

# **Fifteenth Finance Commission**

## **Terms of Reference**

Terms of Reference and the matters that shall be taken into consideration by the Fifteenth Finance Commission in making the recommendations are as under:

- (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 and the allocation between the States of the respective shares of such proceeds;
- (ii) 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 the provisos to clause (1) of that article; and
- (iii) The 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.

2. The Commission shall review the current status of the finance, deficit, debt levels, cash balances and fiscal discipline efforts of the Union and the States, and recommend a fiscal consolidation roadmap for sound fiscal management, taking into account the responsibility of the Central Government and State Governments to adhere to appropriate levels of general and consolidated government debt and deficit levels, while fostering higher inclusive growth in the country, guided by the principles of equity, efficiency and transparency. The Commission may also examine whether revenue deficit grants be provided at all.

3. While making its recommendations, the Commission shall have regard, among other considerations, to:

- (i) The resources of the Central Government and the State Governments for the five years commencing on 1<sup>st</sup> April 2020 on the basis of the levels of tax and the non-tax revenues likely to be reached by 2024-25. In the context of both tax and non-tax revenues, the Commission will also take into consideration their potential and fiscal capacity;
- (ii) The demand on the resources of the Central Government particularly on account of defence, internal security, infrastructure, railways, climate

change, commitments towards administration of UTs without legislature, and other committed expenditure and liabilities;

- (iii) The demand on the resources of the State Governments, particularly on account of financing socioeconomic development and critical infrastructure, assets maintenance expenditure, balanced regional development and impact of the debt and liabilities of their public utilities;
- (iv) The impact on the fiscal situation of the Union Government of substantially enhanced tax devolution to States following recommendations of the 14th Finance Commission, coupled with the continuing imperative of the national development programme including New India – 2022;
- (v) The impact of the GST, including payment of compensation for possible loss of revenues for 5 years, and abolition of a number of cesses, earmarking thereof for compensation and other structural reforms programme, on the finances of Centre and States; and
- (vi) The conditions that GoI may impose on the States while providing consent under Article 293(3) of the Constitution.

4. The Commission may consider proposing measurable performance-based incentives for States, at the appropriate level of government, in following areas:

- (i) Efforts made by the States in expansion and deepening of tax net under GST;
- (ii) Efforts and Progress made in moving towards replacement rate of population growth;
- (iii) Achievements in implementation of flagship schemes of Government of India, disaster resilient infrastructure, sustainable development goals, and quality of expenditure;
- (iv) Progress made in increasing capital expenditure, eliminating losses of power sector, and improving the quality of such expenditure in generating future income streams;
- (v) Progress made in increasing tax/non-tax revenues, promoting savings by adoption of Direct Benefit Transfers and Public Finance Management System, promoting digital economy and removing layers between the government and the beneficiaries;
- (vi) Progress made in promoting ease of doing business by effecting related policy and regulatory changes and promoting labour intensive growth;

- (vii) Provision of grants in aid to local bodies for basic services, including quality human resources, and implementation of performance grant system in improving delivery of services;
  - (viii) Control or lack of it in incurring expenditure on populist measures; and
  - (ix) Progress made in sanitation, solid waste management and bringing in behavioural change to end open defecation.
5. The Commission shall use the population data of 2011 while making its recommendations.
6. The Commission may review the present arrangements on financing Disaster Management initiatives, with reference to the funds constituted under the Disaster Management Act, 2005 (53 of 2005), and make appropriate recommendations thereon.
7. The Commission shall indicate the basis on which it has arrived at its findings and make available the State wise estimates of receipts and expenditure.
8. The Commission shall make its report available by 30th October, 2019, covering a period of five years commencing 1st April, 2020.

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