

Finance Commission

- The Finance Commission is a constitutionally mandated body set up under Article 280 of the constitution to evaluate the state of finances of the union and state governments, recommend the sharing of taxes between them and lay down the principles of determining the distribution of these taxes among them.
- The Finance Commission has a chairman and four members appointed by the president.
- In November 2017, president of India constituted the 15th Finance Commission and appointed former planning Commission member N.K. Singh as its chairman.

11th Finance Commission (2000-2005)

The four main recommendations of the 11th Finance Commission. [Chairman - Prof. A.M. Kheuro]

(i) The Imbalance of Federal Finance

It highlights the fact that there has been a serious deterioration in the fiscal situation of the states in the 1990s, and identified the structural causes of this deterioration.

(a) Erosion of the tax-GDP ratio.

(b) The virtual stagnation of non-tax revenues.

(c) On the expenditure side it has criticised the periodic upward revision of emoluments of govt. employees without adequate consideration of the ability of public sector to bear the burden.

(ii) Revenue Mobilisation

- Suggested constitutional measures for widening the tax base.

* Services should be brought under the concurrent list and the limits for professional tax should be taken out of Article 276.

- Panchayats should be more responsible for levy of taxes on firms incomes and land taxes.

- Can on land-based taxes and other state taxes and duties may be levied to mobilise resources for augmenting specific civic services.

- A 10% surcharge on sales tax, entertainment tax and state excise may give significant additional revenue and should be managed by local bodies.

(iii) Sharing of Tax Revenues

* The allocation formula is based on population, distance and inverse of income and index of backwardness.

- It has set the relative weightage for population to 10% and for tax effort to 5%. It has raised the index of infrastructure to a weightage of 7.5%. A novel idea thrown up is the introduction of a 7.5% relative weightage for fiscal discipline.

(12) Reduction of Resource Allocation

- It has suggested a reduction ~~in~~ in resource allocations to Tamil Nadu, Andhra Pradesh, Maharashtra and Gujarat. Correspondingly, there will be an increase in the allocations to Bihar, UP, MP, West Bengal and Odisha.

* Finance Commission regulates grants-in-aid of the revenues of the states under Article 275.

- It has fixed the total share of states in all taxes at 29.5% and also recommended a significantly higher level of grants-in-aid to deficit states.