as it has in Australia, that the recommendations of the Commission should, broadly speaking, be accepted by the Central government. … Sir, the method of distribution of financial resources of the country between the Centre and the provinces as proposed by the Draft Constitution seems to me to be more elastic, based on a better principle, and in every respect preferable to the amendment moved by Shri Upendra Nath Burman..."

B.R. Ambedkar, while concluding the debate, said that he could not accept either of the amendments moved by Burman and Saxena, adding:

"This question whether the percentage of revenue collected by way of income tax should be prescribed in the Constitution itself either as sixty per cent or any other percentage or should be left to the President to decide, is a matter over which considerable thought has been bestowed both by the Central government as well as the provincial governments in the conference which took place the other day to discuss this matter. It was agreed that the best thing would leave the matter to be prescribed by the President and our scheme is to allow the President and that no portion should be fixed in the constitution itself.

… Our scheme is to allow the President to prescribe the proportion in the first instance by himself and in the second. instance after a consideration of the recommendations of the Finance Commission. We do not propose to bring the parliament in ... to leave the matter to the Parliament practically means leaving it to the voice of those provinces who happen to have a larger representation at the Centre and that, I think, would cut at the root of the justice which you want to be done to the various Provinces."

Source: SASTRY VITHAL, *Fiscal Federalism in India*, Oxford University Press, 2000

Session of Constituent Assembly, December 1946

75 YEARS OF FINANCE COMMISSIONS

Chairman, 1st Finance Commission (1952-1957)

Shri K. C. Neogy

Chairman, 2nd Finance Commission (1957-1962)

Shri K. Santhanam

Chairman, 3rd Finance Commission (1962-1966)

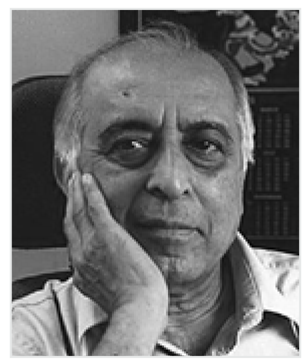
Shri Ashok Kumar Chanda

Chairman, 4th Finance Commission (1966-1969)

Dr. P. V. Rajamannar

Chairman, 5th Finance Commission (1969-1974)

Shri Mahavir Tyagi



Chairman, 11th Finance Commission (2000-2005)

Prof. A.M. Khusro

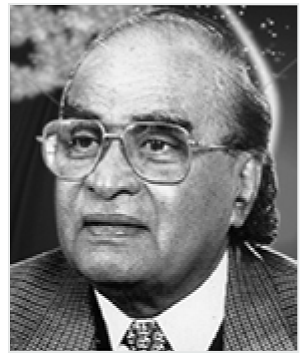
Chairman, 12th Finance Commission (2005-2010)

Sh. C. Rangarajan

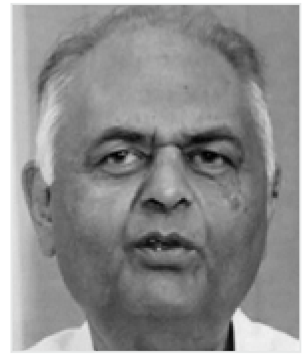
Chairman, 6th Finance Commission (1974-1979)
Shri K. Brahmananda Reddy

Chairman, 7th Finance Commission (1979-1984)
Shri J. M. Shelat

Chairman, 8th Finance Commission (1984-1989)
Shri Y. B. Chavan



Chairman, 9th Finance Commission (1989-1995)
Shri N.K.P. Salve



Chairman, 10th Finance Commission (1995-2000)
Shri K.C. Pant

Chairman, 13th Finance Commission (2010-2015)
Shri Vijay L. Kelkar

Chairman, 14th Finance Commission (2015-2020)
Shri Y. V. Reddy

Chairman, 15th Finance Commission (2020-2026)
Shri N.K. Singh

1st FINANCE COMMISSION

1952-57

1st Finance Commission (1952-57)

Shri K. C. Neogy
Chairman

Members

Shri V.P. Menon
(Resigned on 18 February 1952)

Shri V.L. Mehta
(in place of Shri V. P. Menon)

Shri Justice R. Kaushalendra Rao

Dr. B.K. Madan

Shri M.V. Rangachari
(Member Secretary)

The first meeting of the First Finance Commission held in New Delhi on December 10, 1951. Photo shows Shri K.C. Neogy (Chairman) presiding over the meeting along with Shri M.V. Rangachari (Member Secretary), Shri V.P. Menon, Justice R.K. Rao of the Nagpur High Court and Dr. B.K. Madan, Director, Economic Research, of the Reserve Bank of India

Major Recommendations

VERTICAL DEVOLUTION

1. The States' share in the proceeds of income tax should be 55 per cent of the net proceeds.
2. Forty per cent of the net proceeds of the Union duties of excise on tobacco (including cigars, cigarettes, etc.), matches and vegetable products should be distributed among the States.

HORIZONTAL DEVOLUTION

3. The basis of distribution of income tax among States should be: 20 per cent weight for the relative collection of States and 80 per cent for population based on the Census of 1951.
4. Net proceeds of the Union duties of excise on tobacco (including cigars, cigarettes, etc.), matches and vegetable products should be distributed in proportion to the population of States according to the 1951 Census.

GRANTS

5. The Commission granted sums under Article 273 of the Constitution as grants-in-aid of the revenues each year for the States of Assam, Bihar, Orissa and West Bengal in lieu of assignment of any share of the export duty on jute and jute products.
6. In addition, the Commission awarded revenue gap grants and grants for the purpose of expanding primary education.

1st Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population (1951)	80.0	100.0
Relative Collection of States	20.0	--
Total	**100.0**	**100.0**

Transfers by 1st Finance Commission

SN	Particulars	Rs. Crore
A	**Share in Central Taxes**	**335**
1	Grants under Article 273	16
2	Grants under substantive portion of Article 275	25
3	Primary Education Grant	9
B	**Total Grants**	**50**

2nd FINANCE COMMISSION

1957-1962

2nd Finance Commission (1957-62)

Shri K. Santhanam
Chairman

Members

Shri Ujjal Singh

Shri L.S.Misra

Shri M.V.Rangachari

Dr. B.N.Ganguli

Shri H B Bhar
(Member Secretary)

The Second Finance Commission holding its first meeting in New Delhi on June 4, 1956. Shri K. Santhanam, Chairman of the Commission is presiding. The other members present are: Shri Ujjal Singh, former Finance Minister, Punjab, Shri L.S. Misra, retired Chief Justice, Hyderabad, Shri M.V. Rangachari, former Secretary, Ministry of Finance, Government of India; and Dr. B.N. Ganguli Professor, Delhi School of Economics

The Second Finance Commission signed its report in New Delhi on September 30, 1957. Photo shows (left to right) Shri M.V. Rangachari (Member), Shri Ujjal Singh (Member), Shri K. Santhanam (Chairman), Shri L.S. Misra (Member) and Dr. B.N. Ganguli (Member)

Major Recommendations

VERTICAL DEVOLUTION

1. The States' share in the proceeds of income tax should be increased to 60 per cent.
2. A sum equal to 25 per cent of the net proceeds of the Union duties of excise on eight articles (sugar, matches, tobacco, vegetable products, coffee, tea, paper and vegetable non-essential oils) should be paid out of the Consolidated Fund of India to the States.
3. One per cent of the net proceeds of taxes on income shall be set aside for Union Territories.

HORIZONTAL DEVOLUTION

4. The basis of horizontal distribution among States should be: 10 per cent weight for relative collection of States and 90 per cent for relative population according to the 1951 Census.
5. The basis of distribution of net proceeds of Union duties of excise among States should be 90 per cent for population and 10 per cent unspecified adjustments.
6. Out of the net proceeds of the tax on railway fares in each financial year a sum equal to one-quarter per cent should be retained by the Union as proceeds attributable to Union Territories; and the balance of the net proceeds of the tax on railway fares should be distributed among the States.

GRANTS

7. Sums under Article 273 of the Constitution as grants-in-aid of the revenues each year of the States of Assam, Bihar, Orissa and West Bengal were granted in lieu of assignment of any share of the export duty on jute and jute products.
8. In addition, the Commission recommended revenue deficit grants aggregating to Rs 188 crore.

2nd Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population (1951)	90.0	90.0
Relative Collection of States	10.0	--
Other unspecified adjustments	--	10.0
Total	**100.0**	**100.0**

Transfers by 2nd Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**852**
1	Grants under Article 273	9
2	Grants under Article 275	188
B	**Total Grants**	**197**

Explanatory Memorandum on the action taken on the recommendations of the Second Finance Commission in their report dated 30th September, 1957

The recommendations of the Commission have been summarised in Section XVIII of their Report which is being laid on the table of Parliament. They have been accepted by Government.

The Commission's recommendations fall into three categories, those to be implemented by an Order of the President, those to be implemented by law of Parliament and those to be implemented by executive orders. The recommendations under Article 270, 273 and 275(1) of the Constitution fall in the first category and the necessary orders will be submitted to the President for approval. The recommendations relating to the distribution of certain Union duties of excise between the Union and the States, the distribution among the States under Article 269(2) of the Constitution of Estate Duty on property other than agricultural land and the tax on railway fares and the levy and distribution of additional duties of excise in replacement of sales taxes on certain commodities fall in the second category. Legislation will be promoted, if possible in the current session of Parliament, to implement them. The question of the levy of additional duties of excise in replacement of sales taxes is still under discussion with the State Governments and if those duties are levied, they will be distributed as recommended by the Commission. The recommendation regarding loans has to be implemented by executive orders and necessary action will be taken in consultation with the State Governments.

The Commission have also made certain recommendations in paragraphs 164, 182, 191 to 197 and 202 of their Report. These recommendations are also generally acceptable to Government and will be implemented, as far as possible, in consultation with the State Governments and other authorities where necessary.

(H.M. Patel)

Principle Secretary to the Government of India

New Delhi

Dated the 13th November, 1957

Explanatory Memorandum on the action taken on the Recommendations of the Second Finance Commission Recommendation relating to loans to State Governments

1. The recommendations of the Second Finance Commission together with an Explanatory Memorandum as to the action taken thereon was laid before the Lok Sabha on the 14th November, 1957 and the Rajya Sabha on the 18th November, 1957. The Memorandum stated inter-alia that the recommendations of the Commission had been accepted by Government and that so far as the recommendation regarding the loans made to State Governments was concerned, which had to be implemented by executive action, necessary action will be taken in consultation with the State Governments.

2. The Government of India, in consultation with the Planning Commission, have now examined the question. They consider that the scheme of consolidation suggested by the Commission, which would have the effect of postponing the repayment of loans normally due for the next 15 years, would affect the ways and means position of the Central Government and reduce the resources available for them to assist State Governments during the period by way of loans either for plan projects or projects outside the plan. They also consider that there is not sufficient justification for the fixation of a uniform rate of interest as suggested by the Commission for all loans irrespective of the purposes for which the loans had been taken and that the rates of interest should have some relevance to the purpose of the loan.

3. After a careful consideration of the matter, they have come to the following conclusions:-

(a) Loans for rehabilitation of displaced persons and interest free loans

The recommendation of the Commission should be accepted. In other words the terms of repayment of all interests free loans shall remain unaltered and in respect of loans for rehabilitation of displaced persons w.e.f. 1st April, 1957, the States should pay to the Union the amounts of the principle and interests, they collect on account of these loans, including the arrears, if any.

(b) Loans commercial enterprises and for industrial housing for industrial and

The rate of interest applicable to each of the loans in this category should remain unaltered.

(c) Loans for electricity undertaking and for extension of Power facilities

The rate of interest should be refixed at 4% p.a. for all such loans.

(d) Loans against collection of Small Savings

The existing rate of interest viz., 4 per cent per annum should continue.

(e) Loans for multi-purpose River Valley Projects

The loans for each project should be broken up into two parts, one for power and the other for irrigation and other purposes. The loans allocated for power should bear interest at 4 per cent and the balance of the loans at 3 per cent per annum. Where such an allocation is not possible, an ad-hoc rate should be settled for the composite loans in consultation with the State Government concerned and the Planning Commission.

(f) Other Loans

All other loans, i.e., those not falling in any of the categories (a) to (e) above, should have the rate of interest refixed at 3 per cent, except that where the rate now applicable is less than 3 per cent, the lower rate shall continue to apply.

(g) The Government of India also propose that this pattern of interest should also apply to outstandings of loans sanctioned during 1956-57 and 1957-58 and the revised arrangements should take effect in the case of all the loans, other than loans for rehabilitation, from 1st April, 1958.

(h) In regard to the scheme of consolidation suggested by the Commission, the Government of India consider that this should be left for discussion with individual State Governments. For the present, therefore, they do not propose to vary the existing terms in regard to repayment except to the extent mentioned in sub-para (a) above.

(i) The Government of India expect that the effect of their proposal will be to reduce, on the whole, the interest burden on the States on account of the loans taken between the 15th August, 1947 and the 31st March, 1958 by about Rs. 4 crores a year.

4. The Government's conclusions have been communicated to the State Governments.

(M.V. Rangachari)

Special Secretary

Dated, New Delhi,

The 12th March, 1958

3rd FINANCE COMMISSION

1962-1966

3rd Finance Commission (1962-66)

Shri Ashok Kumar Chanda
Chairman

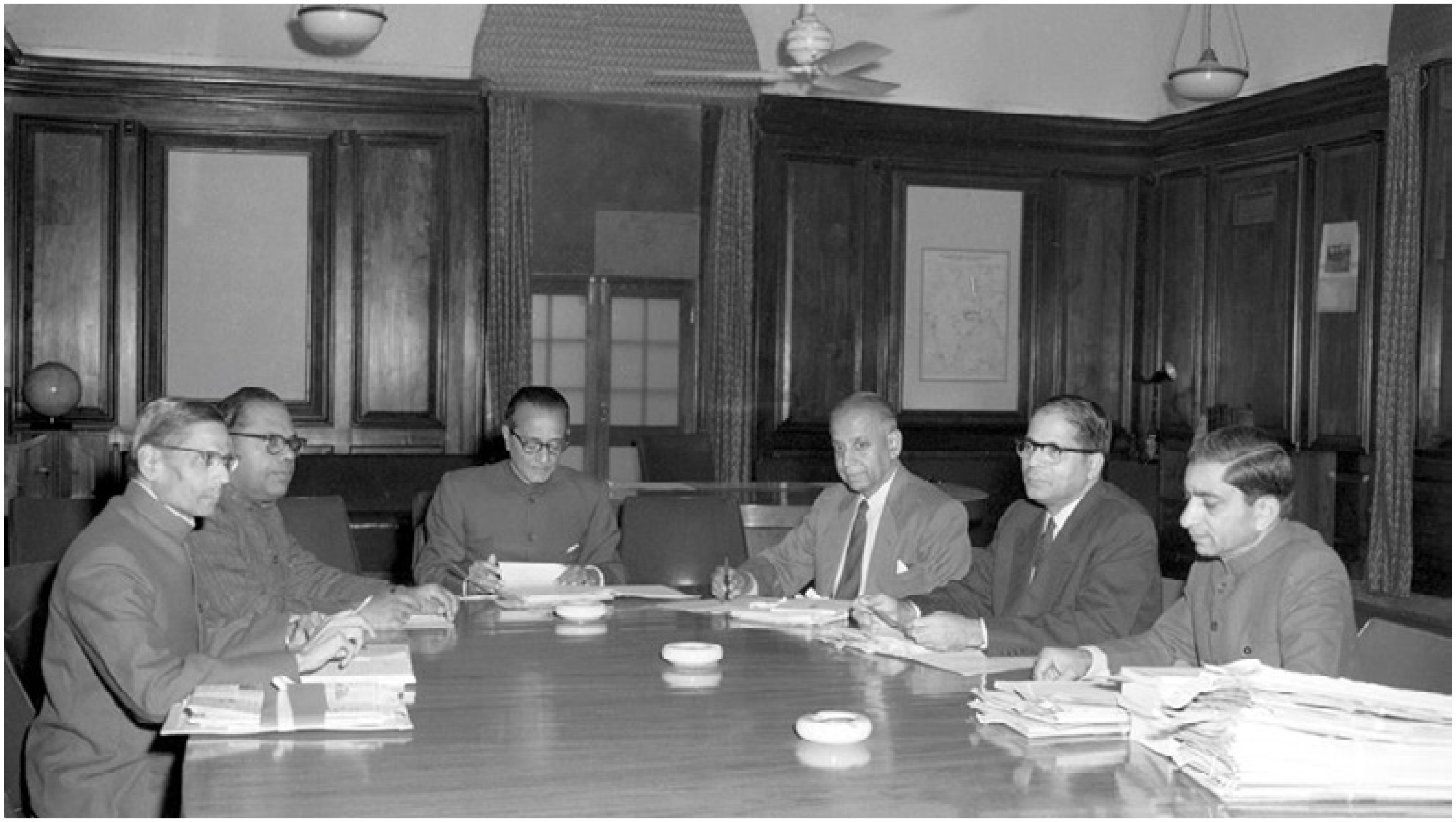
Members

Shri P. Govinda Menon

Shri Dwijendra Nath Roy

Prof. M.V. Mathur

Shri G.R. Kamat
(Member secretary)



The first meeting of the Third Finance Commission held at New Delhi on December 15, 1960. Photo shows (left to right) Prof. M.V. Mathur; Shri P. Govinda Menon; Shri Ashok Kumar Chanda (Chairman) Shri Dwijendra Nath Roy; Shri G.R. Kamat (Member Secretary) and Shri R. Saran

Major Recommendations

VERTICAL DEVOLUTION

1. States should be assigned 66-2/3 per cent (sixty-six and two-thirds) of the net proceeds of taxes on income other than agricultural income in any financial year.
2. A sum equal to 20 per cent of the net proceeds of the Union duties of excise on thirty-five articles should be paid out of the Consolidated Fund of India to the States.

HORIZONTAL DEVOLUTION

3. The basis of distribution of the States' total share in income tax to individual States should be to 80 per cent weight to population and 20 per cent to collection.
4. While population should be the main factor in horizontal devolution, other factors such as the relative financial weakness of States, disparities in the level of development, percentage of scheduled caste/scheduled tribe in the total population should also be taken into account. The exact method followed in arriving at inter se shares of States from Union excise duties was left unspecified.
5. Since the tax on railway passenger fares was abolished, an amount of Rs. 12.5 crore should be distributed among all the States.

GRANTS

6. Grants-in-aid should be given for meeting the planned revenue expenditure of the states.

3rd Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population(1961)	80.0	--
Relative Collection of States	20.0	--
Unspecified	--	100
Total	**100.0**	**100.0**

Transfers by 3rd Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**1067**
1	Revenue deficit	244
B	**Total Grants**	**244**

Explanatory Memorandum on the action taken on the Recommendations of the Third Finance Commission in its Report dated the 14th December, 1961.

The Report of the Third Finance Commission is being laid on the Table of Parliament. The recommendations of the Commission are summarised in Section VIII of the Report. All the unanimous recommendations of the Commission have been accepted.

The report is not unanimous and there are two recommendations on which there is a minute of dissent from one Member. These are:-

(a) that a special purpose grant be made to certain States for improvement of communications; and

(b) that 75 per cent of the revenue component of the State Plans be included in the scheme of devolution recommended by the Commission.

The majority recommendation regarding the special purpose grant for improvement of communications has been accepted, but Government do not consider it either necessary or desirable to accept the other recommendation. The scheme for financing the Plans of States as set out in the Third Five Year Plan provides reasonable assurance to State Governments that, given the necessary effort to mobilise resources and subject to an assessment of the overall financial and economic situation, the necessary Central assistance will be available to State Governments through annual plans. There will be no real advantage in the States receiving assistance for their Plans partly by way of statutory grants-in-aid as recommended by the Commission and partly on the basis of annual reviews made by the Planning Commission at the time of the framing of the annual plans. It is desirable to take an integrated view of the entire financial picture of each State, both on revenue and capital accounts, in relation to the State Plan as a whole. The total amount of Central assistance which the States may expect to receive for their Plans is not likely to be affected either way by the decision taken on this recommendations of the Finance Commission. On the other hand, there are considerable advantages in continuing to work on the basis of annual Plans and yearly assessments of the financial resources of the Centre and the States, so that adjustments, if necessary, can be made from year to year. In view of its large size and the wide range of activities embodied in the Third Plan, annual plans and reviews are an essential means of improving performance in all sectors, ensuring the fullest effort to raise resources, maintaining a satisfactory balance between different types of projects, particularly those which are of high priority and in one way or another inter-dependent. These purposes will be better served through suitable changes, where appropriate, in the existing procedures, rather than by converting any portion of Central assistance for State Plans into statutory grants, which must by their very nature lack flexibility. At the same time, to enable State Governments to make any day-to-day adjustments that may become necessary within the framework of their annual plans, procedure relating to the administration of Central assistance towards Plan expenditure have been already simplified and it is proposed to make them more flexible after consultation with the States.

The Commission's recommendations fall into three categories, those to be implemented by an Order of the President, those to be implemented by law by Parliament and those to be implemented by executive orders. The recommendations under Articles 270(1) of the Constitution fall in the first category and the necessary Order will be submitted to the President for approval. The recommendations relating to the distribution of Union Duties of Excise, including Additional Duties and Estate Duty on property other than agricultural land fall in the second category. Necessary legislation is being promoted in the current session of Parliament to implement them. The recommendation regarding the distribution of the ad hoc grant to the States in lieu of their share of tax on Railway fares will be implemented by executive orders.

The Commission has also made certain general observations in Chapter VII of its Report. These do not require any immediate decision and will be considered in due course in consultation with the State Governments, where necessary.

(L.K. Jha)

Secretary to the Government of India

New Delhi.

Dated the 12th March, 1962

4th FINANCE COMMISSION

1966-1969

4th Finance Commission (1966-69)

Shri P. V. Rajamannar
Chairman

Members

Shri Mohan Lal Gautam

Shri D.G. Karve

Prof. Bhabatosh Datta

Shri P. C. Mathew
(Member secretary)

Major Recommendations

VERTICAL DEVOLUTION

1. 75 per cent of the net proceeds of income tax should be distributed among the States.
2. 2.5 per cent of the net proceeds of income tax should be allocated to Union territories.
3. A sum equal to 20 per cent of the net proceeds of the Union duties of excises on all articles levied and collected in that particular year, excepting regulatory duties, special excises and duties and cesses earmarked for specific purposes, should be shared with States.

HORIZONTAL DEVOLUTION

4. The share of individual States should be determined on the basis of 80 per cent weight to population and 20 per cent to relative economic backwardness in the case of Union excise duty while in the case of income tax, the 20 per cent weight was for relative collection of States.
5. The amount of grant made available on the basis of the recommendations of the Railway Convention Committee Grants in lieu of taxes on railway fare should be distributed to States.

GRANTS

6. Grants-in-aid of revenues of States amounting to Rs 422 crores was recommended.

4th Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population(1961)	80.0	80.0
Relative Collection of States	20.0	--
Backwardness	--	20.0
Total	**100.0**	**100.0**

Transfers by 4th Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**1323**
1	Revenue Deficit	422
B	**Total Grants**	**422**

Explanatory Memorandum on the action taken on the recommendations of the Fourth Finance Commission in its Report dated the 12th August, 1965.

The Report of the Fourth Finance Commission is being laid on the Table of Parliament. The main recommendations of the Commission are summarised in Chapter 12 of the Report and these have been accepted subject to the modification indicated in paragraph 2 below.

The Commission has excluded from its assessment of revenue expenditure certain increase in pay scales and dearness allowance increases relating to State Government employees and employees of Local Bodies and School teachers effected by the State Governments of Andhra Pradesh, Mysore and Uttar Pradesh through orders issued in July, 1965, and listed in Part 2 of Annexure-1 of the Report. This was because either there was not sufficient time after receipt of these orders to re-assess the estimates already adopted or the proposals were not accompanied by basic particulars and other necessary data. The Commission's recommendation was that the effect of these liabilities might also be taken into account in fixing the Article 275 Grants to be included in the Order of the President. Accordingly, Government requested Prof. D.G. Karve, a Member of the Commission, to undertake an assessment of these liabilities applying thereto the same criteria as were applied to similar liabilities by the Commission. Prof. Karve has recommended additional grant of Rs. 6.29 crores to Andhra Pradesh and of Rs. 2.58 crores to Mysore and a grant of Rs. 9.85 crores to Uttar Pradesh, during each of the years from 1st April, 1966 to 31st March, 1971. The grant in the case of Uttar Pradesh has been recommended after taking into account the surplus of Rs. 17.02 crores otherwise available to the State for the five year period ending 31st March, 1971. These recommendations have been accepted.

The Commission had also excluded from its assessment of revenue expenditure provisions for special requirements of hill districts in Assam, improvement and strengthening of Police Organisation in Madhya Pradesh and grants to Panchayats in Mysore, as final orders on these proposals had not been issued. The Commission has recommended that if these proposals mature into commitments before the President issues Orders under Article 275 of the Constitution and the Union is approached by the State Governments, those requirements might also be taken into account by the President in determining the amounts to be granted under Article 275.

It would not be practicable to keep the Order under Article 275 pending or even open for an amendment later until these liabilities mature into commitments. Such liabilities would, therefore, be taken into account during the computation of the resources for the Plan of the respective States and their needs for purposes of Central assistance.

The Commission's recommendations fall into three categories; those to be implemented by an Order of the President, those to be implemented by law by Parliament and those to be implemented by executive orders. The recommendations under Articles 270 and 275 (1) of the Constitution fall in the first category and the necessary Order will be submitted to the President for approval. The recommendations relating to the distribution of Union duties of excise including additional duties and estate duty on property other than agricultural land fall in the second category. Necessary legislation will be promoted to implement them. The recommendations regarding the distribution of ad hoc grants to States in lieu of their share of tax on Railway fares will be implemented by executive orders.

The Commission has made certain general observations in Chapter 11 of its Report. The Chairman of the Commission and one of the Members have also appended minutes in which some general issues have been raised. These do not require any immediate decision and will be considered in due course in consultation with the State Governments where necessary.

(G. Venkateshwara Ayyar)

Secretary to the Government of India

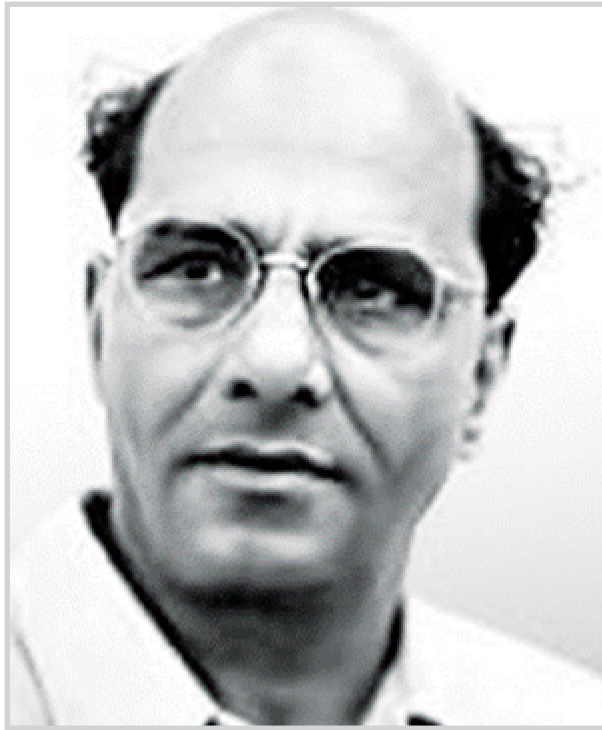
New Delhi.

Dated 10th September, 1965

5th FINANCE COMMISSION

1969-1974

5th Finance Commission (1969-74)



Shri Mahavir Tyagi
Chairman

Members

Shri P.C. Bhattacharyya
(Died on 13 February 1969)

Shri G. Swaminathan
(From 21 February 1969, in place of Shri P.C.Bhattacharyya)

Shri M. Seshachalapathy

Dr. D.T. Lakdawala

Shri V.L.Gidwani
(Member Secretary)

Shri Mahavir Tyagi, Chairman of the Fifth Finance Commission presiding over its first meeting in New Delhi on March 16, 1968

Major Recommendations

VERTICAL DEVOLUTION

1. 75 per cent of the net proceeds from income tax should be distributed among the states.
2. The states' share in the net proceeds of Union excise duties on all articles levied and collected in that year, excluding special excises, regulatory duties and duties and cesses levied under special Acts and earmarked for special purposes, should be continued at 20 per cent of the actual collection.

HORIZONTAL DEVOLUTION

3. 90 per cent of the State's share in the net proceeds of income tax should be distributed on the basis of population and the rest on the basis of collection.
4. The criterion of distribution of Union excise duties should be 80 per cent on the basis of population, 6.67 per cent on backwardness and 13.33 per cent on income distance.
5. Revenues collected from immovable properties should be distributed on the basis of actual location of such properties in the different States. The revenues from movable properties should be distributed on the basis of population.
6. The grant to be made available to the States in lieu of tax under the repealed Railway Passenger Fares Tax Act, 1957 should be distributed among the States in a specified proportion.

GRANTS

7. Revenue deficit grants aggregating to Rs. 638 crore over a period of five years was recommended.

5th Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population(1961)	90.0	80.0
Relative Collection of States	10.0	--
Backwardness	--	6.67
Distance of per capita income	--	13.33
Total	**100.0**	**100.0**

Transfers by 5th Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**3628**
1	Revenue Deficit	638
B	**Total Grants**	**638**

Explanatory Memorandum as to action taken on the recommendations of the Fifth Finance Commission in its final Report dated the 31st July, 1969

The Final Report of the Fifth Finance Commission is being laid on the Table of the House. A summary of the main recommendations in the Report relating to devolution of taxes and duties and grants-in-aid is summarized in Chapter 9 of the Report.

The Recommendations relating to the sharing of income tax, Union excise duties and additional duties of excise in lieu of States sales tax and payment of grants-in-aid of the revenues of certain States under Article 275(1) of the Constitution have been accepted. It will be recalled that recommendations in respect of estate duty and grants in lieu of the repealed tax on Railway fares made in the Commission's Interim Report submitted in October, 1968 have already been accepted. Necessary adjustments in the devolution of taxes and duties and grants-in-aid to States for the current year (1969-70) consequent on the acceptance of the Commission's recommendations in the Final Report will be made.

The Commission's recommendation that it would not be desirable to maintain the existing arrangements in respect of additional excise duties in lieu of State sales tax formerly levied thereon unless Government after discussing the matter further with the State Governments can arrive at a general agreement for the continuance of the present arrangements with suitable modification has been noted. The matter is proposed to be placed before the National Development Council.

The Commission's recommendations regarding devolution will result as pointed out in the Commission's Report in large revenue surpluses for certain States. The question of their utilization is proposed to be discussed in consultation with the Planning Commission and the concerned States.

The Commission has expressed the view that there is hardly any scope in the present circumstances for levying any of the taxes and duties mentioned in Article 269 of the Constitution which are not levied at present, except in the case of tax on advertisement in newspapers where it sees some scope for raising revenue. The Commission has recommended that the question of the levy of this tax, its rate structure, exemptions etc. should be examined by Government. This question will be examined as recommended.

The Commission has made a number of comments in regard to the effort at resource mobilization in various States and has also made several suggestions in respect of scope for raising revenue by the States. These also will be examined in consultation with the State Governments.

(I.G. Patel)

Special Secretary to the Government of India

New Delhi.

August 26, 1969

6th FINANCE COMMISSION

1974-1979

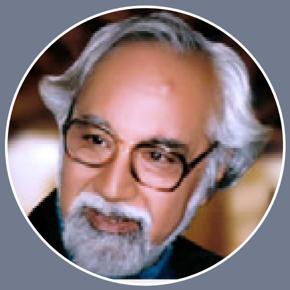
6th Finance Commission (1974-79)

Shri K. Brahmananda Reddy
Chairman

Members

Shri Justice S.S.Abal Masud

Dr. B.S.Minhas



Dr. I.S.Gulati

Shri G. Ramachandran
(Member secretary)

The first meeting of the Sixth Finance Commission was held in New Delhi on July 14, 1972. Photo shows (from left to right), Shri G. Ramachandran (Member Secretary), Dr. B.S. Minhas (Member), Shri K. Brahmananda Reddy (Chairman), Shri Justice S.S. Abal Masud (Member) and Dr. I.S. Gulati (Member)

The Chairman and Members of the Sixth Finance Commission signed the report in New Delhi on October 28, 1973

Major Recommendations

VERTICAL DEVOLUTION

1. The share of States in the net proceeds from taxes on income was revised to 80 per cent.
2. States' share in excise duties should be 20 per cent of the actual collection.

HORIZONTAL DEVOLUTION

3. While allocating the share of each State in this pool of income tax proceeds, 90 per should be distributed on the basis of population and 10 per cent on the basis of collection.
4. The Commission modified the basis of distribution of excise duties as follows: 75 per cent on the basis of population and 25 per cent on the backwardness of States. Thus, the Sixth Commission gave more weight on the backwardness of States in sharing excise duties.
5. Grants-in-lieu of railway passenger fare, proceeds from estate duties and wealth tax on agricultural property was also distributed.

GRANTS

6. The Commission awarded Rs. 2,510 crore as grants- in-aid of revenues during 1974-79 for fourteen states to cover their non-plan deficit. It did not recommend grants-in-aid for seven rich states — Maharashtra, Gujarat, Haryana, Punjab, Madhya Pradesh, Karnataka and Tamil Nadu.

OTHERS

7. The Commission also assessed the norms for improving the standard of administration and social services, such as police, jails, education and public health in the backward States.
8. Sixth Finance Commission made an assessment of the non-plan capital gap on uniform and comparable basis and recommended an estimated relief of the loans to Government of India during Fifth Plan period of Rs Rs. 1,970 crores to States.

6th Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population (1971)	90.0	75.0
Relative Collection of States	10.0	--
Distance of per capita income	--	25.0
Total	**100.0**	**100.0**

Transfers by 6th Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**7099**
1	Revenue Deficit	2510
B	**Total Grants**	**2510**

Explanatory Memorandum as to the action taken on the recommendations of the Sixth Finance Commission in its Report dated the 28th October, 1973

The Report of the Sixth Finance Commission is being laid on the Table of the House. A summary of the main recommendations in the Report relating to devolution of taxes and duties and grants-in-aid and changes in the terms of repayment of Central loans outstanding against the States is summarised in Chapter XVIII of its report.

The recommendations of the Commission relating to sharing of income tax, union excise duties (including auxiliary duties in the three years 1976-77 to 1978-79), additional excise duties in lieu of States' sales tax, and Estate Duty, and to the payment of grants in lieu of the repealed tax on Railway fares and on account of Wealth Tax on agricultural property have been accepted.

The Commission has recommended the payment of grants-in-aid of the revenues of certain States under article 275(1) of the constitution aggregating Rs. 2509.61 crores during the five year period commencing from 1974-75, after taking into account the needs of backward States for improvement of standards of essential administrative and social services. This recommendation of the Commission has been accepted. In computing the grants-in-aid of the order of Rs. 2509.61 crores the Commission has not taken into account the net interest liability of the States on account of fresh borrowings and lendings during the Fifth Plan Period. The Commission has recommended that the net interest liability on this account should be computed and the grants-in-aid suitably modified. Necessary action on this will be taken in due course.

The Commission has not favoured the establishment of a National Fund for financing the relief expenditure of the States affected by natural calamities. Instead it has made detailed suggestions in this regard and these will be examined in consultation with the Planning Commission.

The Commission was also required to make an assessment of the non-Plan capital gaps of States on uniform and comparable basis for the five years ending 1978-79 and in the light of its assessment recommend changes in the existing terms of repayment of Central loans outstanding at the end of 1973-74. In the light of the assessment made by the Commission it has recommended debt relief to the States of the order of Rs. 1969.62 crores for the five year period ending 1978-79, as detailed in the summary appended.

The Commission's recommendations fall into three categories (i) those to be implemented by an Order of the President, (ii) those to be implemented by law of Parliament, and (iii) those to be implemented by executive orders. The recommendations under article 270 (relating to income tax) and 275(1) (relating to grants-in-aid) of the Constitution fall in the first category and the necessary Order will be submitted to the President for approval. Recommendations relating to distribution of Union Duties of Excise, additional duties and estate on property other than agricultural land fall in the second category. Necessary legislation will be promoted to implement them. The recommendations relating to distribution of grants to State in lieu of the repealed tax on Railway Fares and grant on account of Wealth Tax on agricultural property and also changes in terms of repayment of Central loans will be implemented by executive orders.

The Commission has made certain general suggestions in the above Report. These do not require any immediate decision and will be considered in due course.

(M.G. Kaul)

Secretary to the Government of India

New Delhi.

December 11, 1973

7th FINANCE COMMISSION

1979-1984

7th Finance Commission (1979-84)

Shri J. M. Shelat
Chairman

Members

Dr Raj Krishna

Dr C.H. Hanumantha Rao

Shri H.N. Ray

Shri V.B. Eswaran
(Member Secretary)

Shri J.M. Shelat, Chairman, Seventh Finance Commission, arrives for meetings in Kohima

The Seventh Finance Commission holding a meeting with the Government of Nagaland in 1978

Shri J.M. Shelat, Chairman, Seventh Finance Commission, with Nilamani Routray, Chief Minister of Orissa, at a cultural evening during the Commission's visit to Orissa

The Seventh Finance Commission holding a meeting with the Government of Orissa in 1978

Major Recommendations

VERTICAL DEVOLUTION

1. The share of States in the net proceeds of income tax was raised to 85 per cent.
2. The Commission doubled the share of States in the proceeds from excise duties from 20 per cent to 40 per cent.

HORIZONTAL DEVOLUTION

3. The Commission retained the weights assigned to population (90 per cent) and relative contribution to collection (10 per cent) to determine inter-se distribution of taxes. The Commission held that population is an indicator of the needs of State.
4. The share of States in excise duties should be distributed by giving equal weightage to four factors: (i) population, (ii) the inverse of the per capita State Domestic Product, (iii) the poverty ratio and (iv) a revenue equalisation formula.
5. Grants-in-lieu of railway passenger fare, proceeds from estate duties and wealth tax on agricultural property was also distributed.

7th Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population (1971)	90.0	25.0
Relative Collection of States	10.0	--
Inverse of per capita state domestic product	--	25.0
Population below poverty line	--	25.0
Revenue equalization	--	25.0
Total	**100.0**	**100.0**

GRANTS

6. As regards grants-in-aid, the Commission recommended revenue gap grants and upgradation grants.
7. The annual provision to meet relief needs should be Rs. 100 crores. For drought relief expenditure in excess of the margin provided by the Commission, the State Government should make a contribution from its Plan for providing relief employment.

OTHERS

10. Regarding debt relief, the Commission suggested that:

    i. There should be consolidation of small savings loans in perpetuity. Thus, only interest should be paid, with no repayment of the principal.

    ii. There should be consolidation of the rest of the Central loans into one loan for each State.

    The Commission recommended that a portion of the loan so consolidated may be written off for each State.

    iii. A further portion of the loans so consolidated may be recovered over fifteen to thirty annual instalments paid yearly.

    iv. Interest rate charged should be in the range of 4.75 per cent to 5 per cent.

Transfers by 7th Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**19233**
1	Revenue Gap	1173
2	Upgradation Grant	437
B	**Total Grants**	**1610**

Explanatory Memorandum as to the action taken on the recommendations made by the Seventh Finance Commission in its Report submitted to the President on the 28th October, 1978

The Report of the Seventh Finance Commission, together with this explanatory memorandum as to the action taken on the recommendations of the Commission, is being laid on the Table of the House, in pursuance of article 281 of the Constitution. A summary of the Commission's main recommendations, relating to devolution of taxes and duties to the States, grants-in-aid under article 275 of the Constitution, financing of relief expenditure and debt relief to the States, is summarised in Chapter-13 of its Report.

A. Shares of Central taxes and duties

The Commission's recommendations, covering a period of five years commencing from the first day of April, 1979, relating to sharing of income tax, Union excise duties, additional excise duties in lieu of States' sales tax, estate duty on property other than agricultural land as also payment of grants in lieu of the repealed tax on Railway passenger fares and on account of wealth tax on agricultural property, have been accepted.

B. Grants-in-aid of the revenues of States under the substantive provision of article 275 of the Constitution

(a) Grants-in-aid to cover non-Plan gap on revenue account. Government have accepted the recommendation of the Commission for payment of grants-in-aid of the revenues of certain States, under the substantive provision of article 275(1) of the Constitution, towards meeting their non-Plan revenue gap, as assessed by the Commission, for the five years 1979-84, amounting in all to Rs. 1173.12 crores.

In recommending payment of grants-in-aid amounting to Rs. 1173.12 crores, referred to above, the Commission could not compute the net interest liability of the States arising out of their fresh borrowings and lendings during the five years 1979-84. The Commission has recommended that the Central Government should, from year to year, compute in relation to each of the years 1979-84, the net interest liability of the States arising from their fresh borrowings and lendings and that, thereupon, the President should be moved to increase, to the extent required, the amounts of the grants-in-aid recommended by the Commission for the 8 States and, in the case of the other States, the net interest liability so computed should be set off against the surplus as assessed by the Commission and the net deficit, if any, should be give as grants-in-aid to the States concerned by Presidential Order under article 275(1) of the Constitution. Government have accepted this recommendation and necessary action on this will be taken accordingly.

(b) Grants-in-aid for upgradation of standards of administration- Government have accepted the Commission's recommendations for making grants-in-aid to certain States for upgradation of the standards of administration, equivalent to the revenue and capital provisions which the Commission has recommended, subject to the implementation and the monitoring of the upgradation schemes in the manner indicated by the Commission in Chapter 10 of its Report.

(c) Grants-in-aid to compensate States' loss in excise revenue consequent upon introduction of prohibition- Government of India had decided to compensate the States in each of the years 1978-84, by way of grants-in-aid, to the extent of one-half of the established loss of State excise revenue on the introduction of prohibition treating the actual excise revenue of 1977-78 as the base. The decision was communicated to the States in August, 1978 and the Seventh Finance Commission also was informed. The Commission, however, has held the view that, where a State Government implements further measures towards achieving total prohibition in the years from 1979-80 onwards, and thereby suffers a loss in the excise revenue from potable liquor to a figure below that assumed by it for the relevant year, the differences should be made up entirely by the Central Government, by grants-in-aid under Article 275(1) of the Constitution, and has recommended accordingly. The Government of India, however, consider it appropriate that in the matter of introduction of total prohibition, which is in pursuance of the Directive Principles of State Policy, the losses in State excise revenue should be shared jointly by the Government of India and the State Governments concerned. The Government also consider that with the successful implementation of measures towards achieving total prohibition, there is scope for the State Governments to increase their other revenues. Accordingly, Government have decided to adhere to its decision to compensate the States to the extent of one-half of the loss in revenues from State excise, and not accept the recommendation of the Commission in this regard.

C. Alternative criteria of devolution

The Report of the Commission has appended to it a Note of Dissent by one of the Members suggesting an alternative formula for devolution of Central taxes and duties as also statutory grants-in-aid to the States. Government have carefully considered the Note of dissent together with the observations of the majority thereon and have decided that in regard to devolution of resources, which involves a delicate issue of Centre-State financial relations, it would be appropriate to accept the recommendations of the majority.

D. Recommendations on other terms of reference

(i) Financing of relief expenditure. The recommendations of the Commission relating to modifications in the existing arrangements for financing of relief expenditure by the States affected by natural calamities have been accepted by the Government.

(ii) Debt relief- Government have accepted the debt relief, estimated at Rs. 2155.80 crores, recommended by the Commission for the States for the five years 1979-84, but not the recommendations to convert the small savings loans to the States into "loans in perpetuity". However, in order not to disturb the order of the debt relief recommended by the Commission for the five years 1979-84, the State Government will not be required to make any repayment during 1979-84 on account of such loans as may be outstanding at the end of 1978-79.

E. Implementation

The Commission's recommendations fall into three categories, (i) those to be implemented by Order of the President, (ii) those to be implemented by law of Parliament, and (iii) those to be implemented by executive orders. The recommendations under articles 270 and 275(1) of the Constitution (relating to income tax and grants-in-aid respectively) fall in the first category and the necessary Order will be submitted to the President for approval. Recommendations relating to distribution of Union duties of excise, Additional duties of excise and Estate duty on property other than agricultural land fall in the second category. Necessary legislation will be promoted to implement them. The recommendations relating to distribution of grants to States in lieu of the repealed tax on Railway fares and grant on account of Wealth tax on agricultural property and also changes in terms of repayment of Central loans will be implemented by executive orders.

The Government while taking decisions on the recommendations of the Seventh Finance Commission have taken note of the inter-se distribution of resources resulting from the Commission's recommendations. Having regard to the fact that some of the States may not be as favourably placed as others vis-à-vis their developmental requirements, particularly in so far as the minimum needs programme is concerned, Government have decided that modalities will be worked out, in consultation with the Planning Commission, to see that the States with relatively weak financial resource base are enabled to implement adequately the revised minimum needs programme, covering rural water supply, house sites for the homeless, rural roads, rural electrification, rural health care, bonded labour and elementary/adult education.

The Commission had made certain general suggestions in the Report. These do not require any immediate decision and will be considered in due course.

(H.M. Patel)
Minister of Finance

New Delhi
November 24, 1978

8th FINANCE COMMISSION

1984-1989

8th Finance Commission (1984-89)

Shri Y. B. Chavan
Chairman

Members

Shri Justice Sabyasachi Mukherjee
(Resigned on 28th April, 1983)

Shri Justice T.P.S.Chawla
(From 3rd June, 1983, in place Of Shri Justice Sabyasachi Mukherjee)

Dr. C.H. Hanumantha Rao

Shri G.C.Baveja

Shri A.R. Shirali

Shri N.V. Krishnan
Secretary

Shri Y.B. Chavan, Chairman, Eighth Finance Commission, having talks with Members of the Commission in New Delhi on October 11, 1982

Shri Y.B. Chavan, Chairman, Eighth Finance Commission, being welcomed in Gujarat during the visit of the Commission to the State in 1983

The Eighth Finance Commission holding a meeting with the Government of Gujarat in 1983

Major Recommendations

VERTICAL DEVOLUTION

1. Sharing of the net proceeds of income tax was retained at 85 per cent.
2. Share of States in the net proceeds of excise duties was increased from 40 per cent to 45 per cent.

HORIZONTAL DEVOLUTION

3. The inter-se share of both income tax and Union excise duties is given in the table below:

8th Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population (1971)	22.5	25.0
Inverse of per capita income multiplied by population	22.5	25.0
Distance of per capita income	45.0	50.0
Relative Collection of States	10.0	--
Total	**100.0**	**100.0**

4. The Commission strongly defended the claim of State Governments on the tax on railway fares. The compensatory grant which replaced the tax was increased to Rs. 95 crores.

GRANTS

5. An amount of Rs 967 crore was recommended to cover the requirements of special problems (Rs 53 crores) and upgradation (Rs 914 crore).
6. The Commission said State Governments should provide 50 per cent of the margin money for financing relief expenditure, amounting to Rs 120 crore per year. The Union Government was to contribute the remaining 50 per cent. In the event of a natural calamity, a State will be entitled to draw on the Union Government's contribution after it has exhausted its own share of the margin money.
7. To cover the deficits on revenue account, a total of Rs 2,200 crore should be paid to eleven States.

OTHERS

8. States were awarded an estimated debt relief amounting to Rs 2,285.39 crore, including write off of payments of Rs 405.20 crore.

Transfers by 8th Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**35683**
1	Revenue Account Deficit	2200
2	Grants for upgradation of services	914
3	Special problems	53
4	Financing of Relief Expenditure	602
B	**Total Grants**	**3769**

Explanatory Memorandum on the action taken on the recommendations of the Eighth Finance Commission in its Interim Report dated the 14th November, 1983

"The Interim Report of the Eighth Finance Commission covering the financial year 1984-85 is being laid on the Table of the House. A summary of the main recommendations in the report is appended.

The recommendations contained in the Interim Report have been accepted."

Pranab Mukherjee
Finance Minister

New Delhi
9th December, 1983

Summary of the main recommendations in the Interim Report of the Eighth Finance Commission (November, 1983)

1. The Commission has recommended that in respect of the distribution between the Union and States of the net proceeds of Income-tax, Union Excise Duties, Additional Duties of Excise in lieu of sales tax, and Estate Duty the existing arrangements may continue provisionally during the financial year commencing on 1st April, 1984. The Commission has recommended that the State of Sikkim may also receive a share of Union Excise Duties including excise duty on electricity and Additional Excise Duties in lieu of sales tax.

2. The Commission has also recommended that the existing arrangements with regard to grants made available to States in lieu of tax on Railway Passenger fares and wealth tax on agricultural property may continue provisionally during the year 1984-85.

3. The existing arrangements in regard to financing of relief expenditure by the States affected by natural calamities may also be continued during 1984-85.

4. The Commission has recommended that Grant-in-aid under Article 275(1) of the Constitution to cover residuary deficits on revenue account may be paid to the following States for the year 1984-85.

Sl.No.	State	Sums to be paid as grant-in-aid (Rs. in crores)
1	Assam	38.17
2	Himachal Pradesh	91.15
3	Jammu & Kashmir	114.85
4	Manipur	56.08
5	Meghalaya	40.27
6	Nagaland	81.12
7	Sikkim	11.96
8	Tripura	53.34
9	West Bengal	7.89
Total		**494.83**

5. The recovery of small savings loans given to State Governments which was held in abeyance during the period 1979-80 to 1983-84 may be deferred during the financial year 1984-85 also.

6. In its present assessment the Commission has not made provision for expenditure on fresh proposals for upgradation of standards of administration and improvements, if any, needed for the maintenance and up-keep of capital assets and these will be made in the final report.

7. The recommendations contained in the Interim Report are provisional and of interim nature and would be subject to such re-adjustments as may be necessary on the basis of the final report.

Explanatory Memorandum as to the action taken on the recommendations made by the Eighth Finance Commission in its Report submitted to the President on 30th April, 1984

1. The Report of the Eighth Finance Commission covering a period of five years commencing from 1st day of April, 1984 together with the explanatory memorandum as to the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of Article 281 of the Constitution. A summary of the Commission's main recommendations relating to devolution of taxes and duties to the States, grants-in-aid under Article 275 of the Constitution, financing of relief expenditure and debt relief to the States and other matters, is summarised in Chapter XVII of its Report.

2. As required by its terms of reference, the Commission's recommendations cover the five year period commencing from 1st day of April, 1984. The Commission was requested to submit its report to the President by 31st October, 1983 so that sufficient time would be available to consider its recommendations before framing the Budgets and Annual Plans of the Central and State Governments for 1984-85. However, at the request of the Commission, its term was extended upto 29th February, 1984 (by notification dated 29th October, 1983) and further to 30th April, 1984 (by notification dated 29th February, 1984). The Report of the Commission was submitted to the President on 30th April, 1984 by which time the Budgets and Annual Plans for 1984-85 of the Central and most State Governments had already been finalised.

3. In view of the delay in the submission of the Report, the Commission submitted on 14th November, 1983 an Interim Report covering the year 1984-85, so that the recommendations contained in this Interim Report could be considered prior to the presentation of the budgets for 1984-85. The recommendations made by the Commission were accepted by the government and a memorandum on the action taken was laid on the Table of the House on 9th December, 1983. The budget of the Central Government for the current year, as approved by Parliament, reflects the impact of these decisions.

4. As almost four months of the current year are over and the budgets and Annual Plans for this year are already in operation, it will cause undue disruption in the economy, if the budgets and plans for the remaining part of the current year were to be changed now. In particular, any change in the formula for devolution of Central taxes and duties in mid year is not considered feasible as it would involve reduction or increase in shares of different States. Taking these considerations into account, the Government have decided to continue with the recommendations of the Finance Commission contained in the Interim Report for the current financial year. The following decisions taken on the Final Report of the Commission and their implementation, therefore, relate to the period 1985-86 to 1988-89.

A. SHARES OF CENTRAL TAXES AND DUTIES

5. For the period of four years commencing from the 1st day of April, 1985, recommendations contained in the final report of the Finance Commission relating to sharing of Income tax, Union duties of excise, additional excise in lieu of State sales tax, estate duty on property other than agricultural land and grant on account of wealth tax on agricultural property have been accepted. In regard to the recommendation of the Commission for enhancing the grant in lieu of repealed tax on railway passenger fares, the recommendation is acceptable to Government but will need to be referred to the Railway Convention Committee. The Government have also accepted the recommendations of the Finance Commission in regard to inter-se distribution of the grant among the States.

6. It may be noted that the Commission has recommended that 5 per cent of the net proceeds of Union duties of excise (excluding that on electricity) should be set aside and distributed to those States which have deficit after taking into account their shares from the devolution of taxes and duties as proposed by it. This introduces a new principle of directly linking devolution to deficit rather than dealing with them only through grants-in-aid under Article 275. While recognising that there could be different views on the merits of this principle, Government have decided to accept this recommendation of the Commission in the Report but without creating a precedent.

B. GRANTS-IN-AID OF THE REVENUES OF STATES UNDER THE SUBSTANTIVE PROVISION OF ARTICLE 275 OF THE CONSTITUTION

7. (i) Grants-in-aid to cover non-plan gap on revenue account:- For the four years commencing from 1st day of April, 1985, the Government have accepted the recommendations contained in the Final Report of the Commission for payment of grants-in-aid of the revenues of certain States under the substantive provision of Article 275(1) of the Constitution towards meeting their non-plan revenue gap as assessed by the Commission.

   (ii) The Commission has not computed the net interest liabilities of the States arising out of the fresh borrowings during the period 1984-89. The Commission has recommended that the Central Government from year to year should compute in relation to each of the four years (1985-89), the net interest liability of the States arising out of the fresh borrowings and that, thereupon, the President should be moved to increase, to the extent required, the amounts of the grants-in-aid recommended by the Commission for the deficit States and in the case of other States, the net interest liability so computed should be set off against the surplus as assessed by the Commission. The Government have accepted this recommendation.

iii) The Commission has not computed the additional burden from 1985-86 arising out of the committed expenditure in respect of plan schemes completed in 1984-85. The Commission has recommended that the Government may compute the requirements of the deficit States on this account taking into consideration the yield from additional resource mobilisation measures of 1984-85, and move the President to increase, to the extent required, the amounts of the grants-in-aid. The Government have accepted this recommendation also.

(iv) Grants-in-aid for upgradation of standards of administration, special problems and for financing of relief expenditure:- The Government have accepted the recommendations of the Commission for making grants-in-aid to certain States for upgradation of standards of administration and special problems for the four years commencing from 1st day of April, 1985, subject to the implementation and monitoring of the schemes in the manner indicated by the Commission in Chapter XII of its Report. The Government have also accepted the recommendations of the Commission that the Centre should contribute annually as grants-in-aid equal to half of the margin money computed by the Commission for financing of relief expenditure.

C. RECOMMENDATIONS ON OTHER TERMS OF REFERENCE

8. (i) Financing of Relief Expenditure:- In addition to the grants-in-aid to the margin money of States for financing of relief expenditure, the Government have accepted the modifications recommended by the Commission to the existing arrangements for financing of relief expenditure.

   (ii) Debt Relief:- The Government have accepted the recommendations of the Commission in regard to debt relief for the four years commencing from 1st day of April, 1985.

D. NOTES OF DISSENT

9. The Report of the Commission has appended to it three Notes of Dissent on certain recommendations. The Government have carefully considered these notes and decided to accept generally the recommendations of the majority.

E. IMPLEMENTATION

10. The Commission's recommendations fall in three categories:

    (i) Those to be implemented by the Order of the President;

    (ii) Those to be implemented by law of Parliament;

    (iii) Those to be implemented by executive order.

    The recommendations under Article 270 and 275(1) of the Constitution relating to income tax and grants-in-aid respectively fall in the first category and the necessary order will be submitted to the President for approval. Recommendations relating to distribution of Union excise duties and estate duty on property other than agricultural land fall in the second category. Necessary ligislation will be promoted for implementing them. The recommendations relating to distribution of grant to States in lieu of tax on railway passenger fares and grant on account of wealth tax on agricultural property and also changes in terms of repayment of the Central loans will be implemented by executive orders.

11. The recommendations relating to the enhancement in the grant given in lieu of repealed tax on railway passenger fares will be referred to the Railway Convention Committee and implemented if accepted by them.

12. The Commission has made certain other recommendations in the Report. These do not require any immediate action and will be considered in due course.

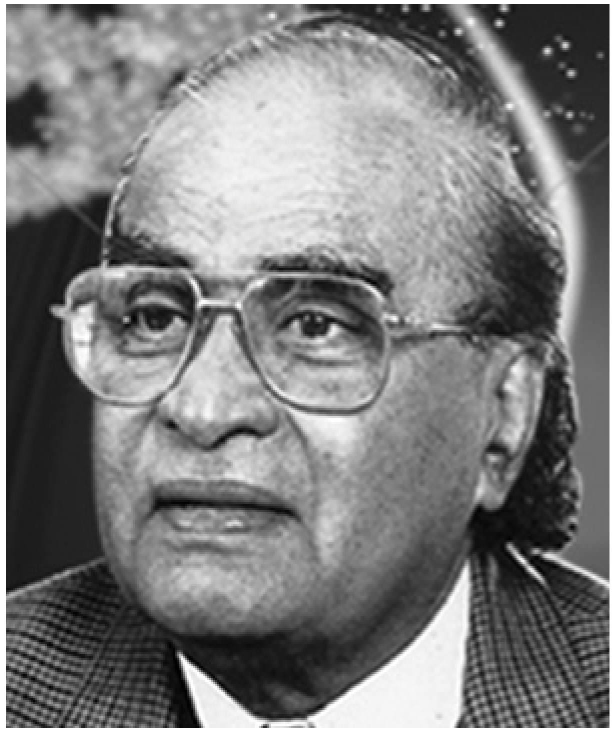
(Pranab Mukherjee)

Finance Minister
New Delhi.
July 24, 1984

9th FINANCE COMMISSION

1989-1995

9th Finance Commission (1989-95)



Shri N.K.P. Salve
Chairman

Members

Shri Justice Abdus Sattar Qureshi

Dr. Raja J. Chelliah

Shri Lal Thanhawla
(Resigned on 24 January, 1989)

Shri S. Venkitaramanan
(From 3 May, 1989, in place of Shri Lal Thanhawla. Subsequently resigned.)

Shri R. Keishing
(From 25 November, 1989 in place of Shri S. Venkitaramanan)

Shri Mahesh Prasad
Member Secretary (Resigned)

Shri K.V.R. Nair
Member Secretary
(From 13 July, 1989, in place of Shri Mahesh Prasad)

Major Recommendations

VERTICAL DEVOLUTION

1. The Commission assigned 85 per cent of the divisible pool of income tax to be to States. Of the net distributable proceeds, 1.437 per cent should be deemed to represent the proceeds attributable to Union Territories.
2. The States' share in the net proceeds of shareable Union excise duties shall be 45 per cent.

HORIZONTAL DEVOLUTION

3. The detailed formula for inter-se share of States is given in the table below:

9th Finance Commission (2nd Report)

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Contribution (Income Tax)	10.0	--
Distance of per capita income	45.0	33.5
Population (1971)	22.5	25.0
Composite index of backwardness	11.25	12.5
Inverse of per capita income multiplied by population	11.25	--
Income adjusted total population	--	12.5
Non-Plan deficits	--	16.5
Total	**100.0**	**100.0**

GRANTS

4. The Commission set out a new arrangement under which States would have greater autonomy and accountability. A calamity relief fund was to be constituted for each State, amounting in aggregate to Rs. 804 crores each year. The Union Government was to contribute to the Calamity Relief Fund of each State to the extent of 75 per cent in the form of non-Plan grant. The balance 25 per cent was to be contributed by each State out of its own resources. Governments were to make their contributions to the Fund in quarterly instalments.
5. To cover the net five-year (1990-95) deficits on non-Plan revenue account and part of the deficits on plan revenue account, States were to be paid a sum aggregating to Rs. 15,017 crores in five years.

OTHERS

6. The Commission recommended that the Reserve Bank of India work out a formula for amortization of the market borrowings of States. From 1990 to 1991 the direct Union loans for States' plans should have a maturity period of twenty years with 50 per cent of the loans enjoying a grace period of five years. The loans given to the federating states for drought relief during 1986–89 as outstanding on 31 March 1989 were to be waived. The loans advanced to the states during the 1984–89 period and outstanding on 31 March 1990 should be consolidated and rescheduled to fifteen years in the case of all States.

Transfers by the 9th Finance Commission (2nd Report)

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**87882**
1	Financing of Relief Expenditure(a+b)	3137
a	Calamity Relief Fund	3015
b	Relief fund to victims of Bhopal Gas tragedy	122
2	Revenue Deficit Grants	15017*
B	**Total Grants**	**18154**

**Includes Plan revenue grants of Rs 9001 crores*

Explanatory Memorandum on the action taken on the recommendations of the Ninth Finance Commission in its First Report dated 29th July, 1988

The First Report of the Ninth Finance Commission covering the financial year 1989-90 is being laid on the Table of the House. A summary of the main recommendations in the Report is contained in Chapter XII of the Report.

The recommendations of the Finance Commission regarding devolution of Income Tax, Union Excise Duties, Additional Duties of Excise in lieu of Sales Tax, Grants-in-aid in lieu of tax on Railway Passenger Fares, Financing of relief expenditure, and Debt relief have been accepted. In regard to Grant-in-aid Government accept the recommendations of the Finance Commission with the proviso that the recommendation relating to Grant-in-aid for meeting the requirements of the revenue component of the State Plan may be kept in view by the Planning Commission, while finalising the funding arrangements for the Annual Plans of the States for 1989-90.

The other recommendations of the Commission not relating to immediate devolution, will be considered separately.

(S.B. Chavan)
Finance Minister

New Delhi
2nd September, 1988.

Explanatory Memorandum on the amendments to the First Report of the Ninth Finance Commission

The First Report of the Ninth Finance Commission and the memorandum on the Government's decision on the recommendations made therein were laid on the Table of the House on 2nd September, 1988. This is to lay on the Table of the House the amendments to that report proposed by the Commission subsequently to correct a few minor computational errors that had crept into the Report. The amendments are:-

i) the share of Union Territories in the net proceeds of income tax earlier fixed at 1.044% (Para 5.30 of the Report) is revised to 1.124%;

ii) States' share in the net proceeds of income tax earlier indicated as Rs. 2990.38 crores (Col. (i) of Table 9 on page 53 of the Report) is revised as Rs. 2987.94 crores i.e. Rs. 2.44 crores less; and

iii) as a result of the reduction in the States' share of income tax, the grants given to the following deficit States, are increased by the amount shown against each-

Sl.No.	State	Sums to be paid as grant-in-aid (Rs. in crores)
1	Arunachal Pradesh	0.01
2	Assam	0.05
3	Goa	0.01
4	Himachal Pradesh	0.02
5	Jammu & Kashmir	0.05
6	Manipur	0.01
7	Mizoram	0.02
8	Nagaland	0.02
9	Orissa	0.05
10	Rajasthan	0.08
11	Tripura	0.02

The Government has accepted the amendments in the First Report as proposed by the Ninth Finance Commission.

(S.B. Chavan)
Finance Minister

New Delhi
February 23, 1989

Explanatory Memorandum as to the action taken on the recommendations made by the Ninth Finance Commission in its Second Report submitted to the President on 18th December, 1989

The Second Report of the Ninth Finance Commission covering the five years period commencing from the 1st of April, 1990 together with the Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of Article 281 of the Constitution. A summary of the Commission's main recommendations relating to devolution of taxes and duties to the States, grants-in-aid under Article 275 of the Constitution, financing of relief expenditure and debt relief to the States and other matters, is summarised in Chapter-XI of its Report.

A. SHARES OF CENTRAL TAXES AND DUTIES

For the period of five years commencing from the 1st of April, 1990, recommendations contained in the Second Report of the Finance Commission relating to sharing of Income tax, Union Duties of excise, additional excise duties in lieu of States' sales tax, have been accepted. The recommendation of the Commission relating to grants in lieu of the repealed tax on railway passenger fares has also been accepted by Government.

B. GRANTS-IN-AID OF THE REVENUES OF STATES UNDER THE SUBSTANTIVE PROVISION OF ARTICLE 275 OF THE CONSTITUTION

(i) Grants-in-aid to cover non-Plan gap on Revenue Account:

The Government have accepted the recommendations contained in the Second Report of the Commission for payment of grants-in-aid of the revenues of certain States under the substantive provision of Article 275 (l) of the Constitution towards meeting their non-Plan revenue gap as assessed by the Commission for the five years 1990-95.

(ii) Grants-in-aid to cover part of deficits on Plan Revenue Account:

The Government have accepted the recommendations of the Commission for the payment of grant-in-aid to certain States to cover a part of the deficit of such State Governments on plan account for the five years commencing from the 1st of April, 1990. These grants will be taken into account by the Planning Commission as a resource for financing the States' Plans.

C. RECOMMENDATIONS ON OTHER TERMS OF REFERENCES

(i) Financing of Relief Expenditure:

The Government have accepted, in principle, the recommendations of the Commission relating to financing of relief expenditure and setting up of a Calamity Relief Fund in each of the States. The arrangements for the custody and operation of the Fund will be separately worked out in consultation with the Comptroller & Auditor General of India and the Reserve Bank of India.

The recommendation of the Commission on grants to the Madhya Pradesh Government for the Bhopal Gas Leak disaster will be considered as a part of the general scheme for providing interim compensation to gas leak victims.

(ii) Debt Relief:

The Government have accepted the recommendations of the Commission in regard to rescheduling/write off of certain loans outstanding against State Governments and elongation of the maturity period of future Central loan for State Plans from 15 years to 20 years with 50 per cent loans enjoying a grace period of 5 years have been accepted. The other recommendations on debt relief requiring in depth examination will be considered in due course.

D. NOTE OF DISSENT

The report of the Commission has appended to it a Note of Dissent on certain recommendations. The Government have carefully considered the note and decided to accept the recommendations of the majority as indicated in paras 2,3, and 4 above.

E. IMPLEMENTATION

The Commission's recommendations fall in three categories:

(i) Those to be implemented by an Order of the President.

(ii) Those to be implemented by Law of Parliament.

(iii) Those to be implemented by executive order.

The recommendations under Article 270 and 275(1) of the Constitution relating to income tax and grants-in-aid respectively fall in the first category and the necessary order will be submitted to the President for approval. Recommendations relating to distribution of Union Excise duties including Additional Duties of Excise in lieu of sales tax (Under Article 272 of the Constitution) fall in the second category. Necessary legislation will be promoted for implementing them. The recommendations relating to distribution of grants to States in lieu of tax on railway passenger fares and rescheduling of Central Loans will be implemented by executive order.

The Commission has made certain other recommendations in the Report. These do not require any immediate action and will be considered in due course.

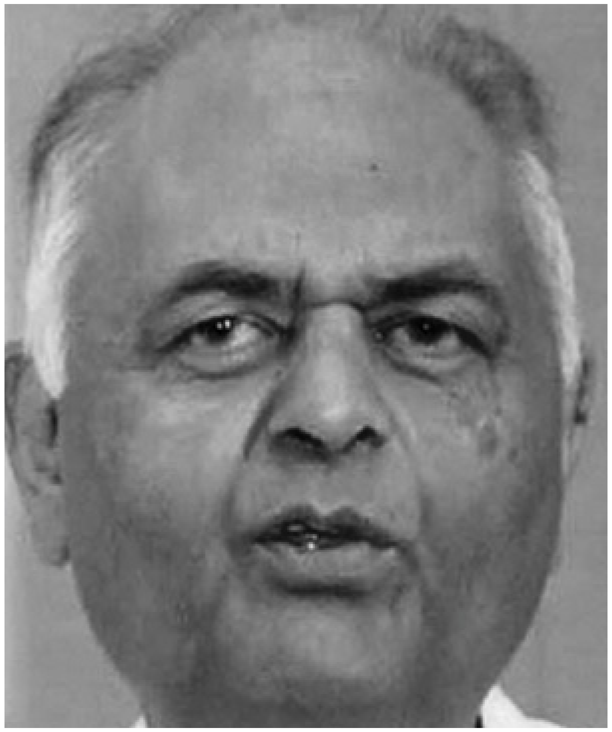
(Madhu Dandavate)
Finance Minister

New Delhi
March 12, 1990

10th FINANCE COMMISSION

1995-2000

10th Finance Commission (1995-2000)



Shri K.C. Pant
Chairman

Members

Dr. Debi Prosad Pal

Shri B.P. R. Vithal

Dr. C. Rangarajan
(Resigned on 21 December, 1992)

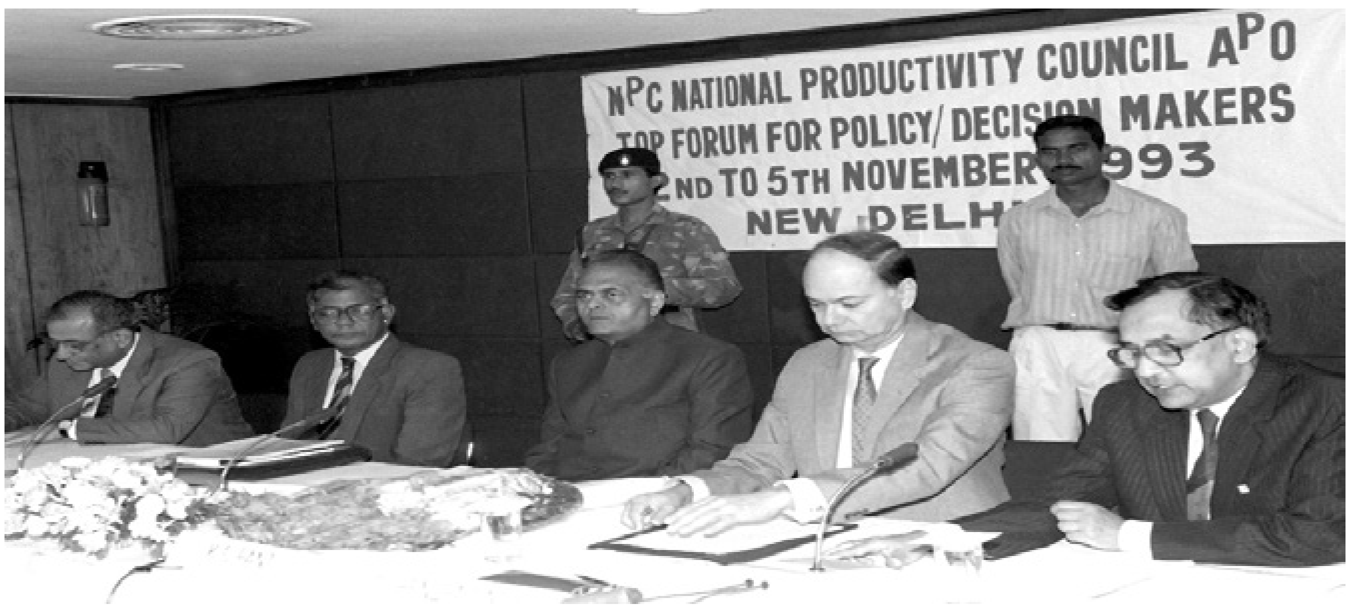
Shri Manu R. Shroff
(From 14 October, 1993 in place of Dr C. Rangarajan)

Shri M.C. Gupta
Member Secretary (Relinquished charge on 31 January, 1994)

Shri Arun Sinha
Member Secretary (From 1 March, 1994, in place of Shri M.C. Gupta)

Shri K.C. Pant, Chairman, Tenth Finance Commission, holding discussions with representatives of the power sector on the terms of reference of the Commission in New Delhi on May 19, 1993

Shri K.C. Pant, Chairman, Tenth Finance Commission, holding discussions with Commission Members on April 16, 1993



Shri K.C. Pant, Chairman, Tenth Finance Commission, delivering the valedictory address at the "Top Forum for Policy/Decision Makers" in New Delhi on November 5, 1993

Shri K.C. Pant, Chairman, Tenth Finance Commission, presiding over a meeting with other Commission Members

Shri K.C. Pant, Chairman, Tenth Finance Commission, addressing a meeting in Goa on 16 December 1993

Major Recommendations

VERTICAL DEVOLUTION

1. The share of States in the net proceeds of income tax was fixed at 77.5 per cent instead of 85 per cent fixed by the previous two Commissions.
2. Out of the distributable proceeds of income tax, 0.927 per cent was earmarked for distribution among the Union Territories.
3. The Commission recommended that the shares of States in the net proceeds of Union excise duties be raised to 47.5 per cent from the existing 45 per cent fixed by the Ninth Finance Commission. This was to compensate the States for the reduced share in income tax.

HORIZONTAL DEVOLUTION

4. The Commission 's recommendation on the distribution of excise duties among States were:

   (i) Forty per cent of the net proceeds of Union excise duties would be distributed among States using the same criteria adopted for the distribution of income tax.

   (ii) The balance 7.5 per cent would be distributed among the deficit States.
5. The Commission did not change the scheme of allocation recommended by the Ninth Finance Commission. Thus, it continued with the use of the State Domestic Product (SDP) and population to determine the share of each State in the proceeds of additional duties of excise in lieu of sales tax.

10th Finance Commission

Criteria	Weight (%) For	
	Income Tax	Union Excise Duty
Population (1971)	20.0	20.0
Distance of per capita income	60.0	60.0
Area adjusted	5.0	5.0
Index of infrastructure	5.0	5.0
Tax efforts	10.0	10.0
Total	**100.0**	**100.0**

6. The Commission recommended that the grant in lieu of the tax on passenger fares should be 10.7 per cent of the non-suburban passenger earnings. These earnings totalled Rs. 3,504 crores in 1992-93. On the basis of this figure, the Commission fixed the annual grant at Rs. 380 crores (i.e., 10.7 per cent of Rs. 3,450 crores) to be paid to the States for the period 1995-2000.

GRANTS

7. The Commission recommended the following grants:
   i. Rs. 1,360 crores as up-gradation grants and Rs. 1,250 crores to solve special problems of States.
   ii. Grants-in-aid of about Rs. 7,583 crores to cover deficits on revenue account.
   iii. Rs.6304.27 crores for financing calamity relief for all the States. Out of this, the Union was required to contribute Rs. 4,728.19 crores (75 per cent) and the States Rs.1,576.08 crores (25 per cent).
   iv. Grants of Rs. 5,381 crores to local bodies, that is panchayats and municipalities. The inter-se share was on basis of population according to the 1971 Census.
8. Total grants-in-aid recommended by the Commission amounted to Rs. 20,302 crores for the award period (1995-2000).

OTHERS

Debt Position of States:

9. Like the Ninth Finance Commission, the Tenth Finance Commission, was also specifically given the mandate to assess the entire debt position of States and not merely for Union loans. It was also asked to recommend measures for reducing the fiscal deficit. Accordingly, the Commission recommended the following relief and corrective measures:

i. A scheme of general debt relief for all States linked to fiscal performance.

ii. Specific relief for three States with fiscal stress - Odisha, Bihar and Uttar Pradesh. For these States, the Commission recommended writing off 5 per cent of repayment with respect to Union loans given during between 1989 and 1995 and outstanding as on March 31, 1995.

iii. Special loans for Punjab to fight militancy and insurgency. One- third of the repayment of principal falling due during 1995-2000, would be waived.

iv. A total relief of Rs. 44 crore to special category States.

10. In sum, the Tenth Finance Commission recommended total debt relief of about Rs. 700 crore during its award period.

Transfers by 10th Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**206343**
1	Upgradation and Special Problem Grants	2610
2	Financing of Relief Expenditure*	4728
3	Local Bodies Grants	5381
4	Revenue Deficit Grants	7583
B	**Total Grants**	**20302**

**In addition to the Calamity Relief Fund for States, a National Calamity Relief Fund was created with a corpus of Rs 700 crores to be contributed by Centre and the States.*

Alternative scheme of devolution:

11. The Commission suggested the following alternative scheme of devolution:

i. "Having regard to the share of States in income tax, Union excise duties, and grant-in-lieu of tax on railway passenger fare in total Central tax revenues (including additional excise duties), and the fact that we are recommending inclusion of some taxes under Article 269 in the Central pool, we recommend that the share of States in the gross receipts of Central taxes shall be 26 per cent. We further recommend that the tax rental arrangement should be terminated, and additional excise duties merged with basic excise duties. These three commodities should not be subject to States sales tax. Having done so we recommend a further share of three per cent in the gross tax receipts of the Centre for the States in lieu of additional excise duties. These shares of twenty six and three per cent respectively should be suitably provided for in the Constitution and reviewed once in 15 years.

ii. "We believe there is some advantage in retaining a system such as in Article 268, where a tax is levied by the Union Government but collected and retained by the States, in the interest of uniformity of rates. Because Central sales tax, already being levied, and consignment tax, if and when levied, are similar to the taxes under Article 268, we have decided to keep them out of the pool of central taxes. All other taxes in Article 269 shall form part of the central pool.

iii. "We would recommend that the alternative scheme of resource sharing suggested by us may be brought into force with effect from 1st April, 1996 after necessary amendments to the Constitution. This should not affect the inter-se shares and grants recommended by us."

Explanatory Memorandum as to the action taken on the recommendations made by the Tenth Finance Commission in its Report submitted to the President on November 26, 1994.

The Report of the Tenth Finance Commission covering the five years period commencing from April 1, 1995 together with the Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of article 281 of the Constitution. A summary of the Commission's main recommendations relating to devolution of taxes and duties to the States, grants-in-aid under Article 275 of the Constitution, financing of relief expenditure and debt relief to the States and other matters is contained in Chapter XVI of the Report of the Commission.

2. SHARES OF CENTRAL TAXES AND DUTIES

For the period of five years commencing from April 1, 1995, recommendations contained in the Report of the Finance Commission relating to sharing of Income tax, Union Duties of Excise, Additional Excise Duties in lieu of States' sales tax, have been accepted by Government. The recommendations of the Commission relating to grants in lieu of the repealed tax on railway passenger fares have also been accepted by Government. The recommendation of the Commission that the receipts on account of `interest recoveries' and `penalties' under the Income tax Act should be shared with the States with effect from April 1, 1995, has been accepted by the Government.

3. GRANTS-IN-AID OF THE REVENUES OF STATES UNDER THE SUBSTANTIVE PROVISIONS OF ARTICLE 275 OF THE CONSTITUTION

(i) Grants-in-aid to cover non-Plan gap on Revenue Account
The Government has accepted the recommendations contained in the Report of the Commission for payment of grants-in-aid of the revenues of certain States under the substantive provisions of Article 275(1) of the Constitution towards meeting their non-Plan revenue gap as assessed by the Commission for the five years 1995-2000.

(ii) Grants-in-aid for upgradation of standards of administration and specific grants to certain States for special problems
The Government has accepted the recommendations of the Commission for making grants-in-aid to States for upgradation of standards of administration and specific grants to certain States for special problems for the four years commencing from April 1, 1996 as recommended by the Commission.

(iii) Grants to States for financing local bodies
The Government has accepted the recommendations of the Commission for making grants to the States for Panchayati Raj Institutions as well as for the Urban Municipal Bodies during the four years period commencing from April 1, 1996. These grants will be treated as part of the Plan of the State Governments, earmarked to be transferred to local bodies.

(iv) Financing of Relief Expenditure

The Government has accepted the recommendations of the Commission relating to the continuation of the existing scheme of Calamity relief fund with an enhancement in the corpus of the Calamity Relief Fund. As recommended by the Commission, the existing scheme will be modified in consultation with the States so as to provide flexibility in the choice of avenues for investment. The Government has also accepted the recommendations of the Finance Commission in regard to setting of a Rs. 700 crore National Fund for Calamity Relief (NFCR). The arrangements for the custody and operation of the fund will be separately worked out in consultation with the Comptroller and Auditor General of India and the Reserve Bank of India.

(v) Debt Relief: The Government has accepted the recommendations of the Commission in regard to debt relief including two new schemes of general debt relief for all States, one linked to the fiscal performance of the States and the other linked to the utilization of proceeds of disinvestment in State Public Enterprises for retiring Central loans.

4. IMPLEMENTATION

The Commission's recommendations fall in four categories:

(i) Those to be implemented by an Order of the President.

(ii) Those to be implemented by Law of Parliament.

(iii) Those to be implemented by executive orders.

(iv) Those to be examined further.

The recommendations under articles 270 and 275(1) of the Constitution relating to income tax and grants-in-aid, respectively, fall in the first category and the necessary order will be submitted to the President for approval.

Recommendations relating to distribution of Union Excise Duties including Additional Duties of Excise In lieu of Sales Tax (under Article 272 of the Constitution) fall in the second category. Necessary legislation will be promoted for implementing these recommendations.

The recommendations relating to distribution of grants to States in lieu of tax on railway passenger fares and debt relief will be implemented by executive orders.

Other recommendations of the Commission will be considered in due course.

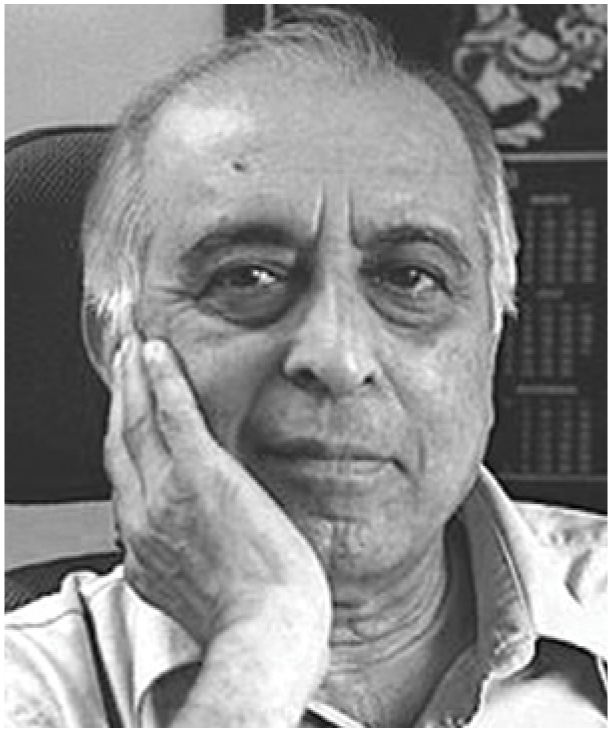
Manmohan Singh
Minister of Finance

New Delhi
March 14, 1995

11th FINANCE COMMISSION

2000-2005

11th Finance Commission (2000-2005)



Prof. A. M. Khusro
Chairman

Members

Shri N.C.Jain

Shri J.C.Jetly

Dr. Amaresh Bagchi

Shri T.N. Srivastava
(Member Secretary)

The Eleventh Finance Commission led by Prof. A.M. Khusro, Chairman, holding a meeting with the Chief Minister of Kerala, Shri E. K. Nayanar, his Cabinet colleagues and government officers

The President of India, Shri K.R. Narayanan, being presented the final report of the Eleventh Finance Commission by its Chairman, Prof. A.M. Khusro, and the Members in New Delhi on July 7, 2000

The Eleventh Finance Commission interacting with the Governor of Kerala, Shri Sukhdev Singh Kang

Prof. A.M. Khusro, Chairman, Eleventh Finance Commission, addressing the media in New Delhi on July 28, 2000

Major Recommendations

There was a fundamental change in the pattern of sharing of Union taxes with the States following the Eightieth Amendment of the Constitution. Under an amended Article 270, all taxes included in the Union List (except the duties and taxes referred to in Articles 268, 269, and 269-A, surcharges and any cess levied for a specific purpose under an Act of Parliament) are shareable with the States. The amendment came into operation from 9 June 2000. This came into implementation with the recommendations of Eleventh Finance Commission.

VERTICAL DEVOLUTION

1. The total share of the States in the net proceeds of Union taxes and duties was fixed at 29.5 per cent .
2. In the overall scheme of transfers, 37.5 per cent of the gross revenue receipts of the Union was recommended to be transferred to the States.

HORIZONTAL DEVOLUTION

3. The detailed horizontal devolution formula is given in the table below:

11th Finance Commission	
Criteria	Weight (%) For
Income Distance Method	62.5
Population (1971)	10.0
Area	7.5
Index of Infrastructure	7.5
Fiscal Discipline	7.5
Tax Effort	5.0
Total	**100.0**

GRANTS

4. For the five years commencing from April 1, 2000, Rs.4,972.63 crore was awarded for upgrading of standards of administration and specific grants to certain States for special problems.
5. For the five years commencing April 1, 2000, Rs.10,000 crore was awarded for local bodies, to be utilised for maintenance of civic services. Of this, Rs.1,600 crore per annum is for rural local bodies and Rs. 400 crore per annum is for urban local bodies. The basis for inter-se State devolution was: 40 per cent population, 20 per cent distance from the highest per capita income, 20 per cent index of decentralization, 10 per cent geographical area and 10 per cent revenue effort.
6. With reference to the grants-in-aid under Article 275 (1) of the Constitution, the Commission recommended a total of Rs. 35,359 crore for the award period (2000-2005) for fifteen States which will have non-plan revenue deficit even after the devolution of Union tax revenues.
7. The amount of Calamity Relief Fund for 2000-05 was worked out at Rs. 11,007.59 crore. This included the Union's share of Rs. 8,255.69 crore and the States' share of Rs. 2,751.90 crore.

Transfers by 11th Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**376318**
1	Non-Plan Revenue Deficit	35359
2	Local Bodies	10000
3	Relief Expenditure	8256
4	Upgradation and Special Problem	4973
B	**Total Grants**	**58588**

Explanatory Memorandum as to the action taken on the recommendations made by the Eleventh Finance Commission in its Interim Report submitted to the President on January 15, 2000

1. The Eleventh Finance Commission was constituted on 3rd July, 1998 with the mandate to give its report by 31st December, 1999 covering the five year period 2000-2005. On 28th December, 1999, it was given extension of time up to 30th June, 2000 with the direction to give an interim report to enable provisional arrangements for 2000-2001. In pursuance of article 281 of the Constitution, the Interim Report of the Eleventh Finance Commission covering the one year period commencing from April 1, 2000 together with the Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the Table of the House.

2. The Commission's interim recommendations relating to provisional arrangements in 2000-01 in respect of devolution of taxes and duties to the States, grants-in-aid under Article 275 of the Constitution and financing of relief expenditure are summarised below.

SHARES OF CENTRAL TAXES AND DUTIES

3. States' share in the net proceeds of personal Income Tax is recommended to be increased from 77.5% at present to 80% for 2000-01. States' Share in the net proceeds of Union Excise Duties is recommended to be increased from 47.5% at present to 52% for 2000-01. States' Share in the net proceeds of Additional Excise Duties is recommended to be retained at the existing level of 97.797% for 2000-01. These recommendations have been accepted by Government.

GRANTS-IN-AID OF THE REVENUES OF STATES UNDER THE SUBSTANTIVE PROVISIONS OF ARTICLE 275 OF THE CONSTITUTION

Grants-in-aid to cover non-Plan gap on Revenue Account

4. The Commission has assessed that the States' would have Revenue Deficit of about Rs. 11,000 crore on non-Plan account, which needs to be bridged through non-Plan grants from the Centre. The inter-se allocation between States has, however, not been indicated. This will be done in the final report. The Government has accepted the recommendations of the Commission for payment of Rs. 11,000 crore as grants-in-aid of the revenues of certain States under the substantive provisions of Article 275(1) of the Constitution towards meeting their non-Plan revenue gap as assessed by the Commission for the year 2000-2001 subject to stipulations in para 10 below.

Grants-in-aid for upgradation of standards of administration and specific grants to certain States for special problems

5. The Government has accepted the recommendations of the Commission for making grants-in-aid amounting to Rs. 2,000 crore to States for upgradation of standards of administration and grants to certain States for special problems for the year 2000-2001.

Financing of Relief Expenditure

6. The Government has accepted the recommendations of the Commission relating to the continuation of the existing scheme of calamity relief fund with the size of States' Calamity Relief Funds being fixed at Rs. 2,000 crore for 2000-2001 including Rs. 1,500 crore as Centre's contribution.

Grants to States for financing local bodies

7. The Tenth Finance Commission had recommended ad-hoc grants to the States for Panchayati Raj Institutions as well as for the Urban Municipal bodies. For Panchayati Raj Institutions the Tenth Finance Commission had made an ad-hoc provision at the rate of Rs. 100 per capita of rural population (1971 census) amounting to a total of Rs. 4,380.93 crore. For urban local bodies, Rs. 1,000 crore has been provided for the five year period 1995-2000 on the basis of the inter-State ratio of the slum population derived from the urban population figures as per 1971 Census. Eleventh Finance Commission has recommended a 50% increase in the grants to States for Local Bodies with 80% being earmarked for Rural and 20% for Urban Local Bodies. The Government has accepted the recommendations of the Commission.

Grants in lieu of the Repealed Tax on Railway Passenger Fares

8. Grant in lieu of tax on Railway passenger fares, which is Rs. 380 crore per annum at present, is recommended to be increased to Rs. 570 crore for 2000-2001.

9. The critical challenge posed by a weakening fiscal situation must be squarely confronted and overcome. A long history of high fiscal deficit has left a legacy of huge public debt and ever-growing bill of interest payments. Although in thecurrent precarious fiscal situation of Centre, it would be very burdensome on Centre's finances to accept these recommendations but the States' finances are also severely strained and, therefore, in the spirit of federalism, Government has accepted these recommendations. While the need of non-Plan grants to cover the residual Revenue Deficit of States is manifest, the problems that have in the first place caused high revenue deficit need to be addressed. In this context, it is pertinent to mention that the challenge of fiscal management is not confined to the Central Government. The financial position of the State Governments has deteriorated sharply in the last few years. Revenue deficits have widened and borrowings are being increasingly used to meet revenue expenditure. Fiscal reform at the State level has acquired great urgency. While we have gone out of our way to help State Government, the determination shown by some States to deal with these issues has also helped enormously. It will be my endeavour to take further collective measures in the next year for promoting fiscal reforms in the States. The final report of the Eleventh Finance Commission will provide valuable inputs for taking policy initiatives in this regard. The Commission has a broader mandate to look into the overall macro-economic balance. The Commission has indicated in the interim report that it is preparing a scheme of restructuring the government finances so as to restore the fiscal balance.

10. Keeping in view the difficult fiscal situation and the collective efforts of the Central and State Governments required in dealing with it, the Government has decided that the Finance Commission should draw up a monitorable fiscal reform programme for the States and the non-Plan grants to cover the assessed Revenue Deficit should be suitable tied up with the progress made in the implementation of the programme.

11. The Government's acceptance of the interim recommendations is meant to be a provisional arrangement for 2000-2001 only. Necessary provisions have been proposed in Budget 2000-2001. Government will review the decision in the light of the recommendations of the Commission in their final report and also in the light of the Parliament's decision in respect of the Constitution (Eighty Ninth Amendment) Bill , 2000 introduced in the Lok Sabha on 9th March, 2000 regarding the Alternative Scheme of Devolution recommended by the 10th Finance Commission. Under this scheme, a fixed percentage of the net proceeds of almost all Central taxes, excluding cesses and surcharges, is sought to be assigned to the States w.e.f. 1st April, 1996 in lieu of existing share in Personal Income Tax, Union Excise Duties and Grants in lieu of Tax on Railway Passenger Fares.

IMPLEMENTATION

12. The Commission's recommendations fall in three categories:

    (i) Those to be implemented by an Order of the President.

    (ii) Those to be implemented by Law of Parliament.

    (iii) Those to be implemented by executive orders.

13. The recommendations under article 270 and 275(1) of the Constitution relating to income tax and grants-in-aid, respectively, fall in the first category and the necessary order will be submitted to the President for approval.

14. Recommendations relating to distribution of Union Excise duties including Additional Duties of Excise in lieu of Sales Tax (under Article 272 of the constitution) fall in the second category. Necessary legislation will be promoted for implementing these recommendations in a manner consistent with Parliament's decision in respect of the Constitution (Eighty Ninth Amendment) Bill, 2000 introduced in the Lok Sabha on 9th March, 2000 regarding the Alternative Scheme of Devolution recommended by the Tenth Finance Commission.

15. The recommendations relating to distribution of grants to States in lieu of tax on railway passenger fares and debt relief will be implemented by executive orders.

(Yashwant Sinha)
Ministry of Finance

New Delhi
March 16, 2000

Explanatory Memorandum as to the action taken on the recommendations made by the Eleventh Finance Commission in its report submitted to the President on July 7, 2000

1. The Eleventh Finance Commission was constituted by the President on July 3, 1998 to give recommendations on specified aspects of Centre-State fiscal relations during 2000-2005. The Commission submitted its Report covering all aspects of its original mandate on 7th July, 2000. Earlier, on 15th January,2000, the Commission had submitted an interim report for making provisional arrangements for 2000-01. The interim recommendations of the Commission were accepted by the Government and were laid on the Table of the House on 16th March, 2000.

2. The Report of the Eleventh Finance Commission (hereinafter referred to as the Commission) covering the five years period commencing from April 1, 2000 together with the Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of Article 281 of the Constitution. A summary of the Commission's main recommendations relating to devolution of taxes and duties to the States, grants-in-aid under Article 275 of the Constitution, financing of relief expenditure and debt relief to the States and other matters is contained in Chapter XIV of the Report of the Commission.

3. The Finance Commission are constituted by the President after every five years or earlier under Article 280 of the Constitution to give recommendations on specified aspects of Centre-State fiscal relations. The recommendations of these Commissions are based on a detailed assessment of the financial position of the Central and State Governments and wide consultation with almost all sections of stakeholders. The Commissions usually visit the States, sponsor studies, hold consultations with experts and their recommendations are usually backed up by detailed reasons disclosing methodology adopted by them. The Government has carefully considered some of the main recommendations contained in the above mentioned Report of the Commission and the action proposed to be taken on these recommendations is detailed below.

DEVOLUTION OF SHARE IN CENTRAL TAXES AND DUTIES TO STATES

4. Under Article 270 of the Constitution, as amended w.e.f. 1st April, 1996 by the Constitution (Eightieth Amendment) Act, 2000, a prescribed percentage of the net proceeds of all Central taxes and duties (except Union surcharge, cess levied for specific purposes under any law made by Parliament and the duties and taxes referred to in articles 268 and 269) is to be assigned to the States within which that tax or duty is leviable in that year and distributed among those States in terms of Orders issued by the President on the recommendations of the Finance Commission. For the period of five years commencing from April 1, 2000, the Commission has recommended that 28% of the net proceeds of shareable Central taxes/duties may be distributed amongst all such States' where the Central tax/duty is leviable. If in any year during 2000-05, a Central tax/duty is not leviable in a State, the share of that State in that tax/duty should be put to zero and the entire proceeds should be distributed among the remaining States by proportionately adjusting their shares. In addition, 1.5% of the net proceeds of shareable Central taxes/duties in

a year may be distributed amongst such States which do not levy sales tax on sugar, tobacco and textiles during that year. The Commission has recommended percentage share of each State in the share of all States and indicated the criteria adopted by them in arriving at those percentage shares in Chapter VI of their Report.

5. The Government has accepted the above recommendations of the Commission.

GRANTS-IN-AID OF THE REVENUES OF STATES UNDER THE SUBSTANTIVE PROVISIONS OF ARTICLE 275 OF THE CONSTITUTION

Grants-in-aid to cover non-Plan gap on Revenue Account

6. The Commission has recommended grants-in-aid to be give under Article 275(1) of the Constitution, other than those under the proviso to Article 275(1), equal to the amount of deficits assessed for each year during the period 2000-05. The amount of the grant for each State, having non-Plan deficits is indicated in Chapter X of their report. The Government has accepted these recommendations. In view of the coverage of non-Plan revenue deficit of States by these grants, Central Government's total budgetary support on revenue account for meeting the States' non-Plan requirements will be limited to the grants-in-aid recommended by the Commission. The release of these grants will be made in accordance with the next Report of the Commission due to be submitted by 31st August, 2000. Action is, however, being taken to release a part of these grants on an ad-hoc, provisional basis to mitigate hardship to the concerned States.

Grants-in-aid for upgradation of standards of administration and specific grants to certain States for special problems

7. The Commission has recommended grants totalling to Rs. 4,972.63 crore towards upgradation of standards of administration and special problems of States. The State-wise, year-wise, purpose-wise details of these grants are given in Chapter VII of their Report. The Government has accepted the recommendations of the Commission for making grants-in-aid to States for upgradation of standards of administration and specific grants to certain States for special problems for the five year commencing from April 1, 2000 as recommended by the Commission.

Grants to States for financing local bodies

8. The Commission has recommended grants totalling Rs. 10,000 crore for local bodies during 2000-05, to be utilised (except the amount earmarked for maintenance of accounts & audit and for development of database) for maintenance of civic services (excluding payment of salaries and wages). Of this, Rs. 1600 crore p.a. is for rural local bodies and Rs. 400 crore p.a. is for urban local bodies. The inter-State distribution, criterion adopted in arriving at the proposed distribution are given in Chapter VIII of their Report. Of the total grants for local bodies, the Commission has emphasised earmarking of funds in two areas: Rs. 200 crore for development of database on the finances of the panchayats and municipalities and Rs. 98.61 crore for maintenance of accounts of panchayats as the first charge on these grants, to be released by the concerned Ministries of the Government of India, after the arrangements suggested by the Commission have become operational. The Commission has also suggested several measures for strengthening of arrangements for maintenance of accounts and audit of local bodies.

9. The Government has accepted these recommendations subject to the following caveats:-

(i) The local bodies should be required to raise suitable matching resources.

(ii) In cases where elected local bodies are not in place, the Central Government shall hold the share of such bodies in trust on a non-lapsable basis during 2000-05. Central Government may also similarly hold back a part of the recommended share in case of such bodies to whom functions and responsibilities have not been devolved.

(iii) Earmarking of funds for maintenance of accounts, within the overall recommended level of grants, may be increased to the extent necessary in consultation with the C&AG.

(iv) Measures to strengthen accounts and audit of local bodies have been accepted in principle. Details will be worked out in consultation with the C&AG.

Financing of calamity relief expenditure

10. The Commission has recommended the continuance of the existing scheme of Calamity Relief funds in States with an aggregate size of Rs. 11007.59 crore during 2000-05. This includes the Centre's share of Rs. 8255.69 crore, and the States' share of Rs. 2751.90 crore, worked out in the ratio of 75:25. The State-wise distribution and the criterion adopted by the Commission is indicated in Chapter IX of their Report.

11. The Commission has recommended the discontinuation of the existing National Fund for Calamity Relief because a calamity of rare severity is conceptually of such a nature that the intensity and magnitude cannot be anticipated and provided for in advance through the CRF or regular budgetary mechanism. The Central Government's responsibility does not get restricted to the availability of the amount in the Fund as indeed has been shown during 1995-2000 when Central Government released Rs. 2555 crore from NFCR set up with a corpus of only Rs. 700 crores. Instead, the Commission has recommended that the Central assistance to the States in national calamities should be financed by levy of a special surcharge on the Central taxes for a limited period. A surcharge can also instil a feeling of national participation for a national cause. Collection from such surcharge should be kept in a separate fund, to be known as National Calamity Contingency Fund (NCCF), created in the public Account of the Government of India. The Commission has also recommended that Government of India should contribute an initial core amount of Rs. 500 crore to this fund so that funds for initial operations are readily available. However, drawls from the fund should be accompanied by imposition of the special surcharge so that it is immediately recouped. Any balance left from the collection of the surcharge, after meeting the exigency for which it was collected, should be credited to the fund and not treated as a resource for meeting the budgetary expenditure. In order to ensure that there is no delay in the flow of funds to the States for administration of relief, a legislation enabling the Central Government to levy surcharge may be enacted.

12. The Government has accepted the above recommendations of the Commission. The recommendation concerning National Calamity Contingency Fund will be implemented after necessary legislation is enacted.

Debt relief to States

13. The Commission has proposed to continue the existing debt relief scheme, linked to improvement in the ratio of revenue receipts of a State to its total revenue expenditure, with enhanced incentive. Details are given in Chapter XI of their report. Besides, the Commission has recommended a moratorium on the payment of instalments of debt and interest on the special loans given to Punjab during 1984-94 for combating insurgency and militancy due for repayment from the State of Punjab during the period 2000-05. The Commission has further recommended debt relief to Punjab and Jammu & Kashmir on the basis of specified expenditure incurred on security.

14. The Government has accepted the above recommendations of the Commission.

Miscellaneous

15. While working out the total quantum of devolution of share in Central taxes/duties to States and grants-in-aid to States, the Commission has considered the trends in total transfers from the Centre to the States on Revenue account and given its recommendations on the basis of the premise that tax devolution and Plan/non-Plan grants from the Centre to the States should not exceed 37.5% of total Centre's revenues, both tax and non-tax. The Government has accepted this ceiling on total Revenue account transfers from the Centre to the States. However, the acceptance does not imply the establishment of a principle of mandatory sharing of a fixed percentage of Centre's revenue receipts with the States.

IMPLEMENTATION

16. The Commission's recommendations fall in four categories:

    (i) Those to be implemented by an Order of the President.

    (ii) Those to be implemented by Law of Parliament.

    (iii) Those to be implemented by executive orders.

    (iv) Those to be examined further.

17. The recommendations under articles 270 and 275(1) of the Constitution relating to share in Central taxes and duties and grants-in-aid, respectively, fall in the first category and the necessary order will be submitted to the President for approval.

18. Recommendations relating to setting up of a National Calamity Contingency Fund (NCCF) and enabling the Central Government to levy surcharge for national calamities fall in the second category. Necessary legislation will be proposed for implementing these recommendations.

19. The recommendations relating to debt relief will be implemented by executive orders.

20. Other recommendations of the Commission will be considered in due course.

(Yashwant Sinha)
Minister of Finance

New Delhi
July 27, 2000

Explanatory Memorandum as to the action taken on the recommendations made by the Eleventh Finance Commission in its Report submitted to the President on 30th August,2000

1. The Eleventh Finance Commission was constituted by the President on July 3, 1998 to give recommendations on specified aspects of Centre-State fiscal relations during 2000-05. The Commission submitted its Report covering all aspects of its original mandate on 7th July,2000. Earlier, on 15th January, 2000, the Commission had submitted an interim Report for making provisional arrangements for 2000-2001. The interim recommendations of the Commission were accepted by the Government and were laid on the Table of the House on 16th March, 2000. The Commission was asked (vide President's order dated 28th April, 2000) to4 "draw a monitorable fiscal reforms programme aimed at reduction of revenue deficit of the States and to recommend the manner in which the grants to States to cover the assessed deficit in their non-plan revenue account may be linked to progress in implementing the programme." On 7th July, 2000, the Commission submitted its report covering all aspects of its original mandate except in respect of the additional mandate assigned to it under the President's order dated 28th April, 2000. This report of the Eleventh Finance Commission was laid on the Table of the House on 27th July, 2000 together with an explanatory memorandum as to the action taken by the Government on the recommendations of the Commission.

2. The Commission has now submitted a supplementary report on 30th August, 2000 purportedly under the additional mandate assigned to it under the President's order dated 28th April, 2000. This Report together with the Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of Article 281 of the Constitution.

3. This report mainly deals with grants to States in the context of revenue deficit in the accounts of the States. In respect of revenue deficit grants to States, the Commission's recommendations in their three Reports are summarised below:-

* In the Interim Report submitted on 15th January, 2000, the Commission had recommended a lump sum provision of Rs. 11000 crore in the Central Budget 2000-01 for revenue deficit grants to States without giving State-wise break-up.

* In the Main Report submitted on 7th July, 2000, the Commission recommended revenue deficit grants of Rs. 35359 crore for 15 States during 2000-2005. The remaining 10 States were revenue surplus in the Commission's assessment. The Commission was asked to draw up a monitorable fiscal reforms programmes and to recommend how to link the release of revenue deficit grants to progress in implementing the programme.

* Since only 15 States were assessed to be in revenue deficit, the fiscal reforms programme should have normally covered only the 15 States assessed to be in revenue deficit. Instead, in the Supplementary Report submitted on 30th August, 2000, the majority view in the Commission has recommended monitorable fiscal reforms programmes for all States. It has been recommended that 15% of the revenue deficit grants meant for 15 States during 2000-05 and a matching contribution by Central Government be credited into an Incentive Fund from which fiscal performance based grants should be made available to all 25 States. Release of performance based grants from an Incentive Fund to be set up by withholding 15% of the Rs. 35359 crore deficit grants for 15 States and an equal matching contribution by Government of India with year-wise phasing as follows:

Composition of the Incentive Fund (Rs. in Crore)

Year	Withheld portion of the Revenue deficit grants	Contribution of the Centre	Total Fund
2000-01	1523.06	598.48	2121.54
2001-02	1080.43	1041.11	2121.54
2002-03	994.64	1126.91	2121.55
2003-04	861.74	1259.81	2121.55
2004-05	843.99	1277.55	2121.54
Total	**5303.86**	**5303.86**	**10607.72**

*The Commission has also recommended that the grants for specific purposes like upgradation, special problems and local bodies, which remain unutilised due to non-observance of conditionalities attached to the release of these grants may also be credited to the Incentive Fund during 2004-05.

4. Important features of the scheme proposed by the Commission in the Supplementary Report are summarised below.

(i) A group designated as Monitoring Agency may be constituted by the Government of India for drawing up State-specific monitorable fiscal reforms programmes for all States in the context of the broad parameters suggested by the Commission and as accepted by Government of India. The group may include, among other, representatives of Planning Commission, the Finance Ministry of the Government of India and the representative of the State Government concerned.

(ii) Eighty five per cent of the revenue deficit grant recommended by the Commission and accepted by the Government of India may be released to the relevant States without linking it to performance under the monitorable fiscal reforms programme. Only 15 per cent of the revenue deficit grant to which a State is entitled may be withheld and linked with the progress in performance.

(iii) The monitorable programme should give equal weight to the raising of revenue and control of expenditure. The areas indicated by the Commission for monitoring are only suggestive; so are the weights. These can be suitably modified while drawing the State specific programme. However, the broad contents of the reform indicated in the Main Report should be kept in view as the ultimate objective is to bring the revenue deficit of the States to zero, in the aggregate, by 2004-05.

(iv) The Incentive Fund should be set up comprising of two parts. The first part of the Fund would comprise 15 per cent of the withheld part of the grants recommended to cover the deficit of the States on non-plan revenue account. Depending on the performance of a State in the implementation of the monitorable programme, the withheld amount would be released to it on a proportionate basis. The second part of the Fund would be created by contribution from the Central Government, equivalent to 15 per cent of the revenue deficit grants recommended by the Commission.

(v) The incentive component is recommended to be provided to all the States. The initial eligibility of the States has been worked out on the basis of the population as per the 1971 Census. The amount will be available to a State in proportion to the level of performance in the implementation of the monitorable fiscal reforms programme for each year.

(vi) If any State is unable to get the full amount initially earmarked for it in any year, such amount will not lapse but will continue to be available in subsequent years to the same State. During the first four years, no amount of this Fund earmarked for assistance/incentive to a State, would be transferred to another State. However, if any State is not able to draw the amount indicated on the basis of the performance of the first four years, the amount undisbursed to a State would form part of the common pool and would be distributed to the performing States in the fifth year on a pro-rata basis in addition to the amounts to which they are initially entitled. The same would apply to the undrawn amount of the withheld portion of the grants to cover non-plan revenue deficit. Every State irrespective of the assessed deficit or not would be entitled to get the assistance on a pro-rata basis related to performance from the additions to the Fund. This additional entitlement can go up to 100 per cent of their initial eligibility indicated for the State concerned. The Fund may be kept separately, preferably in public account.

(vii) The withheld amount of grants releasable in 2004-05 may be released to the concerned assessed State on the basis of a review of their performance. In case any amount remains unreleased to a State, it would be added to the Fund and would be available to the remaining States. The balance amount in the fund at the end of 2005-06 will lapse to the Central Government.

(viii) The Commission had recommended grants for specific purposes like upgradation, special problems and local bodies in the Main Report. There are certain specific conditionalities for releasing these grants. The progress in the implementation of the identified schemes may be reviewed by the Monitoring Agency. If the Agency is satisfied that a State has not taken effective steps to implement these in the first four years, and is not in a position to utilise the amount either in full or in part, the same may be added to the Incentive Fund in the fifth year.

(ix) In addition to the incentives for better performance, Central Government may also consider the fiscal reforms programme linked assistance by way of extended ways and means advance and additional open market borrowings. The scope and dimension of such facilities should be drawn up by the Central Government bearing in mind the Centre's fiscal position and the macro-economic implications of this facility. This facility should also be extended to all States linked to monitorable fiscal reforms programme drawn up for the State.

(x) The disbursements from the Incentive Fund as well as the utilisation of the grants recommended by the 11th Finance Commission in the Main Report will be subject to review by the 12th Finance Commission.

5. The above recommendations of the Commission have been accepted by the Government in the interest of furthering the cause of fiscal reforms in the States.

6. The recommendations relating to regulation of grants-in-aid under article 275(1) of the Constitution are required to be implemented by an Order of the President and the necessary order will be submitted to the President for approval.

7. The above recommendations of the Commission substantially alter the recommendations already made in the Main Report and accepted by the Government. Nevertheless, the recommendations have been accepted by the Government in the interest of furthering the cause of fiscal reforms in the States.

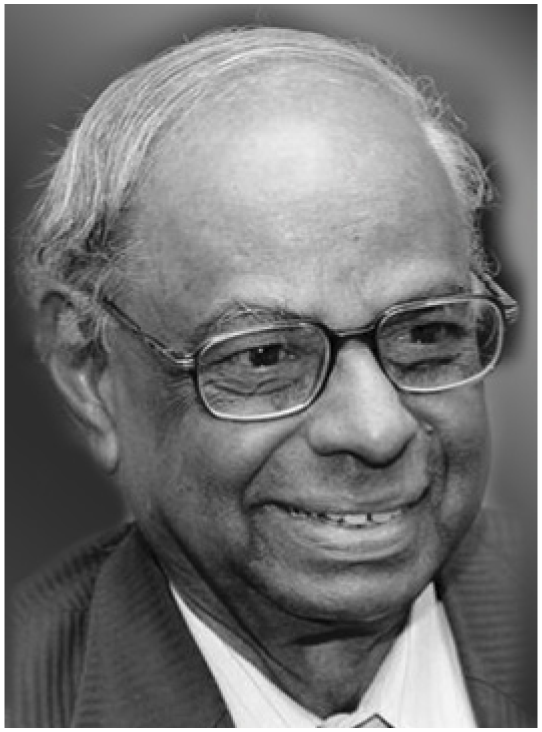
(Yashwant Sinha)
Minister of Finance

New Delhi
19th December, 2000

12th FINANCE COMMISSION

2005-2010

12th Finance Commission (2005-2010)



Dr. C. Rangarajan
Chairman

Members

Shri T.R. Prasad

Prof. D.K. Srivastava

Shri Som Pal

(Till 14 May 2004)

Dr. Shankar N. Acharya

(Part time Member, replacing Shri Som Pal from 2 July 2004)

Shri G.C. Srivastava (Secretary)

(Later became Member Secretary)

Chairman and Members of the Twelfth Finance Commission during a Commission meeting

Dr. C. Rangarajan, Chairman, Twelfth Finance Commission, releasing a book authored by Shri K.C. Pant, at a discussion on "India's Development Scenario-Next Decade and Beyond" in New Delhi on April 24, 2003. The Union Minister for Agriculture, Shri Ajit Singh, the Union Minister for Tourism and Culture, Shri Jagmohan and the Minister for Information and Broadcasting, Shri Ravi Shankar Prasad, are also seen

Chief Minister of Meghalaya, Dr. D. D. Lapang, his Cabinet colleagues and government officials during a meeting with the Twelfth Finance Commission led by Dr. C Rangarajan held on June 2, 2004

Major Recommendations

VERTICAL DEVOLUTION

The share of States in the total sharable Union taxes was fixed at 30.5 per cent.

HORIZONTAL DEVOLUTION

1. The formula for horizontal devolution is given in the table below:

12th Finance Commission	
Criteria	Weight (%) For
Income Distance	50.0
Population(1971)	25.0
Area	10.0
Tax Effort	7.5
Fiscal Discipline	7.5
Total	**100.0**

GRANTS

3. The total grant awarded to States for 2005-2010 for local bodies was Rs 25,000 crore (Rs. 20,000 crore for panchayati raj institutions and Rs. 5,000 crore for urban local bodies). The inter-se distribution was on the basis of: population based on 2001 Census (40 per cent), distance from highest per capita income (20 per cent), index of deprivation (10 per cent), geographical area (10 per cent),and revenue effort (20 per cent).

4. The Commission recommended total non-Plan revenue deficit grant of Rs. 56,856 crore for fifteen states and a total grant of Rs. 10,172 crore as educational equalisation grants for eight States. A grant of Rs. 15,000 crore was recommended for building roads and bridges which was in addition to the normal expenditure of States.

5. Further, a grant of Rs. 5,887 crore was recommended as health equalisation grant, Rs. 7,100 crore for State-specific needs, Rs. 5,000 crore for buildings, Rs. 1,000 crore for forest conservation and Rs. 625 crore for heritage conservation.

6. The calamity relief fund scheme was continued as it was with Union and States contributing in the ratio of 75: 25. The size of fund was set at Rs. 21,333 crore for the period 2005-10.

OTHERS

7. The Commission recommended that the total fiscal deficit for the Union and States be reduced to 3 per cent of gross domestic product (GDP) and the total tax-GDP ratio of both C Union and States be increased to 17.6 per cent of GDP in 2009-10. The revenue deficit for the Union and States was to be eliminated by 2008. The combined debt-GDP ratio with external debt measured at historical exchange rates should, at a minimum, be brought down to 75 per cent by the end of 2009-10.

Transfers by 12th Finance Commission		
SN	**Particulars**	**Rs. in Crore**
A	**Share in Central Taxes**	**613112**
1	Non-Plan Rev. Deficit	56856
2	Local Bodies	25000
3	Calamity Relief	16000
4	Road & Bridges	15000
5	Education	10172
6	State Specific	7100
7	Health Sector	5887
8	Buildings	5000
9	Forest	1000
10	Heritage Conservation	625
B	**Total Grants**	**142640**

EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE TWELFTH FINANCE COMMISSION IN ITS REPORT SUBMITED TO THE PRESIDENT ON DECEMBER 17, 2004

1. The Twelfth Finance Commission was constituted by the President on November 1, 2002 to give recommendations on specified aspects of Centre State fiscal relations during 2005-10. The Commission submitted its Report covering all aspects of its mandate on December 17, 2004.

2. The Finance Commissions are constituted by the President after every five years or earlier under Article 280 of the Constitution to give recommendations on specified aspects of Centre-State fiscal relation. The recommendations of these Commissions are based on detailed assessment of the financial position of the Central and State government and wide consultations with stakeholders. The Commissions usually visit the States, sponsor studies, hold consultations with experts and their recommendations are backed up by detailed reasons disclosing the methodology adopted by them.

3. The Report of the Twelfth Finance Commission (hereinafter referred to as the Commission) covering the five years period commencing from April 1, 2005 together with the Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the table of the House, in pursuance of Article 281 of the Constitution. A summary of the Commission's main recommendations relating to devolution of taxes and duties to the State, grants-in-aid under Article 275 of the Constitution, financing of relief expenditure and debt relief to the States and other matters is contained in Chapter 16 of the Report of the Commission.

4. The Government has carefully considered the main recommendations contained in the Report of the Commission and the action proposed to be taken on these recommendations is detailed below.

DEVOLUTION OF SHARE IN CENTRAL TAXES AND DUTIES TO STATES

5. Under Article 270 of the Constitution, as amended w.e.f. 1st April, 1996 by the Constitution (Eightieth Amendment) Act, 2000, a prescribed percentage of the net proceeds of all Central taxes (except Union surcharge, cess levied for specific purpose under any law made by Parliament and the duties and taxes referred to in Articles 268 and 269) is to be assigned to the States within which that tax is leviable in that year and distributed among those States in terms of Orders issued by the President on the recommendations of the Finance Commission.

   For the period of five years commencing from April 1, 2005, the Commission has recommended that 30.5 per cent of the net proceeds of shareable Central taxes may be distributed amongst all such States where any such Central tax is leviable. If in any year during 2005-10, a particular Central tax is not leviable in a State, the share of that State in that tax should be put to zero and the entire proceeds be distributed among the remaining State by proportionately adjusting their shares. For this purpose, additional excise duties in lieu of sales tax on textiles, tobacco and sugar are treated as part of the shareable pool of central taxes. If this tax rental arrangement is terminated and the States are allowed to levy sales tax (or VAT) on these commodities without any prescribed limit, the share of the State in the net proceeds of shareable central taxes shall be reduced to 29.5 percent. If any legislation is enacted in respect of service tax after the Eighty Eight Constitutional amendment is notified, it must be ensured that the revenue accruing to a State under the legislation should not be less than the share that would accrue to it, had the entire service tax proceeds been part of the shareable pool. The percentage share of each State in Union taxes and duties and the criteria for devolution and relative weights assigned to different factors is indicated in Chapter 7 of the Report.

   The Government has accepted the above recommendations of the Commission.

GRANTS-IN-AID OF THE REVENUES OF STATE UNDER THE SUBSTANTIVE PROVISIONS OF ARTICLE 275 OF THE CONSTITUTION

Non-plan Revenue Deficit Grant

6. The Commission has recommended grant-in-aid to be given under Article 275(1) of the Constitution, other than those under the proviso to Article 275(1), equal to the amount of deficits assessed for each year during the period 2005-10. A total non-plan revenue deficit grant of Rs.56855.87 crore is recommended during the award period for fifteen States. The amount of the grant for each State having non-plan deficits is indicated in Chapter 10 of the Report for each of the 5 years starting from the financial year 2005-06.

   The Government has accepted this recommendation.

Grant for education

7. The Commission has recommended grants for eight States amounting to Rs.10171.65 crore over the award period for the education sector, with a minimum of Rs.20 crore in a year for any eligible State. The year-wise allocation for each State is given in Chapter 10 of the Report. The grant for the education sector is an additionality, over and above the normal expenditure to be incurred by the States in this sector. Conditionalities governing the release and utilization of this grant have been specified in Annexures 10.1 to 10.3 of the Commission's Report.

   The Government has accepted this recommendation of the Commission.

Grant for health

8. The Commission has recommended grants for seven States amounting to Rs.5887.08 crore over the award period for the health sector, with a minimum of Rs.10 crore in a year for any eligible State. The year-wise allocation for each State is given in Chapter 10 of the Report. The grant for the health sector is additionality, over and above the normal expenditure to be incurred by the States in this sector. Conditionalities governing the release and utilization of this grant have been specified in Annexures 10.1 to 10.3 of the Commission's Report.

   The Government has accepted this recommendation of the Commission.

Grants for maintenance of roads and bridges and public buildings

9. The Commission has recommended grants amounting to Rs.15000 crore for maintenance of roads and bridges and Rs. 5000 crore for maintenance of public buildings over the award period. The State-wise year-wise allocations are given in Chapter 10 of the Report. These grants are an additionality, over and above the normal expenditure to be incurred by the States. Conditionalities governing the release and utilization of these grants have been specified in Annexures 10.4 to 10.6 of the Commission's Report.

   The Government has accepted the above recommendations of the Commission.

Grant for maintenance of forests

10. The Commission has recommended grants amounting to Rs.1000 crore over the award period for maintenance of forests. The State-wise, year-wise allocation is given in Chapter 10 of the Report. This grant is an additionality, over and above the normal expenditure to be incurred by the State for this purpose.

    The Government has accepted this recommendation of the Commission.

Grant for heritage conservation

11. The Commission has recommended grants amounting to Rs.625 crore over the award period for heritage conservation. This grant is to be used for preservation and protection of historical monuments, archaeological sites, public libraries, museums and archives, and also for improving the tourist infrastructure to facilitate visits to these sites. The State-wise, year-wise allocation is given in Chapter 10 of the Report. This grant is an additionality, over and above the normal expenditure to be incurred by the States for this purpose.

    The Government has accepted this recommendation of the Commission.

Grant for State specific needs

12. The Commission has recommended grants amounting to Rs.7100 crore over the award period for State specific needs. The State-wise, purpose-wise details of these grants are given in Chapter 10 of the Report.

    The Government has accepted this recommendation of the Commission subject to the condition that the grants would be released based on the level of preparedness of the States to utilize the grants for the specific purpose for which they have been recommended.

Grants for local bodies

13. The Commission has recommended grants amounting to Rs.25000 crore over the award period for local bodies. Of this Rs.20000 crore is for Panchayats and Rs.5000 crore is for urban local bodies. The inter-State distribution and the criterion adopted in arriving at the proposed distribution are given in Chapter 8 of the Report. The Commission has emphasized that of the grants allocated to panchayats, priority should be given to expenditure on the O&M costs of water supply and sanitation and that at least 50% of the grants provided to each State for the urban local bodies should be earmarked for the schemes of solid waste management. Besides expenditure on O&M costs of water supply and sanitation in rural areas and on the schemes of solid waste management in urban areas, panchayats and urban local bodies should, out of the grants allocated, give high priority to expenditure on creation of data base and maintenance of accounts.

The Government has accepted this recommendation of the Commission as per the provisos to recommendation summarized in paras 8.52 to 8.55 of the Report.

Financing of calamity Relief expenditure

14. The Commission has recommended the continuance of the scheme of Calamity Relief Fund in its present form with contribution from the Centre and the States in the ration of 75:25. The size of the CRF for the period 2005-10 is worked out at Rs.21333.33 crore. This includes the Centre's share of Rs.16000 crore, and the State's share of Rs 5333.33 crore. The State-wise distribution of CRF giving the Centre and State's share is indicated at Annexure 9.1 to 9.3 of the Report. The Commission has also recommended continuance of the scheme of NCCF in its present form with core corpus of Rs.500 crore. The outgo from the fund may continue to be replenished by way of collection of National Calamity Contingent Duty and levy of special surcharges.

    The Government has accepted the above recommendations of the Commission.

Sharing of Profit Petroleum

15. The Commission has recommended the sharing of the non-tax revenue of 'Profit Petroleum' arising out of contractual provisions under NELP with the States from where the mineral oil and natural gas are produced in the ratio of 50:50. The details are given in Chapter 13 of the Report.

    The government has accepted the above recommendations of the Commission subject to the condition that this should be within the overall ceiling of transfers recommended by the Commission (38% of gross revenues). This would imply that once the total transfers cross 38% of gross revenues of the Centre, sharing of non-tax revenue of Profit Petroleum would not accrue in that year. Further, this should not be considered by the State as establishing a general principle of sharing of the Centre's non-tax revenues.

Debt relief to States

16. The Commission has recommended that the scheme of Fiscal Reform Facility may be replaced by a scheme of Debt Relief over the period 2005-10. The scheme of Debt Relief recommended by the Commission envisages:-

    (i) The rescheduling of all Central Loans contracted till 31.3.2004 and outstanding as on 31.3.2005 into fresh loans for 20 years carrying 7.5% interest w.e.f. the years a State enacts the Fiscal Responsibility Legislation.

    Details of the scheme are given in Chapter 12 of the Report.

    The Government has accepted the above recommendations of the Commission subject to the condition laid down by the TFC that the debt relief (re-scheduling and consolidation and lowering of interest rate) would be admissible on the State enacting the Fiscal Responsibility legislation and would take effect prospectively from the year in which such legislation is enacted. It is also expected that the States would comply with the obligations regarding reduction of Fiscal Deficit and Revenue Deficit imposed by the Fiscal Responsibility Legislation. The Centre would request the next Finance Commission to make appropriate adjustment in case the State availing of the debt relief is not able to comply with the Fiscal Responsibility Legislation.

    (ii) A debt write-off linked to reduction in revenue deficit by a State. The quantum of write-off of repayment would be linked to the absolute amount by which the revenue deficit is reduced in each successive year during the award period. In accordance with the recommendation of the TFC, the benefit of write-off would be available only if the fiscal deficit of the State is contained to the level of 2004-2005. If in any year the fiscal deficit exceeds this level, the benefit of write-off, even if eligible otherwise, would not be given. The details of the scheme are given in Chapter 12 of the Report.

    The Government has accepted the above recommendations of the Commission.

Central Assistance for State Plans

17. The Commission has recommended that the Centre should release only the grant portion of Central Assistance for State plan (CPA) and leave it to the State to raise loan portion from any source. For States unable to raise loans from market, the Centre may act as a financial intermediary but without any subsidization of cost. The details are given in Chapter 10 of the Report.

    This approach has been accepted by the Government, in principle, to be implemented in phases in consultation with RBI. Form 2005-06, the States would be allowed at their discretion, not to draw the loan portion of the CPA.

External Assistance Loans

18. The Commission has recommended that the Centre should pass on external assistance on back-to-back basis to State and manage it through a separate Fund in the Public Account. The details are given in Chapter 12 of the Report.

    The Government has accepted the recommendation to pass on external assistance on the same terms and conditions on which it was received subject to the condition that the service cost and exchange rate fluctuations would also be passed on to the States under this arrangement.

Accounting Procedure

19. The Commission has recommended a move by the Centre towards introduction of accrual accounting and standardization of accounting classification down to the object head for all State to improve fiscal management. The details are given in Chapter 14 of the Report.

The Government has accepted this recommendation in principle. The Government Accounting Standards Board in the office of the Comptroller and Auditor General of India would be asked to draw a detailed road map and operational frame work for its implementation.

Miscellaneous

20. The Commission has recommended that the total transfers (tax devolution and Plan/ Non-Plan grants) from the centre to the States should not exceed 38% of gross revenue receipts of the Centre (both tax and non-tax). The details are given in Chapter 7 of the Report.

    The Government has accepted this ceiling on total Revenue account transfers, from the Centre to the States subject to the condition that the acceptance does not imply the establishment of a principle of mandatory sharing of a fixed percentage of Centre's revenue receipts with the States.

IMPLEMENTATION

21. The Commission's recommendations fall in the following categories:

    (i) Those to be implemented by an Order of the President.

    (ii) Those to be implemented by executive orders.

    (iii) Those to be examined further.

22. The recommendations under Articles 270 and 275(1) of the Constitution relating to share in Union taxes and duties and grants-in-aid, respectively, fall in the first category and the necessary order will be submitted to the President for approval.

23. The recommendations relating to sharing of Profit Petroleum, Debt Relief, Central Assistance for State Plans and External Assistance Loans will be implemented by executive orders.

24. Other recommendations of the Commission will be considered in due course.

New Delhi
February 26, 2005

P.CHIDAMBARAM
Minister of Finance

13th FINANCE COMMISSION

2010-2015

13th Finance Commission (2010-2015)

Dr. Vijay L. Kelkar
Chairman

Members

Dr. Indira Rajaraman

Dr. Sanjiv Misra

Shri B.K. Chaturvedi
(Part-Time)

Prof. Atul Sarma

Shri Sumit Bose
(Secretary)

Meeting of the Thirteenth Finance Commission with Chairmen and Members of previous Finance Commissions held on 2 May 2008 at India International Centre, New Delhi

Dr. Vijay L. Kelkar, Chairman of the Thirteenth Finance Commission, presents his report to the President Pratibha Patil at Rashtrapati Bhavan in New Delhi

Major Recommendations

VERTICAL DEVOLUTION

1. The share of States in the net proceeds of the shareable Union taxes was set at 32 per cent, 1.5 percentage-points higher than the recommendation of the Twelfth Finance Commission.

HORIZONTAL DEVOLUTION

2. The formula for horizontal devolution is given below:

13th Finance Commission	
Criteria	Weight (%) For
Fiscal Capacity Distance	47.5
Population (1971)	25.0
Fiscal Discipline	17.5
Area	10.0
Total	**100.0**

GRANTS

3. The Commission recommended thirteen different grants, aggregating to Rs. 258,581 crore. This included grants for local bodies, revenue deficit, disaster relief, elementary education, roads and bridges, water sector management, forest, unique identity project, performance incentives, district innovation fund, statistical system, employee and pension database and some State specific grants.

4. The inter-se share of local bodies grants was on the following basis:

i. Rural local bodies: 50 per cent population, 10 per cent distance from highest per capita income, 15 per cent index of decentralisation, 10 per cent geographical area, 10 per cent scheduled caste/scheduled tribe population, 5 per cent Finance Commission local body grants utilisation index

ii. Urban local bodies: 50 per cent population, 20 per cent distance from highest per capita income, 15 per cent index of decentralisation, 10 per cent geographical area, 5 per cent Finance Commission local body grants utilisation index.

OTHERS

i. The Commission recommended that revenue deficit be progressively reduced and eliminated, followed by achievement of revenue surplus by 2013–2014.

ii. Fiscal deficit to be reduced to 3 per cent of GDP by 2014–2015.

iii. A target of 68 per cent of GDP for the combined debt of Union and states was set.

iv. It suggested that the Medium Term Fiscal Plan (MTFP) be reformed and made a statement of commitment rather than a statement of intent.

v. The Fiscal Responsibility and Budget Management Act, 2003 needs to be amended to mention the nature of shocks which shall trigger relaxation in targets.

vi. Initiatives should be taken to reduce the number of Centrally Sponsored Schemes (CSS) and to restore the predominance of formula-based plan grants.

vii. States need to address the problem of losses in the power sector in a time-bound manner.

Transfers by 13th Finance Commission		
SN	**Particulars**	**Rs. in Crore**
A	**Share in Central Taxes**	**1448096**
1	Local Bodies	87519
2	Non-Plan Revenue Deficit	51800
3	State Specific	27945
4	Disaster Relief	26373
5	Elementary Education	24068
6	Road & Bridges	19930
7	Justice Delivery	5000
8	Water Sector Management	5000
9	Forest	5000
10	UID	2989
11	Performance Incentive	1500
12	District Innovation Fund	616
13	Statistical System	616
14	Employee and Pension Database	225
B	**Total Grants**	**258581**

EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE THIRTEENTH FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE PRESIDENT ON DECEMBER 30, 2009

1. The Thirteenth Finance Commission (hereafter referred to as the Commission) was constituted by the President on November 13, 2007 to give recommendations on specified aspects of Centre State fiscal relations during 2010-15. The Commission submitted its report to the President on December 30, 2009 covering all aspects of its mandate.

2. The report of the Commission (hereafter referred to as the Report) covering the five-year period commencing from April 1, 2010, together with this Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of Article 281 of the Constitution. Summary of the main recommendations of the Commission relating to the sharing of net proceeds of Union taxes between Centre and States, grants-in-aid of revenue of States under Article 275, Goods and Services Tax (GST), financing of relief expenditure and roadmap for fiscal consolidation are contained in Chapter 1 of the Report of the Commission.

3. The Government has carefully examined the main recommendations of the Commission. The action to be taken on these recommendations is detailed below.

Sharing of Union Taxes

4. The Commission has recommended that for its award period, the share of States in the net proceeds of Union taxes may be fixed at 32%. The Commission has also recommended on the inter-se distribution of the States' share amongst the States. The details of the formula for inter-se distribution and the corresponding share of each State recommended by the Commission are indicated in Chapter 8 of the Report. It has also recommended that the total transfers to the States on the revenue account be subjected to an indicative ceiling of 39.5% of the gross tax revenues of the Centre.

   The Government has accepted the above recommendations of the Commission.

Grants-in-Aid of Revenues of States under Article 275 of the Constitution

5. The Commission has recommended grants-in-aid of revenues of States for non-plan revenue deficit, elementary education, environment related issues, improving outcomes, maintenance of roads and bridges, local bodies, disaster relief, GST implementation and state specific grants under Article 275 of the Constitution.

Non Plan Revenue Deficit Grant

6. The Commission has assessed the revenues and expenditure of the States for the period 2010-15 and has projected the deficit for each State after taking into account the amount of share in Central taxes for that State. The Commission has recommended a grant of Rs. 51800 crore to meet this deficit for eight States. The amount of grant recommended for each state year-wise is indicated in Chapter 12 of the Report. The Commission has also recommended a performance incentive grant of Rs. 1500 crore for three special category States of Assam, Sikkim and Uttarakhand that have graduated out of Non Plan Revenue Deficit. The details of this grant are indicated in Chapter 12 of the Report.

   The Government has accepted this recommendation.

Grant for Elementary Education

7. The Commission has assessed the requirement of providing elementary education for each State based on the Sarva Shiksha Abhiyan norms and recommended to provide a grant of Rs. 24068 crore equivalent to 15% of the assessed requirement. The year-wise allocation for each State and the conditionality for release of this grant are given in Chapter 12 of the Report.

   The Government has accepted this recommendation.

Environment Related Grants

8. The Commission has recommended three grants under this category of Rs. 5000 crore each aggregating to Rs. 15000 crore. The first grant of each of these Rs. 5000 crore grants is forest grant, the second is for promotion for renewable energy and the third is for water sector. The year-wise allocation for each State and the conditionalities for forest and water sector grants are indicated in Chapter 12 of the Report. The eligibility of each State for the grant for renewable energy is to be decided, as indicated in Chapter 12 of the Report, based on the achievement of each state on this front in the first four years of the award period.

   The Government has accepted these recommendations.

Grants for Improving Outcomes

9. The Commission has recommended six grants under this category aggregating to Rs. 14446 crore over the award period. An incentive grant for reduction in infant mortality of Rs. 5000 crore is to be released to States starting 2012-13 depending on the reduction in Infant Mortality Rate (IMR) achieved by the States with reference to the baseline level of 2009-10 figures. Grant of Rs. 5000 crore for improved delivery of justice has been recommended for Lok Adalats and Legal Aid, Alternate Dispute Resolution Centres, Heritage Court Buildings, State Judicial Academy and training of judicial officers and public prosecutors. The grant for Unique Identification (UID) programme amounting to Rs. 2989.10 crore is to be released based on the number of people covered under the UID database. Two grants of Rs. 616 crore each have been recommended for District Innovation Funds and improving statistical systems at district and State levels. Finally, a grant of Rs. 225 crore has been recommended for setting up database of employees and pensioners.

   The Government has accepted these recommendations.

Grants for maintenance of Roads and Bridges

10. The Commission has assessed the requirement of ordinary repairs of roads in a State and has recommended grant of Rs. 19930 crore equivalent to 90% of the assessed requirement for PMGSY roads and 50% of the assessed requirement for other roads, for four years of the award period starting 2011-12. The allocation for each year for each State and the conditionality for this grant are indicated in Chapter 12 of the Report.

    The Government has accepted these recommendations.

State Specific grants

11. The Commission has recommended grants aggregating to Rs. 27945 crore for various state specific needs of the States. The details of these grants for each item of grant for each State are indicated in Chapter 12 of the report.

    The Government has accepted these recommendations.

12. For monitoring and implementation of all the above grants at the State level, the Commission has recommended setting up a monitoring committee under the chairmanship of the Chief Secretary of the State. In addition to the grants mentioned above, the Commission has recommended grants for GST implementation, local bodies and disaster relief which, along with the other recommendations relating to these areas, are explained below.

Goods and Services Tax

13. The Commission has recommended a model GST structure that includes features such as single rate, zero rating of exports, inclusion of various indirect taxes at the Central and State level in GST ambit, major rationalisation of the exemption structure, etc. The Commission has recommended a grant of Rs. 50000 crore for implementation of GST as per the recommended model. This grant is to be disbursed initially in the form of compensation for loss due to implementation of GST and residual amount to be distributed amongst States in the terminal year of the award period as per the devolution formula. It has also recommended administrative structure for implementation and monitoring of this grant.

    The Government has accepted these recommendations in principle. However, in view of the ongoing discussions between Centre and States on this aspect, implementation of these recommendations along with modalities may await the outcome of the discussions.

Local Bodies

14. The Commission has recommended a basic grant and a performance grant for local bodies. Both these grants in any year have been quantified based on a percentage of the divisible pool of the preceding year. For every year of the award period, the Commission has recommended a basic grant amounting to 1.5% of the size of divisible pool in the preceding year. Similarly, for 2011-12 the Commission has recommended a performance grant of 0.5% of the divisible pool of the preceding year and for subsequent years in the award period, 1% of the divisible pool of the preceding year.

15. It has also recommended a separate special area basic grant of Rs. 20 per capita, carved out of the total basic grant, for every year in the award period for Schedule V and Schedule VI areas and areas excluded from Part IX and IXA of the Constitution. For these areas, it has recommended a special area performance grant of Rs. 10 per capita for 2011-12 and Rs. 20 per capita for subsequent years of the award period.

16. The performance grants are to be released if the States meet conditions specified by the Commission in Chapter 10 of the Report.

17. As per the revenue projections of the Commission, total grant recommended for the local bodies aggregates to Rs. 87519 crore over the award period. The Commission has also recommended distribution of the grants between urban and rural areas and the inter-se distribution between States. The formula and the inter-se shares are indicated in Chapter 10 of the Report.

    The Government has accepted these recommendations.

Disaster Relief

18. The Commission has reviewed the existing arrangement of financing relief expenditure in light of the Disaster Management Act, 2005 and has recommended merger of the National Calamity Contingency Fund (NCCF) into National Disaster Response Fund (NDRF) and merger of Calamity Relief Funds (CRF) into State Disaster Response Fund (SDRF) with effect from 01.04.2010 and transfer of the balances in the existing funds into the new funds.

19. The Commission has assessed the relief expenditure requirements of all States and recommended that 75% of the SDRF requirement for general category states and 90% for special category states be met by the Centre through a grant to the States. It has also recommended a grant of Rs. 525 crore for capacity building. Overall, to meet the Central share of SDRF and for capacity building, the Commission has recommended a grant of Rs. 26373 crore. It has mandated all states to follow the required accounting practices to properly account for relief expenditure.

    The Government has accepted these recommendations.

Fiscal Roadmap

20. The Commission has assessed the finances of the Union and States and specified a combined debt target of 68% of Gross Domestic Product (GDP) to be met by 2014-15. It has worked out a roadmap for Fiscal Deficit (FD) and Revenue Deficit (RD) for the award period. For Centre, it has recommended RD to be eliminated and FD to be brought down to 3% of GDP by 2013-14. For States, the Commission has worked out fiscal roadmap for each State depending on its current deficit and debt levels. The States are required to eliminate RD and achieve FD of 3% of their respective Gross State Domestic Product (GSDP) during the Commission's award period in stages, in a manner that all the States would eliminate RD and achieve FD of 3% of GSDP latest by 2014-15. The Commission has also recommended that the borrowing limits of the States should be fixed by the Centre in line with these targets.

    The Government has accepted these recommendations in principle. Detailed proposals for amendment of the FRBM Act, as may be necessary, will be taken up separately.

Debt Relief to States

21. The Commission has recommended two debt relief measures to be extended to all States. Firstly, it has recommended that the interest rates on loans from National Small Savings Fund (NSSF) to States contracted till the end of 2006-07 and outstanding as at the end of 2009-10 be reset at interest rate of 9%. The implication of this relief during the award period is estimated by the Commission to be Rs. 13517 crore. The financial implication over the entire period till the maturity of the last loan covered in this relief measure is estimated to be Rs. 28360 crore. The Commission has also recommended that structural reforms should be brought in the NSSF to make it more market linked.

22. The second debt relief recommended by the Commission is write-off of Central loans to States that are administered by central ministries other than Ministry of Finance outstanding as at the end of 2009-10. The amount of loans outstanding as at the end of 2007-08 was Rs. 4506 crore as noted by the Commission. The Commission has also recommended that any further loans under Centrally Sponsored Schemes should be completely avoided.

23. The Commission has also recommended extension of the debt consolidation facility recommended by the Twelfth Finance Commission to States that have not yet availed this benefit.

24. All the above mentioned debt relief is available to States only if they amend/legislate FRBM Acts in accordance with the recommendations of the Commission. The Commission has also recommended that the States will be eligible for the state specific grants only if they comply with this condition.

    With regard to the recommendation relating to interest rate reset on NSSF loans to the States, the Government has accepted it in principle. However, since the recommendations are comprehensive and cover other structural aspects like interest rate mismatch, tenor mismatch and other administrative matters, Ministry of Finance will constitute a Committee to work out detailed modalities for implementation of this recommendation.

    With regard to write-off of the Central loans to States, extension of the debt consolidation scheme recommended by the Twelfth Finance Commission to States that did not avail the benefit till now, and the conditions laid down by the Commission for availing these benefits, the Government has accepted the recommendations of the Commission.

    With regard to completely avoiding central loans to states in the future, action will be taken in consultation with the respective ministries.

Other Recommendations

25. In addition to the above, the Commission has made other recommendations that deal with issues including revenue and expenditure reforms at Central and State levels, accounting and budgeting reforms, additional disclosures by the Centre, State and local bodies, etc.

    These recommendations will be examined in due course.

Implementation

26. Orders on the recommendations under Articles 270 and 275(1) of the Constitution relating to share in Union taxes and duties and grants-in-aid, respectively, will be issued after obtaining the approval of the President. The recommendations relating to reorganisation of Funds for disaster relief, debt relief to States and borrowing ceilings will be implemented by executive orders. Other recommendations of the Commission will be acted upon in due course.

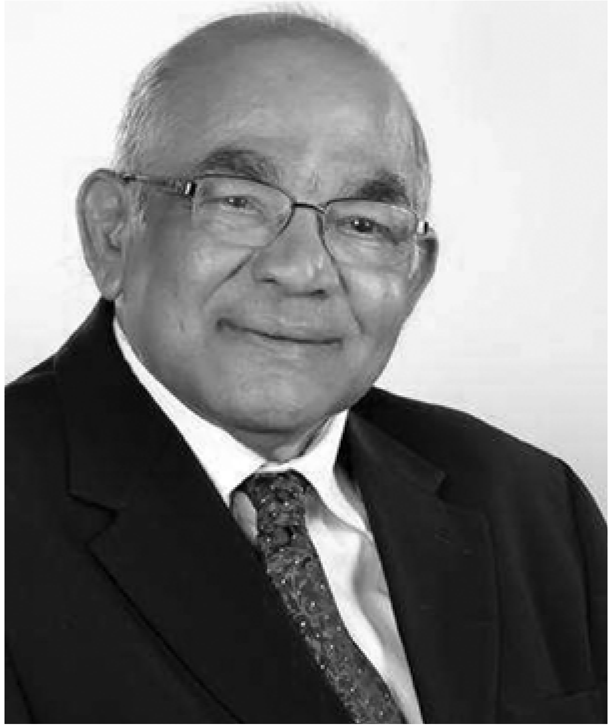
New Delhi
February 25,2010

PRANAB MUKHERJEE
Minister of Finance

14th FINANCE COMMISSION

2015-2020

14th Finance Commission (2015-2020)



Dr. Y.V. Reddy
Chairman

Members

Ms. Sushma Nath

Dr. M. Govinda Rao

Prof.Abhijit Sen
(Part-Time)

Dr. Sudipto Mundle

Shri Ajay Narayan Jha
(Secretary)

Chief Minister of Tripura, Shri Manik Sarkar welcoming the Fourteenth Finance Commission in 2014

Chief Minister of Himachal Pradesh, Shri Virbhadra Singh, interacting with Fourteenth Finance Commission over official dinner in Shimla

Dr. Y.V. Reddy, Chairman of the Fourteenth Finance Commission, being felicitated by Shri Nitish Kumar, Chief Minister of Bihar, during the visit of the Commission to Bihar

Meeting of the Fourteenth Finance Commission with Government of Tamil Nadu in 2013

Fourteenth Finance Commission during its interactions with Chief Minister of Odisha, Shri Naveen Patnaik, in Bhubaneshwar

Meeting of the Fourteenth Finance Commission with the Government of Punjab

Major Recommendations

VERTICAL DEVOLUTION

1. The vertical devolution of taxes was increased from 32 per cent to 42 per cent. According to the Commission, the increased devolution of the divisible pool of taxes represented a 'compositional shift in transfers' from grants to tax devolution.

HORIZONTAL DEVOLUTION

2. The formula for horizontal devolution is given below:

14th Finance Commission

Criteria	Weight (%) For
Income Distance	50.0
Population (1971)	17.5
Area	15.0
Demographic Change (Population 2011)	10.0
Forest Cover	7.5
Total	**100.0**

GRANTS

3. In assessing the States' needs, the Commission did not go by the Plan and non-Plan distinctions, but considered the entire revenue expenditure. The Commission recommended Rs. 194,820 crore as revenue deficit grants.

4. It recommended distribution of grants to States for local bodies using 2011 population data with weight of 90 per cent and area with weight of 10 per cent. The total grant recommended was Rs. 287,436 crore for the award period. Out of this, the grant to panchayats was Rs. 200,292 crore and the rest to municipalities. The grants were divided into a basic component and a performance component. The ratio of basic to performance grant was set at 90:10 for panchayats and 80:20 for municipalities.

5. A sum of Rs 55097 crores was recommended as disaster relief grants.

Transfers by 14th Finance Commission

SN	Particulars	Rs. in Crore
A	**Share in Central Taxes**	**3948188**
1	Local Bodies	287436
2	Rev. Deficit Grant	194820
3	Disaster Relief	55097
B	**Total Grants**	**537353**

EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE FOURTEENTH FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE PRESIDENT ON DECEMBER 15, 2014

1. The Fourteenth Finance Commission (hereafter referred to as the Commission) was constituted by the President on January 2, 2013 to give recommendations on specified aspects of Centre State fiscal relations during 2015-20. The Commission submitted its report to the President on December 15, 2014 covering all aspects of its mandate.

2. The report of the Commission (hereafter referred to as the Report) covering the five year period commencing from April 1, 2015, together with this Explanatory Memorandum on the action taken on recommendations of the Commission is being laid on the Table of the House, in pursuance of Article 281 of the Constitution. Summary of the main recommendations of the Commission relating to the sharing of net proceeds of Union taxes between Centre and States, grants-in-aid of revenue of States under Article 275, Goods and Services Tax (GST), financing of relief expenditure and other recommendations are contained in Chapter 18 of the Report of the Commission.

3. As per the Constitution, “Cooperative Federalism” is the bedrock of financial governance in the Country. Union and the States pool their resources for achieving common National goals.

4. To achieve these National goals, Centrally Sponsored Schemes were envisaged in the areas of Health, Education, Agriculture and Rural development etc. However, over a period, rigidity involved in these schemes did not allow them to meet the local requirements of the States. Various State Governments have expressed the sentiments that greater flexibility and autonomy is required in the design implementation and financing of schemes. States further indicated that this is necessary to address region specific requirements. These concerns have been noted by the Finance Commission in Paras 8.6 and 8.7 of its report as follows:

   “8.6: Another dominant view has been that a majority of the resources should flow in the form of tax devolution---”

   “8.7: An overwhelming majority of States have suggested reducing the number CSS as well as outlays on them...”

5. Idea of “Team India”, to achieve National goals as to allow states greater freedom in tailoring the schemes as per their requirement and financing…

6. In this context, as per the recommendations of XIV Finance Commission, Union Government. has decided to devolve a much higher share of 42% of Union’s net tax receipts, to the States. In comparison to 2014-15, this will be a significant enhancement of 10%, over the 32% during the award period of the XIIIth Finance Commission. As against a total devolution of Rs.3.48 lakh crores approximately in 2014-15, the total devolution to the States in 2015-16 will be Rs.5.26 lakh crores approximately, a year-on-year increase of Rs.1.78 lakh crores approximately. The higher tax devolution will allow States greater autonomy in financing and designing of schemes as per their needs and requirements.

7. It is expected that with this change in the sharing pattern, concerns of the States of asymmetry in fiscal federal relations will be addressed. It is hoped that the States will use the extra fiscal space available to them to create productive capital assets, and that “Team India” in NITI will provide the required guidance and monitoring in this regard.

8. The Government has carefully examined the main recommendations of the Commission. The action to be taken on these recommendations is detailed below.

Sharing of Union Taxes

9. The Commission has recommended that for its award period, the share of States in the net proceeds of Union taxes may be fixed at 42%. The Commission has also recommended on the inter-se distribution of the States’ share amongst the States. The details of the formula for inter-se distribution the corresponding share of each State recommended by the Commission are indicated in Chapter 8 of the Report.

Dissent Note

10. There is a dissent note by Prof Abhijit Sen (Part time member) suggesting tax devolution of 38 per cent of the divisible pool in the first year of the award period and maintained at that level unless here is agreement in the new institutional mechanism to revert to 42 per cent share. Consequently, Prof Sen recommended change in Post Devolution Revenue deficit grants.

    The Government has accepted the majority decision regarding Tax devolution to States

Grants -in-Aid of Revenues of States under Article 275 of the Constitution

11. The Commission has recommended Grants-in-aid of revenues of States for revenue deficit. local bodies and disaster management under Article 275 of the Constitution.

Revenue Deficit Grant

12. The Commission has assessed the revenues and expenditure of the States for the period 2015-20 and has projected the deficit tor each State after taking into account the amount of share in Central taxes that State. the Commission has recommended a grant of Rs.1,94,821 crore to meet this deficit of eleven States. The amount of grant recommended for each state year-wise is indicated in Chapter 11 of the Report.

The Government has accepted the above recommendations "in Principle". The Grants-in-aid to be subject to the Revenue raising and fiscal consolidation measures undertaken by the States. Appropriate institutional arrangements shall be put in place to assess and advise Government for making post devolution Revenue deficit Grants-in-aid.

Local Bodies

13. The Commission has recommended that local bodies should be required to spend, the grants only on the basic services within the functions assigned to them under relevant legislations. It has been recommended that distribution of grants to States for local bodies using 2011 population data with weight of 90% and area with weight of 10%. The grants to States will be divided into two parts, a grant to duly constituted Gram Panchayats and a grant to duly constituted municipalities on the basis of urban and rural population. The Commission has worked out a total grant of Rs.2,87,436 crore for the period 2015-2020. Inter-se share of each state including weights assigned for each state in respect of local bodies grant is indicated in Chapter 9 of the Report. The Commission has recommended grants in two parts a basic grant and a performance grant for duly constituted Gram Panchayats (Rural Local Bodies) and Municipalities (Urban Local Bodies), The ratio of basic to performance grant is 90:10 with respect to Gram Panchayats and 80:20 with respect to Municipalities.

13.1 For Gram Panchayats, the Commission has recommended a basic grant of Rs. 1,80,262.96 crore and performance grant of Rs. 20,029.22 crore for all the states.

13.2 For Municipalities, the Commission has recommended a basic grant of Rs. 69,715.03 crore and performance grant of Rs. 17,428.76 crores for all the states.

The Government has accepted the above recommendations.

Disaster Relief

14. The Commission has reviewed the existing arrangement of financing relief expenditure in light of the Disaster Management Act, 2005 and likely implementation of Goods and Services Tax (GST) and has recommended an amount of Rs. 61,219 crore as aggregate corpus of State Disaster Relief Fund (SDRF) for all States for the award period and that States contribute 10% (Rs.6,122 crore) to SDRF during the award period with the remaining 90% (Rs.55,097 crore) coming from the Union Government. The Commission has recommended that up to 10 percent of the funds available under the SDRF can be used by a State for occurrences which State considers to be 'disasters' within its local context and which are not in the notified list of disasters of the Ministry of Home Affairs. The amount of grant recommended for each state year-wise is indicated in Chapter 10 of the Report.

The Government has accepted the above recommendation with the modification that the percentage share of the States will continue to be as before, and that the flows will also be of the same order (linked to the extent of cess), as in the existing system; and that, once GST is in place the recommendation of FFC on disaster relief would be fully implemented.

Other Recommendations

15. In addition to the above, the Commission has made recommendations that deal with issues including Goods and Services Tax, Fiscal Environment and Fiscal Consolidation Roadmap, Pricing of Public Utilities, Public Sector enterprises and Public Expenditure management.

These recommendations will be examined in due course in consultation with various stake holders.

Implementation

16. Orders on the recommendations under Articles 270 and 275(1) of the Constitution relating to share in Union Taxes and duties and Grants-in-aid, respectively, will be issued after obtaining the approval of the President. Other recommendations of the Commission will be acted upon in due course.

New Delhi
February 24, 2015

ARUN JAITLEY
Minister of Finance

15th FINANCE COMMISSION

2020-2026

15th Finance Commission (2020-2026)

Shri N.K. Singh
Chairman

Members

Shri Shaktikanta Das
(Till 11 December, 2018)

Shri A.N. Jha
(Joined on 1 March, 2019 in place of Shri Shaktikanta Das)

Shri Anoop Singh

Shri Ashok Lahiri

Dr. Ramesh Chand

Shri Arvind Mehta
(Secretary)

The Fifteenth Finance Commission with Hon'ble President of India Shri Ramnath Kovind

The Fifteenth Finance Commission with the Finance Minister of India, Shri Arun Jatley

First meeting of the Fifteenth Finance Commission

The Fifteenth Finance Commission in conversation with Chief Minister of Arunachal Pradesh, Shri Pema Khandu

Meeting of the Fifteenth Finance Commission with Economists

Meeting of the Fifteenth Finance Commission with the Home Minister of India Shri Rajnath Singh

Representatives of rural local bodies and urban local bodies of Telangana submitting their memorandum to Chairman, Fifteenth Finance Commission

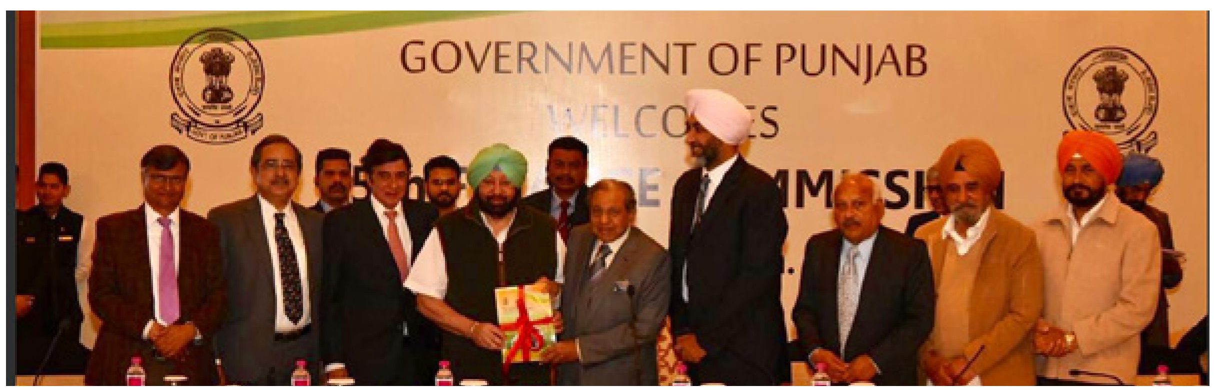

Fifteenth Finance Commission concluding its meeting with the Government of Bihar


Shri N.K. Singh, Chairman, Fifteenth Finance Commission, being welcomed by Chief Minister of Uttarakhand Shri Trivendra Singh Rawat


Meeting of the Fifteenth Finance Commission with the Reserve Bank of India

Fifteenth Finance Commission with the Chief Minister of Assam, Shri Sarbananda Sonowal in Guwahati

The Chief Minister of Jharkhand, Shri Raghubar Das, presenting the memorandum of the State to the Fifteenth Finance Commission



The Chief Minister of Punjab, Capt. Amarinder Singh, presenting the memorandum of the State to the Fifteenth Finance Commission


Interaction of Shri N.K. Singh with Chief Minister of Tamil Nadu, Shri Edappadi K. Palaniswami, in Chennai


Chairman Shri N.K. Singh with Andhra Pradesh Chief Minister Y. S. Jaganmohan Reddy


The Fifteenth Finance Commission at a meeting with the Chief Minister of Uttar Pradesh, Shri Yogi Adityanath along with his Cabinet colleagues and senior State Government officers


Chairman Shri N. K. Singh being welcomed by the Sikkim Chief Minister Shri Prem Singh Tamang for the Commission's meeting with his Cabinet Ministers


Chairman Shri N.K. Singh with Finance Minister Smt. Nirmala Sitharaman

Chairman Shri N.K. Singh with the Chief Minister of Goa, Shri Pramod Sawant


Meeting of the Fifteenth Finance Commission with the International Monetary Fund


The Fifteenth Finance Commission being welcomed by the Chief Minister of Kerala, Shri Pinarayi Vijayan

Fifteenth Finance Commission holding talks with the Minister for Textiles and Women and Child Development, Smt. Smriti Irani

Fifteenth Finance Commission holding a meeting with the Chief Minister of Rajasthan, Shri Ashok Gehlot, and Deputy Chief Minister, Shri Sachin Pilot, and their cabinet colleagues

Minister of Jal Shakti, Shri Gajendra Singh Shekhawat, with Shri NK Singh during a meeting with the Commission

Fifteenth Finance Commission with the Chief Minister of Nagaland, Shri Neiphiu Rio

Shri N.K. Singh with the Chief Minister of Meghalaya, Shri Conrad Sangma

Chairman Shri N.K. Singh with the Chief Minister of Telangana, Shri K. Chandrashekar Rao

Chairman Shri N.K. Singh with the Chief Minister of Manipur, Shri N. Biren Singh

Chairman Shri N.K. Singh with the Chief Minister of Himachal Pradesh, Shri Jai Ram Thakur

Fifteenth Finance Commission with the Chief Minister of Gujarat, Shri Vijay Rupani

Chairman Shri N.K. Singh being welcomed by former Chief Minister of Karnataka Shri H. D. Kumaraswamy

Fifteenth Finance Commission with Maharashtra Chief Minister, Shri Devendra Fadnavis, in Mumbai

Chairman Shri N.K. Singh with the Chief Minister of West Bengal, Ms. Mamata Banerjee

Fifteenth Finance Commission with the Chief Minister of Chhattisgarh, Shri Bhupesh Baghel, and his Cabinet colleagues

Fifteenth Finance Commission with the Chief Minister of Madhya Pradesh, Shri Kamal Nath, and his Cabinet colleagues

Chairman Shri N.K. Singh with the Chief Minister of Odisha, Shri Naveen Patnaik

Captain Abhimanyu, Finance Minister of Haryana, flanked by Commission members Shri Ashok Lahiri to his right and Shri Anoop Singh to his left

Chairman Shri N. K. Singh with the Chief Minister of Tripura, Shri Biplab Kumar Deb

Fifteenth Finance Commission holding a meeting in the State of Mizoram

Chairman Shri N.K. Singh with Hon'ble Prime Minister of India, Shri Narendra Modi

Chairman Shri N.K.Singh made a detailed presentation to the GST Council in Goa

The Hon'ble President of India, Shri Ramnath Kovind, being presented the report of the Fifteenth Finance Commission for the year 2020-21 by Chairman, Shri N.K. Singh

The Fifteenth Finance Commission with the Hon'ble President of India

Fifteenth Finance Commission submitting its report for the year 2020-21 to the Hon'ble Prime Minister of India Shri Narendra Modi

Chairman Shri N.K. Singh, along with Members and senior officials of the Commission, presents the Commission's report for the year 2020-21 to Finance Minister, Smt Nirmala Sitharaman

EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE FIFTEENTH FINANCE COMMISSION IN ITS REPORT FOR FINANCIAL YEAR 2020-21 SUBMITTED TO THE PRESIDENT ON DECEMBER 5, 2019.

1. The Fifteenth Finance Commission (XV-FC) [Commission, henceforth] was constituted on 27th November 2017 by the President, vide Order number S.O. 3755(E) dated 27th November 2017. The Commission, vide S.O. No.4308 (E) dated 29th November, 2019, has been mandated to submit two reports i.e. a first report for financial year 2020-21 and a final report for the period 2021-22 to 2025-26. The date of submission of the final report is 30th October, 2020. The Commission submitted its first report covering the financial year 2020-21 to the President on 5th December 2019.

2. The Report of the Commission covering the financial year 2020-21 commencing from April 1, 2020, together with this Explanatory Memorandum on the action taken on the recommendations of the Commission, is being laid on the Table of the House, in pursuance of Article 281 of the Constitution. Summary of the main recommendations related to sharing of the Net proceeds of Union taxes between the Centre and the States, grants-in-aid of revenue of States under Art 275(1) of the Constitution, financing of relief expenditure, grants to local bodies and other recommendations are contained in this Memorandum. This Memorandum also contains the recommendations related to Sectoral Grants and Performance based indicators provided by the Commission in its report submitted on December 5th 2019.

Sharing of Union Taxes

3. The Commission has recommended that 41 per cent of the net proceeds of Union taxes should be shared with the States as against the present 42%. The Commission felt that, financial resources equivalent to 1% of the net proceeds of Union taxes should be retained with the Central Government for financing the requirements of the newly formed Union Territories of Jammu & Kashmir and Ladakh.

The Government has accepted the above recommendation of the Commission.

Grants-in-aid of Revenues of States under Article 275 of the Constitution

4. The Commission has recommended Grants-in-aid of revenues of States for revenue deficit, special grants, nutrition grants, local bodies and disaster management under Art 275 of the Constitution.

Revenue Deficit Grants

5. The Commission has recommended Post-Devolution Revenue Deficit Grants amounting to Rs. 74,340 crore for fourteen States in 2020-21. Of the total revenue deficit grants of Rs. 74,340 crore, 37,917 crore have been assigned to General States namely, Andhra Pradesh, Kerala, Punjab, Tamil Nadu, and West Bengal while Rs. 36,423 crore are assigned to North-Eastern and Hilly States namely Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, and Uttarakhand. The details of the revenue deficit grants are contained in Chapter 4 of the Report.

The Government has accepted the above recommendations of the Commission

Special Grants

6. The Commission has recommended Special Grants aggregating to Rs. 6,764 crore in 2020-21. These grants have been provided to ensure that in FY 2020-21, no state receives in absolute terms less than what it received in FY 2019-20 on account of tax devolution and revenue deficit grants. The details of the revenue deficit grants are contained in Chapter 4 of the Report.

The Commission may be requested to reconsider the recommendation as it introduces a new principle.

Nutrition Grants

7. The Commission has recommended additional grants of Rs. 7,735 crores to States for nutrition in 2020-21. The Commission has recommended that the Nutrition grants should not be substituted for either the State share or Union share and are an additionality. The details of the revenue deficit grants and the manner of providing them are contained in Chapter 4 of the Report.

The Commission may review this recommendation as a part of its overall proposal of measurable performance-based incentives for States as per the ToR, in the main report

Local Bodies

8. The Commission has recommended grant for local bodies of all States amounting to Rs. 90,000 crore. The recommended allocation for rural local bodies (RLBs) and urban local bodies (ULBs) in 2020-21 are Rs. 60,750 crore and Rs. 29,250 crore respectively.

9. The Commission has recommended that the rural local body grants be given to all three tiers in the panchayats, i.e. village, block and district. The Commission has recommended that rural local body grants, totalling Rs.60,750 crore shall have two components-basic and tied. The ratio of basic grants to tied grants shall be 50:50. The Commission has recommended that the basic grants are untied and can be used by the local bodies for location-specific felt needs, except for salary or other establishment expenditure.

10. The Commission has recommended that State Governments should make allotment of grants for both Fifth and Sixth Schedule areas falling within their jurisdiction. The inter-se allocation should be determined based on the population to area in the ratio of 90:10. The bifurcation into basic and tied grants shall be applicable to the fifth and sixth schedule areas.

11. The Commission has recommended that urban local bodies be provided total grants of Rs. 29,250 cr. The Commission has recommended providing Rs. 20,229 crore for the Million-Plus cities and Rs. 20,021 crore for the other category of cities/towns. The Commission has recommended that States should make allotment of grants on population basis for the Cantonment Boards within their territories. The details of the composition and manner of providing these grants are contained in Chapter 5 of the Report.

The Government has accepted these recommendations of the Commission

Disaster-related Grants

12. The Commission has recommended that the total amount allocated to the States for SDRMF shall be Rs. 28,983 crore in 2020-21, of which the Union share is crore. The Commission has recommended that the allocation for National Disaster Risk Management Fund (NDRMF) be Rs. 12,390 crore in 2020-21 based on the expenditure based methodology. The recommendations of the Commission in respect of Disaster Risk Management, including the composition and the earmarked allocations within the SDRMF and the NDRMF, the details and conditionalities regarding release of these grants are contained in Chapter 6 of the Report.

The Government has accepted these recommendations of the Commission.

Sectoral Grants

13. The Report discusses the broad contours of sectoral grants and preparatory work to be undertaken by the State Government and different Ministries/Departments of the Union Government in regard to sectoral grants. The Commission has recommended that preparations be undertaken by the State Governments and the Ministries/Departments of the Central Government in respect of seven (7) different sectors. Contingent on their preparations, the Commission intends to provide sector-specific grants for health, pre-primary education, judiciary, rural connectivity, railways, statistics and police training and housing. The recommendations of the Commission on the sectoral grants are contained in Chapter 4 of the Report.

The Government has accepted these recommendations of the Commission in-principle.

Performance-based incentives

14. The Commission in its report has advised the States to undertake preparatory action by establishing a credible implementation and monitoring system in 2020-21, after developing robust, monitorable outcome indicators for releasing the grants to eligible States in subsequent years. The concerned Ministries/Departments are required to define the State-wise baseline indices/score/data using the indices to monitor annual incremental changes and issue guidelines before May/June 2020. These recommendations on the preparatory work to be undertaken by the States and the Ministries / Departments are contained in Chapter 4 of the Report.

The Government has accepted these recommendations of the Commission in-principle.

Other recommendations

15. In addition to the above, the Commission has made other recommendations related to revenue and expenditure reforms, at the Central and the State levels, accounting and budgeting reforms, additional disclosures by the Central Government and the State and local bodies.

The Government will examine these recommendations of the Commission in due course.

Implementation

16. Orders on the recommendations under Art 270 and 275(1) of the Constitution relating to share in Union Taxes and duties and Grants-in-aid respectively will be issued after obtaining the approval of the President. Other recommendations of the Commission will be acted upon in due course.

New Delhi
January 30, 2020

NIRMALA SITHARAMAN
Minister of Finance

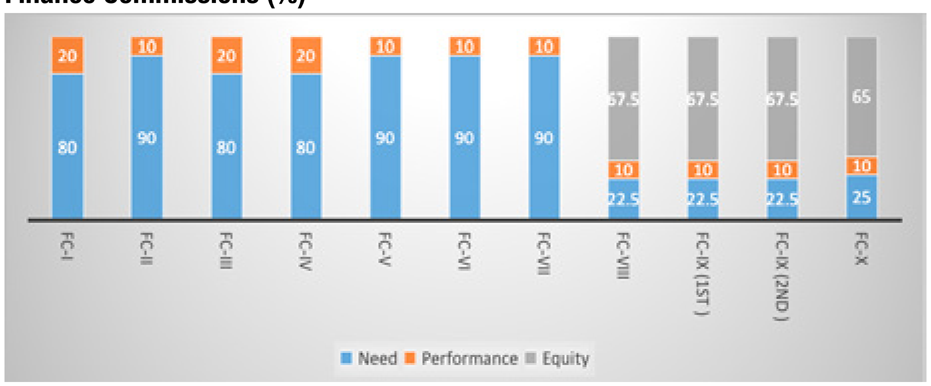
COMPARATIVE ANALYSIS AND SNAPSHOT OF RECOMMENDATIONS OF FINANCE COMMISSIONS

Table 1: Vertical Devolution: States' share in the divisible pool of Central Taxes recommended by Finance Commissions

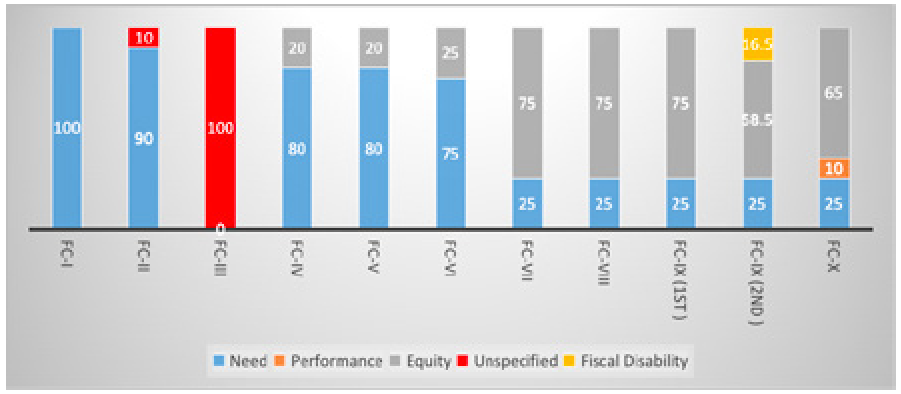
Finance Commissions	State's Share in the net Proceeds of Income Tax (%)	States' Share in the Net Proceeds of Union Excise Duties (%)	States' Share in All Shareable Union Taxes (%)
FC-I	55	40 (3 Commodities)	
FC-II	60	25 (8 Commodities)	
FC-III	66.66	20 (35 Commodities)	
FC-IV	75	20(all Commodities)	
FC-V	75	20 (all Commodities)	
FC-VI	80	20 (all Commodities)	
FC-VII	85	40 (all Commodities)	
FC-VIII	85	45 (all Commodities)	
FC-IX	85	45 (all Commodities)	
FC-X	77.5	47.5 (all Commodities)	
FC-XI			29.5
FC-XII			30.5
FC-XIII			32
FC-XIV			42
FC-XV(2020-21)			41

Graph 1: Broad criterion for devolution of taxes

1A. Criteria for Distribution of Income Tax Proceeds to States, First to Tenth Finance Commissions (%)

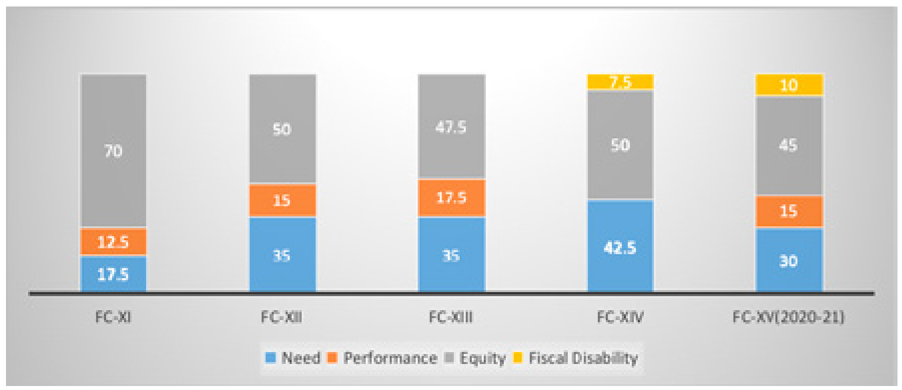


1B. Criteria for Distribution of Union Excise Duties, First to Tenth Finance Commissions (%)



Note: The FC-III considered that while population should be the main factor, other factors, such as relative financial weakness of the states, disparities in the level of development should be taken into account, however, the exact method followed in arriving at inter-se share was not specified.

1C. Criteria for Distribution of States' Share in All Central Taxes, Eleventh to Fifteenth Finance Commission (2020-21) (%)



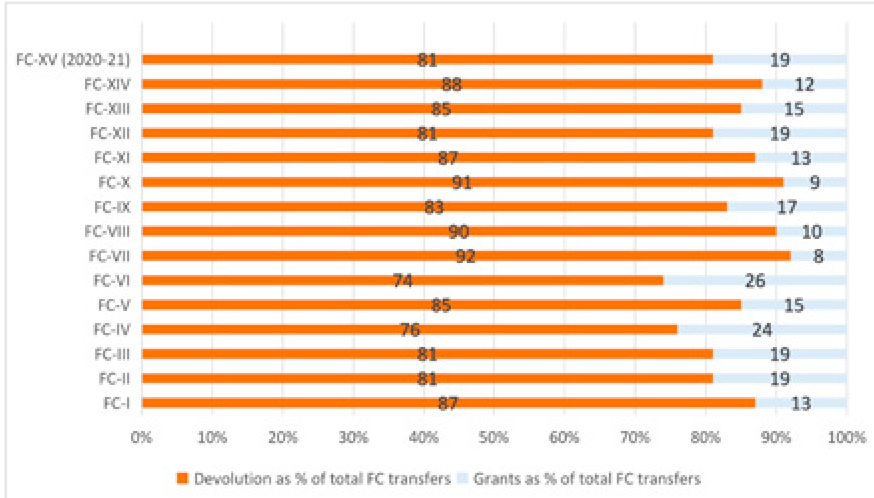
An examination of the weightage assigned to each one of the above criteria reveals that over the years, there has been a shift from need- based parameters to criteria representing equity and efficiency.

Source : Reports of Finance Commissions,

Table 2: Inter-se state share given by previous Commissions*

States	FC-XI	FC-XII	FC-XIII	FC-XIV	FC-XV (2020-21)
Andhra Pradesh	7.701	7.356	6.937	4.305	4.111
Arunachal Pradesh	0.244	0.288	0.328	1.37	1.76
Assam	3.285	3.235	3.628	3.311	3.131
Bihar	14.597	11.028	10.917	9.665	10.061
Chhattisgarh	-	2.654	2.47	3.08	3.418
Goa	0.206	0.259	0.266	0.378	0.386
Gujarat	2.821	3.569	3.041	3.084	3.398
Haryana	0.944	1.075	1.048	1.084	1.082
Himachal Pradesh	0.683	0.522	0.781	0.713	0.799
Jammu & Kashmir	1.29	1.297	1.551	1.854	_
Jharkhand	-	3.361	2.802	3.139	3.313
Karnataka	4.93	4.459	4.328	4.713	3.646
Kerala	3.057	2.665	2.341	2.500	1.943
Madhya Pradesh	8.838	6.711	7.12	7.548	7.886
Maharashtra	4.632	4.997	5.199	5.521	6.135
Manipur	0.366	0.362	0.451	0.617	0.718
Meghalaya	0.342	0.371	0.408	0.642	0.765
Mizoram	0.198	0.239	0.269	0.46	0.506
Nagaland	0.22	0.263	0.314	0.498	0.573
Odisha	5.056	5.161	4.779	4.642	4.629
Punjab	1.147	1.299	1.389	1.577	1.788
Rajasthan	5.473	5.609	5.853	5.495	5.979
Sikkim	0.184	0.227	0.239	0.367	0.388
Tamil Nadu	5.385	5.305	4.969	4.023	4.189
Telangana	-	-	-	2.437	2.133
Tripura	0.487	0.428	0.511	0.642	0.709
Uttar Pradesh	19.798	19.264	19.677	17.959	17.931
Uttarakhand	-	0.939	1.12	1.052	1.104
West Bengal	8.116	7.057	7.264	7.324	7.519

Graph 2: Devolution Vs Grants-in-aid



Note: Only Second report of FC-IX is used here

**There was a fundamental change in the pattern of sharing of Union taxes with the States following the Eightieth Amendment of the Constitution. Under an amended Article 270, all taxes included in the Union List (except the duties and taxes referred to in Articles 268, 269, and 269-A, surcharges and any cess levied for a specific purpose under an Act of Parliament) are shareable with the States. The amendment came into operation from 9 June 2000. This came into implementation with the recommendations of Eleventh Finance Commission.*

Source : Reports of Finance Commissions

Table 3: Total amount devolved to States through Tax devolution and Grants-in-aid

Commission	Devolution (Rs in crores)	Devolution as % of total FC transfers	Grants (Rs in crores)	Grants as % of total FC transfers	Total FC Transfers (Rs in crores)
FC-I	335	87	50	13	385
FC-II	852	81	197	19	1049
FC-III	1067	81	244	19	1311
FC-IV	1323	76	422	24	1745
FC-V	3628	85	638	15	4266
FC-VI	7099	74	2510	26	9609
FC-VII	19233	92	1610	8	20843
FC-VIII	35683	90	3769	10	39452
FC-IX (1st Report)	11786	86	1878	14	13664
FC-IX (2nd report	87882	83	18154	17	106036
FC-X	206343	91	20302	9	226645
FC-XI	376318	87	58588	13	434906
FC-XII	613112	81	142640	19	755752
FC-XIII	1448096	85	258581	15	1706677
FC-XIV	3948188	88	537353	12	4485541
FC-XV (2020-21)	855176	81	201023	19	1056199

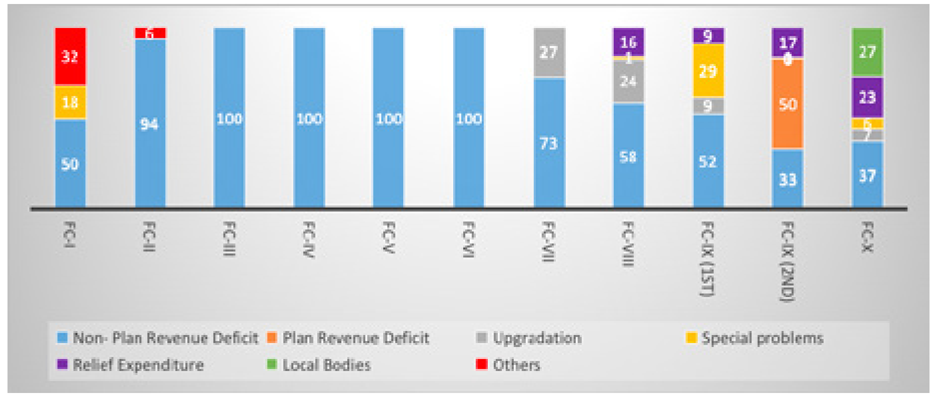
Note 1: Ninth Finance Commission (2nd Report) in addition provided plan grants of Rs 9000.83

Note 2: Fifteenth Finance Commission grants and devolution has been depicted for only one year

Note 3: % is rounded off to nearest decimal

Note 4: Grants do not include, among others, grants in respect of additional duties of excise in lieu of sales tax on textiles, tobacco, and sugar, grants in lieu of tax on railway passenger fares, grants in lieu of estate duty and grants in lieu of wealth tax

Graph 3: Type of grants from FC-I to FC-X



Graph 4: Type of grants from FC-XI to FC-XV(2020-21)

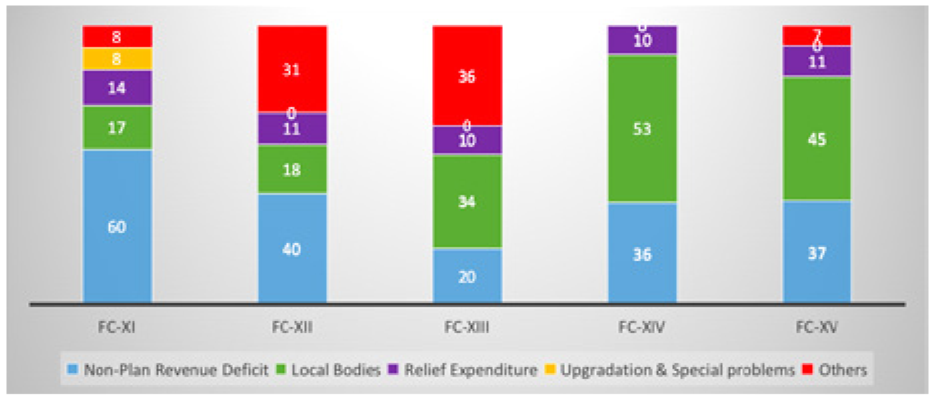


Table 4: Local bodies Grants

Commission	Total Grants recommended (Rs crores)	Grants to Local Bodies (Rs crores)	% share of Grants to Local Bodies
FC-X	20300	5381	26.50
FC-XI	58587	10000	17.07
FC-XII	142640	25000	17.53
FC-XIII	258581	87519	33.85
FC-XIV	537353	287436	53.49
FC-XV (2020-21)	201023	90000	44.77

Note: Fifteenth Finance Commission grants for local bodies have been depicted for only one year

Source : Reports of Finance Commissions

Table 5: Criteria for horizontal distribution of grants to States for local bodies by Finance Commissions

Criteria	FC-X	FC-XI	FC-XII	FC-XIII		FC-XIV	FC-XV (2020-21)
				RLB	ULB		
Population	100% (1971 census)	40% (1971 census)	40% (2001 census)	50% (2001 Census)		90% (2011 census)	90% (2011 census)
Distance from highest per capita income	-	20%	20%	10%	20%	-	-
Index of Decentralization	-	20%	-	15%	15%	-	-
Index of Deprivation			10%				-
Geographical Area	-	10%	10%	10%	10%	10%	10%
Revenue Effort	-	10%	20%	-		-	
SC/STs proportion in population	-	-	-	10%	0%	-	-
FC local body grants utilization index	-	-	-	5%		-	-

Source : Reports of Finance Commissions

Table 6: Status of constitution of State Finance Commissions as on November 2018

States name	State Finance Commissions				
	5th	4th	3rd	2nd	1st
Assam, Bihar, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Uttar Pradesh (13)	√				
Andhra Pradesh, Karnataka, Tripura, Uttarakhand, West Bengal (5)		√			
Chhattisgarh, Goa, Gujarat, Manipur, Jharkhand# (5)			√		
Arunachal Pradesh, Nagaland, Jammu & Kashmir (3)				√	
Mizoram, Telangana (2)					√

Notes 1: Figures in parenthesis refer to the number of States; # In case of 1st SFC of Jharkhand, government took 6 years to table the ATR. 2nd SFC has not submitted the report. But 3rd SFC has been set up, Note 2: As per the 73rd and 74th Constitutional Amendments Act, 1992 three States, Meghalaya, Mizoram and Nagaland are exempted from constituting SFCs. However, Mizoram and Nagaland have constituted SFCs. Meghalaya is the only State which has not constituted any SFC. Telangana, the newest State of India was formed out of Andhra Pradesh in June, 2014. It constituted its First SFC in December, 2017.

Source: National Institute of Public Finance and Policy (NIPFP)

SEPARATE NOTES/ NOTES OF DISSENT AS INCORPORATED IN THE VARIOUS FINANCE COMMISSIONS

Name of Finance Commission	Name of Member who gave the additional Note	Remarks
FC-I	Shri R. Kaushalendra Rao	The note given by the Member was in the form of minute detailing the international experience and other related issues of devolution
FC-III	Shri G. R. Kamat	Minute of Dissent given by the Member-Secretary on tied grants for financing expenditure like special maintenance and improvements
FC-IV	Shri Mohan Lal Gautam	Minute of Dissent given by Member mentioned the items which were not included in assessment of gap of the States; and distribution of proceeds from additional duties of excise.
	Dr P.V. Rajamannar	Minute given on general Union-State financial relations
	Prof. Bhabatosh Datta	Principles of devolution of taxes and Union- State financial relations
FC-VII	Prof. Raj Krishna	Note of Dissent on –'A more equitable distribution of resources'
	Prof. Raj Krishna and Shri. H.N. Ray	Joint note given by the members on compensation to States for the loss of revenue consequent on the progressive introduction of prohibition
	Shri H.N. Ray	Note given by the member outlining his views on the returns from State Electricity Boards etc. to be taken into account for the purposes of the forecasts of the State Governments, and the targets of additional resource mobilisation
FC-VIII	Shri Justice T.P.S. Chawla and Shri G.C. Baveja	Minute of Dissent on treatment to be accorded to additional resource mobilisation and committed expenditure.
FC-XI	Dr. Amaresh Bagchi	Note of Dissent on (i) A proposal to withhold a portion of revenue deficit grants, (ii) Identification of five indicators for monitoring the progress of reforms, (iii) A proposal to constitute a monitoring agency consisting of group(s), to be 'appointed by the Government of India, which may include, amongst others, representatives of Planning Commission, Finance Ministry of Government of India and representatives of the State government for which the programme is to be worked out', (iv) proposals indicating additional responsibilities for the next Finance Commission
FC-XIV	Prof. Abhijit Sen	Note of dissent on share on vertical devolution and other related issues

Constitutional Provisions

Constitutional Provisions related to Finance Commission

ARTICLE 280 | FINANCE COMMISSION

(1) The President shall, within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a Chairman and four other members to be appointed by the President.

(2) Parliament may by law determine the qualifications which shall be requisite for appointment as members of the Commission and the manner in which they shall be selected.

(3) It shall be the duty of the Commission to make recommendations to the President as to-

(a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds;

(b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;

[(bb) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State;]

[(c) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;]

[(d)] any other matter referred to the Commission by the President in the interests of sound finance.

(4) The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them.

ARTICLE 275 | GRANTS FROM THE UNION TO CERTAIN STATES

(1) Such sums as Parliament may by law provide shall be charged on the Consolidated Fund of India in each year as grants-in-aid of the revenues of such States as Parliament may determine to be in need of assistance, and different sums may be fixed for different States:

Provided that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of a State such capital and recurring sums as may be necessary to enable that State to meet the costs of such schemes of development as may be undertaken by the State with the approval of the Government of India for the purpose of promoting the welfare of the Scheduled Tribes in that State or raising the level of administration of the Scheduled Areas therein to that of the administration of the rest of the areas of that State:

Provided further that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of the State of Assam sums, capital and recurring, equivalent to-

(a) the average excess of expenditure over the revenues during the two years immediately preceding the commencement of this Constitution in respect of the administration of the tribal areas specified in [Part I] of the Table appended to paragraph 20 of the Sixth Schedule; and

(b) the costs of such schemes of development as may be undertaken by that State with the approval of the Government of India for the purpose of raising the level of administration of the said areas to that of the administration of the rest of the areas of that State.

(1A) On and from the formation of the autonomous State under article 244A,-

(i) any sums payable under clause (a) of the second proviso to clause (1) shall, if the autonomous State comprises all the tribal areas referred to therein, be paid to the autonomous State, and, if the autonomous State comprises only some of those tribal areas, be apportioned between the State of Assam and the autonomous State as the President may, by order, specify;

(ii) there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of the autonomous State sums, capital and recurring, equivalent to the costs of such schemes of development as may be undertaken by the autonomous State with the approval of the Government of India for the purpose of raising the level of administration of that State to that of the administration of the rest of the State of Assam.]

(2) Until provision is made by Parliament under clause (1), the powers conferred on Parliament under that clause shall be exercisable by the President by order and any order made by the President under this clause shall have effect subject to any provision so made by Parliament:

Provided that after a Finance Commission has been constituted no order shall be made under this clause by the President except after considering the recommendations of the Finance Commission.

PART XII

FINANCE, PROPERTY, CONTRACTS AND SUITS

CHAPTER I.—FINANCE

General

Article 266	**Consolidated Funds and public accounts of India and of the States.** (1) Subject to the provisions of article 267 and to the provisions of this Chapter with respect to the assignment of the whole or part of the net proceeds of certain taxes and duties to States, all revenues received by the Government of India, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled "the Consolidated Fund of India", and all revenues received by the Government of a State, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled "the Consolidated Fund of the State". (2) All other public moneys received by or on behalf of the Government of India or the Government of a State shall be credited to the public account of India or the public account of the State, as the case may be. (3) No moneys out of the Consolidated Fund of India or the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in this Constitution.
Article 267	**Contingency Fund** (1) Parliament may by law establish a Contingency Fund in the nature of an imprest to be entitled "the Contingency Fund of India" into which shall be paid from time to time such sums as may be determined by such law, and the said Fund shall be placed at the disposal of the President to enable advances to be made by him out of such Fund for the purposes of meeting unforeseen expenditure pending authorisation of such expenditure by Parliament by law under article 115 or article 116. (2) The Legislature of a State may by law establish a Contingency Fund in the nature of an imprest to be entitled "the Contingency Fund of the State" into which shall be paid from time to time such sums as may be determined by such law, and the said Fund shall be placed at the disposal of the Governor 1 ***of the State to enable advances to be made by him out of such Fund for the purposes of meeting unforeseen expenditure pending authorisation of such expenditure by the Legislature of the State by law under article 205 or article 206.
Article 268	**Duties levied by the Union but collected and appropriated by the States** (1) Such stamp duties and such duties of excise on medicinal and toilet preparations as are mentioned in the Union List shall be levied by the Government of India but shall be collected (a) in the case where such duties are leviable within any Union territory, by the Government of India, and (b) in other cases, by the States within which such duties are respectively leviable (2) The proceeds in any financial year of any such duty leviable within any State shall not form part of the Consolidated Fund of India, but shall be assigned to that State

Article 269	**Taxes levied and collected by the Union but assigned to the States** (1) Taxes on the sales or purchase of goods and taxes on the consignment of goods shall be levied and collected by the Government of India but shall be assigned and shall be deemed to have been assigned to the Slates on or after the 1st day of April, 1996 in the matter provided in clause (2). (2) The net proceeds in any financial year of any such tax, except in so far as those proceeds represent proceeds attributable to Union territories, shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that tax is leviable in that year, and shall be distributed among those States in accordance with such principles of distribution as may be formulated by Parliament by law.] (3) Parliament may by law formulate principles for determining when a sale or purchase of, or consignment of, goods] takes place in the course of inter-State or commerce.
Article 269A	**Levy and collection of goods and services tax in course of inter-State trade or commerce** (1) Goods and services tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council. (2) The amount apportioned to a State under clause (1) shall not form part of the Consolidated Fund of India. (3) Where an amount collected as tax levied under clause (1) has been used for payment of the tax levied by a State under article 246A, such amount shall not form part of the Consolidated Fund of India. (4) Where an amount collected as tax levied by a State under article 246A has been used for payment of the tax levied under clause (1), such amount shall not form part of the Consolidated Fund of the State. (5) Parliament may, by law, formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.
Article 270	**Taxes levied and distributed between the Union and the States** (1) All taxes and duties referred to in the Union List, except the duties and taxes referred to in articles 268 and 269, respectively, surcharge on taxes and duties referred to in article 271 and any cess levied for specific purposes under any law made by Parliament shall be levied and collected by the Government of India and shall be distributed between the Union and the States in the manner provided in clause (2). (2) Such percentage, as may be prescribed, of the net proceeds of any such tax or duty in any financial year shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that tax or duty is leviable in that year, and shall be distributed among those States in such manner and from such time as may be prescribed in the manner provided in clause (3). (3) In this article, “Prescribed” means - (i) until a Finance Commission has been constituted, prescribed by the President by order, and (ii)after a Finance Commission has been constituted, prescribed by the President by order after considering the recommendations of the Finance Commission.’]

Article 271	**Surcharge on certain duties and taxes for purposes of the Union** Notwithstanding anything in articles 269 and 270, Parliament may at any time increase any of the duties or taxes referred to in those articles by a surcharge for purposes of the Union and the whole proceeds of any such surcharge shall form part of the Consolidated Fund of India.
Article 272	Taxes which are levied and collected by the Union and may be distributed between the Union and the States [Rep. by the Constitution (Eightieth Amendment) Act, 2000, sec. 4 (w.e.f. 9-6-2000)]
Article 274	**Prior recommendation of President required to Bills affecting taxation in which States are interested** (1) No Bill or amendment which imposes or varies any tax or duty in which States are interested, or which varies the meaning of the expression "agricultural income" as defined for the purposes of the enactments relating to Indian income-tax, or which affects the principles on which under any of the foregoing provisions of this Chapter moneys are or may be distributable to States, or which imposes any such surcharge for the purposes of the Union as is mentioned in the foregoing provisions of this Chapter, shall be introduced or moved in either House of Parliament except on the recommendation of the President. (2) In this article, the expression "tax or duty in which States are interested" means- (a) a tax or duty the whole or part of the net proceeds whereof are assigned to any State; or (b) a tax or duty by reference to the net proceeds whereof sums are for the time being payable out of the Consolidated Fund of India to any State.
Article 275	**Grants from the Union to certain States** (1) Such sums as Parliament may by law provide shall be charged on the Consolidated Fund of India in each year as grants-in-aid of the revenues of such States as Parliament may determine to be in need of assistance, and different sums may be fixed for different States: Provided that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of a State such capital and recurring sums as may be necessary to enable that State to meet the costs of such schemes of development as may be undertaken by the State with the approval of the Government of India for the purpose of promoting the welfare of the Scheduled Tribes in that State or raising the level of administration of the Scheduled Areas therein to that of the administration of the rest of the areas of that State: Provided further that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of the State of Assam sums, capital and recurring, equivalent to- (a) the average excess of expenditure over the revenues during the two years immediately preceding the commencement of this Constitution in respect of the administration of the tribal areas specified in _232[Part I] of the Table appended to paragraph 20 of the Sixth Schedule; and (b) the costs of such schemes of development as may be undertaken by that State with the approval of the Government of India for the purpose of raising the level of administration of the said areas to that of the administration of the rest of the areas of that State. (1A) On and from the formation of the autonomous State under article 244A,- (i) any sums payable under clause (a) of the second proviso to clause (1) shall, if the autonomous State comprises all the tribal areas referred to therein, be paid to the autonomous State, and, if the autonomous State comprises only some of those tribal areas, be apportioned between the State of Assam and the autonomous State as the President may, by order, specify; (ii) there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of the autonomous State sums, capital and recurring, equivalent to the costs of such schemes of development as may be undertaken by the autonomous State with the approval of the Government of India for the purpose of raising the level of administration of that State to that of the administration of the rest of the State of Assam.] (2) Until provision is made by Parliament under clause (1), the powers conferred on Parliament under that clause shall be exercisable by the President by order and any order made by the President under this clause shall have effect subject to any provision so made by Parliament: Provided that after a Finance Commission has been constituted no order shall be made under this clause by the President except after considering the recommendations of the Finance Commission.

Article 276	**Taxes on professions, trades, callings and employments** (1) Notwithstanding anything in article 246, no law of the Legislature of a State relating to taxes for the benefit of the State or of a municipality, district board, local board or other local authority therein in respect of professions, trades, callings or employments shall be invalid on the ground that it relates to a tax on income. (2) The total amount payable in respect of any one person to the State or to any one municipality, district board, local board or other local authority in the State by way of taxes on professions, trades, callings and employments shall not exceed 1 [two thousand and five hundred rupees] per annum. (3) The power of the Legislature of a State to make laws as aforesaid with respect to taxes on professions, trades, callings and employments shall not be construed as limiting in any way the power of Parliament to make laws with respect to taxes on income accruing from or arising out of professions, trades, callings and employments.
Article 279	**Calculation of net proceeds, etc** (1) In the foregoing provisions of this Chapter, net proceeds means in relation to any tax or duty the proceeds thereof reduced by the cost of collection, and for the purposes of those provisions the net proceeds of any tax or duty, or of any part of any tax or duty, in or attributable to any area shall be ascertained and certified by the Comptroller and Auditor General of India, whose certificate shall be final (2) Subject as aforesaid, and to any other express provision of this Chapter, a law made by Parliament or an order of the President may, in any case where under this Part the proceeds of any duty or tax are, or may be, assigned to any State, provide for the manner in which the proceeds are to be calculated, for the time from or at which and the manner in which any payments are to be made, for the making of adjustments between one financial year and another, and for any other incidental or ancillary matters
Article 279A	**Goods and Services Tax Council** (1) The President shall, within sixty days from the date of commencement of the Constitution (One Hundred and First Amendment) Act, 2016, by order, constitute a Council to be called the Goods and Services Tax Council. (2) The Goods and Services Tax Council shall consist of the following members, namely:- (a) the Union Finance Minister........................ Chairperson; (b) the Union Minister of State in charge of Revenue or Finance................ Member; (c) the Minister in charge of Finance or Taxation or any other Minister nominated by each State Government................... Members. (3) The Members of the Goods and Services Tax Council referred to in sub-clause (c) of clause (2) shall, as soon as may be, choose one amongst themselves to be the Vice-Chairperson of the Council for such period as they may decide. (4) The Goods and Services Tax Council shall make recommendations to the Union and the States on- (a) the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax; (b) the goods and services that may be subjected to, or exempted from the goods and services tax; (c) model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of Inter-State trade or commerce under article 269A and the principles that govern the place of supply;

(d) the threshold limit of turnover below which goods and services may be exempted from goods and services tax;

(e) the rates including floor rates with bands of goods and services tax;

(f) any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;

(g) special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand;

and

(h) any other matter relating to the goods and services tax, as the Council may decide.

(5) The Goods and Services Tax Council shall recommend the date on which the goods and services tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.

(6) While discharging the functions conferred by this article, the Goods and Services Tax Council shall be guided by the need for a harmonised structure of goods and services tax and for the development of a harmonised national market for goods and services.

(7) One half of the total number of Members of the Goods and Services Tax Council shall constitute the quorum at its meetings.

(8) The Goods and Services Tax Council shall determine the procedure in the performance of its functions.

(9) Every decision of the Goods and Services Tax Council shall be taken at a meeting, by a majority of not less than three-fourths of the weighted votes of the members present and voting, in accordance with the following principles, namely:-

(a) the vote of the Central Government shall have a weightage of one third of the total votes cast, and

(b) the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast, in that meeting.

(10) No act or proceedings of the Goods and Services Tax Council shall be invalid merely by reason of-

(a) any vacancy in, or any defect in, the constitution of the Council; or

(b) any defect in the appointment of a person as a member of the Council; or

(c) any procedural irregularity of the Council not affecting the merits of the case.

(11) The Goods and Services Tax Council shall establish a mechanism to adjudicate any dispute-

(a) between the Government of India and one or more States; or

(b) between the Government of India and any State or States on one side and one or more other States on the other side; or

(c) between two or more States, arising out of the recommendations of the Council or implementation thereof.

Article 280	**Finance Commission** (1) The President shall, within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a Chairman and four other members to be appointed by the President. (2) Parliament may by law determine the qualifications which shall be requisite for appointment as members of the Commission and the manner in which they shall be selected. (3) It shall be the duty of the Commission to make recommendations to the President as to- (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds; (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India; [(bb) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State;] [(c) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;] [(d)] any other matter referred to the Commission by the President in the interests of sound finance. (4) The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them.
Article 281	**Recommendations of the Finance Commission** The President shall cause every recommendation made by the Finance Commission under the provisions of this Constitution together with an explanatory memorandum as to the action taken thereon to be laid before each House of Parliament.
Article 282	**Expenditure defrayable by the Union or a State out of its revenues** The Union or a State may make any grants for any public purpose, notwithstanding that the purpose is not one with respect to which Parliament or the Legislature of the State, as the case may be, may make laws.
Article 285	**Exemption of property of the Union from State taxation** (1) The property of the Union shall, save in so far as Parliament may by law otherwise provide, be exempt from all taxes imposed by a State or by any authority within a State. (2) Nothing in clause (1) shall, until Parliament by law otherwise provides, prevent any authority within a State from levying any tax on any property of the Union to which such property was immediately before the commencement of this Constitution liable or treated as liable, so long as that tax continues to be levied in that State

Article 289	**Exemption of property and income of a State from Union taxation** (1) The property and income of a State shall be exempt from Union taxation. (2) Nothing in clause (1) shall prevent the Union from imposing, or authorising the imposition of, any tax to such extent, if any, as Parliament may by law provide in respect of a trade or business of any kind carried on by, or on behalf of, the Government of a State, or any operations connected therewith, or any property used or occupied for the purposes of such trade or business, or any income accruing or arising in connection therewith. (3) Nothing in clause (2) shall apply to any trade or business, or to any class of trade or business, which Parliament may by law declare to be incidental to the ordinary functions of Government.

CHAPTER II.—BORROWING

Article 293	**Borrowing by States** (1) Subject to the provisions of this article, the executive power of a State extends to borrowing within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by the Legislature of such State by law and to the giving of guarantees within such limits, if any, as may be so fixed. (2) The Government of India may, subject to such conditions as may be laid down by or under any law made by Parliament, make loans to any State or, so long as any limits fixed under article 292 are not exceeded, give guarantees in respect of loans raised by any State, and any sums required for the purpose of making such loans shall be charged on the Consolidated Fund of India. (3) A State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predecessor Government, or in respect of which a guarantee has been given by the Government of India or by its predecessor Government. (4) A consent under clause (3) may be granted subject to such conditions, if any, as the Government of India may think fit to impose.

Panchayats and Municipalities

PART IV
DIRECTIVE PRINCIPLES OF STATE POLICY

Article 40	**Organisation of village panchayats** The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.

PART IX – THE PANCHAYATS

Article 243	**Definitions** In this Part, unless the context otherwise requires,— (a) "district" means a district in a State; (b) "Gram Sabha" means a body consisting of persons registered in the electoral rolls relating to a village comprised within the area of Panchayat at the village level; (c) "intermediate level" means a level between the village and district levels specified by the Governor of a State by public notification to be the intermediate level for the purposes of this Part; (d) "Panchayat" means an institution (by whatever name called) of self-government constituted under article 243B, for the rural areas; (e) "Panchayat area" means the territorial area of a Panchayat; (f) "population" means the population as ascertained at the last preceding census of which the relevant figures have been published; (g) "village" means a village specified by the Governor by public notification to be a village for the purposes of this Part and includes a group of villages so specified.
Article 243 (I)	**Constitution of finance Commissions to review financial position** (1) The Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the Panchayats and to make recommendations to the Governor as to; (a) the principles which should govern; (i) the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Panchayats at all levels of their respective shares of such proceeds; (ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats; (iii) the grants-in-aid to the Panchayats from the Consolidated Fund of the State; (b) the measures needed to improve the financial position of the Panchayats; (c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats. (2) The Legislature of a State may, by law, provide for the composition of the Commission, the qualifications which shall be requisite for appointment as members thereof and the manner in which they shall be selected. (3) The Commission shall determine their procedure and shall have such powers in the performance of their functions as the Legislature of the State may, by law, confer on them, (4) The Governor shall cause every recommendation made by the Commission under this article together with an explanatory memorandum as to the action taken thereon to be laid before the Legislature of the State.

PART IXA – THE MUNICIPALITIES

Article 243 (P)	**Definitions** In this Part, unless the context otherwise requires,— (a) "Committee" means a Committee constituted under article 243S; (b) "district" means a district in a State; (c) "Metropolitan area" means an area having a population of ten lakhs or more, comprised in one or more districts and consisting of two or more Municipalities or Panchayats or other contiguous areas, specified by the Governor by public notification to be a Metropolitan area for the purposes of this Part; (d) "Municipal area" means the territorial area of a Municipality as is notified by the Governor; (e) "Municipality" means an institution of self-government constituted under article 243Q; (f) "Panchayat" means a Panchayat constituted under article 243B; (g) "population" means the population as ascertained at the last preceding census of which the relevant figures have been published.
Article 243 (Y)	**Finance Commission** (1) The Finance Commission constituted under article 243 I shall also review the financial position of the Municipalities and make recommendations to the Governor as to (a) the principles which should govern (i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Municipalities at all levels of their respective shares of such proceeds; (ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities; (iii) the grants in aid to the Municipalities from the Consolidated Fund of the State; (b) the measures needed to improve the financial position of the Municipalities; (c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Municipalities (2) The Governor shall cause every recommendation made by the Commission under this article together with an explanatory memorandum as to the action taken thereon to be laid before the Legislature of the State

सत्यमेव जयते

FINANCE COMMISSIONS