LOK SABHA SECRETARIAT
RESEARCH AND INFORMATION DIVISION

INFORMATION BULLETIN

No. LARRDIS(E&F)2018/IB-3 AUGUST 2018

CENTRE-STATE FINANCIAL RELATIONS—TOWARDS COOPERATIVE FEDERALISM

INTRODUCTION

India is a Union of States and the relation between the Union and States has been defined in the Constitution of India. The Constitution classifies centre-state relations in three broad categories — legislative, administrative and financial. With the implementation of Goods and Services Tax (GST), the biggest tax reforms of the country since Independence, the financial relations between the Union and States have undergone a significant change.

The Constitution and the Federal Structure

The division of powers between the Union and the States is elaborately dealt with in the Constitution of India. A total of 56 Articles (from Article 245 to 300) spread in two Parts (Part XI and XII) are devoted to the Union-State relations. While Articles from 245 to 263 in Part XI contains the legislative and administrative relations, Articles from 264 to 300 in Part XII gives details of financial relations between the Centre and the States.

As regards legislative relations, the Constitution makes two-fold distribution of legislative powers — one, with respect to territory and second, with respect to subject-matters. Clearly demarcating the territorial jurisdictions, Article 245 (1) states that "Subject to the provisions of this Constitution, Parliament may make laws for the whole or any part of the territory of India, and the Legislature of a State may make laws for the whole or any part of the State". As regards subject-matters, the Constitution divides powers between the Union and the States into three lists of subjects as mentioned in the Seventh Schedule to the Constitution as: (i) *List I - Union List*; (ii) *List II - State List*; and (iii) *List III - Concurrent List*. These apart, the residuary powers are given to the Union Government under Article 248 which states, "*Parliament has exclusive power to make any law with respect to any matter not enumerated in the Concurrent List or State List*".

On administrative matters, the distribution of powers between the Union and the States follows the pattern of distribution of the legislative powers. In fact, the administrative powers of a State coexist with its legislative powers. Articles 256 to 263 provide for various provisions such as obligation of States and the Union; control of Union over States under certain cases, Inter-State Council, etc. so as to ensure smooth and proper functioning of the administrative machinery and to meet the eventualities from time-to-time. Articles 264 to 300 enumerate various aspects of Centre-State financial relations in India.

Centre-State Financial Relations

The Constitution has detailed down the distribution of revenue between the Centre and States in India. It assigns revenue raising powers and expenditure responsibilities to both the Union and States. The revenue-sharing is based on the three Lists mentioned in the Seventh Schedule to the Constitution. The Union is entitled to the proceeds of the taxes in the *Union List* and the States enjoy exclusive jurisdiction over taxes enumerated in the *State List*. The *Concurrent List* includes no taxes. As regards revenue-sharing, while the proceeds of taxes within the *State List* are entirely retained by the States, proceeds of some of the taxes in the *Union List* may be allowed, wholly or partially, to the States.

The Constitution assigned taxes with a nation-wide base to the Union to make the country one common economic space unhindered by internal barriers to the extent possible. States being closer to the people and more sensitive to the local needs have been assigned functional responsibilities involving expenditure which may be disproportionate to their assigned sources of revenue resulting in imbalances. Further, imbalances across States are also on account of factors such as historical backgrounds, differential endowment of resources, socio-economic composition, regional position, capacity to raise resources, etc. The Indian Constitution embodies the following enabling and mandatory provisions to address these imbalances through the transfer of resources from the Centre to the States:

- Levy of certain duties by the Union, but collected and appropriated by the States (Article 268).
- Certain taxes and duties levied and collected by the Union but assigned in whole to the States (Article 269).
- Service tax levied by the Union and collected and appropriated by the Union and the States.
- Statutory grants-in-aid of the revenues of States (Article 275)
- Grants for any public purpose (Article 282).
- Loans for any public purpose (Article 293).
- Taxes levied and distributed between the Union and the States. The distribution of proceeds to be as per the recommendations of the Finance Commission.

Finance Commission

The Finance Commission is a unique arrangement to redress the imbalances in the revenues and expenditure of the Union and the State Governments arising out of a mismatch between the powers to raise revenues and the functional responsibilities of the governments. The Commission is mandated to achieve this through approximate tax-sharing between the Centre and the States and through grants-in-aid to the States which are in need of such assistance. Article 280 of the Constitution provides for the constitution of Finance Commission by the President to make recommendation on "the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them", "the allocation between the States of the respective shares of such proceeds"[1] and "the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India".

The role of the Finance Commission has widened after the 73rd and 74th Constitutional amendments to recognize the rural and urban local bodies as the third tier of Government. Article 280 (3) (bb) and 280 (3) (c) of the Constitution mandate the Commission to recommend measures to augment the Consolidated Fund of a State to supplement the resources of *Panchayats* and Municipalities based on the recommendations of the respective State Finance Commissions (SFCs).

[1]The Finance Commission also recommends the *inter-se* allocation among States of their share in the Central taxes.

Article 280(1) states—

"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."

The Parliament of India enacted the Finance Commission (Miscellaneous Provisions) Act, 1951 and the First Finance Commission was constituted on 22 November 1951. Fifteen finance commissions have been constituted till date. The Fifteenth Finance Commission has been constituted in November 2017 under the Chairmanship of Shri N.K. Singh, former MP and former Secretary to Government of India to recommend a road-map for the period 2020—25 [Terms of Reference (ToR) are given in the ***Annexure***]. At present, the recommendations of the Fourteenth Finance Commission are under implementation (from 2015—20).

Fourteenth Finance Commission

The Fourteenth Finance Commission (FC-XIV) was constituted in January 2013 to make recommendations for the period 2015-20. Dr. Y. V. Reddy was the Chairman of the Commission. The Fourteenth Finance Commission recommended for increasing the share of tax devolution to 42 per cent of the divisible pool to the States. The criteria and weights assigned for *inter-se* determination of the shares of taxes to the States are as follows:

Criteria and Weights assigned (by the FC-XIV) for *inter-se* determination of the shares of taxes to the States

Sl.No.	Criteria	Weight (per cent)
1.	Income Distance	50.0
2.	Population	17.5
3.	Area	15.0
4.	Demographic Change	10.0
5.	Forest Cover	7.5
	Total	**100.0**

Source: Report of the Fourteenth Finance Commission, p. 95.

The criteria and weights assigned for *inter-se* determination of the shares of taxes to the States by the 12th and 13th Finance Commissions are given in the Table below.

Criteria and Weights assigned by the 12th and 13th FC for *inter-se* determination of the shares of taxes to the States

Weights assigned by 12th Finance Commission

Sl.No.	Criteria	Weight (%)
1.	Income Distance	50.0
2.	Population	25.0
3.	Area	10.0
4.	Tax Effort	7.5
5.	Fiscal Discipline	7.5
	Total	**100.0**

Source: 12th Finance Commission Report.

Weights assigned by 13th Finance Commission

Sl.No.	Criteria	Weight (%)
1.	Fiscal Capacity Distance	47.5
2.	Population 1971	25.0
3.	Fiscal Discipline	17.5
4.	Area	10.0
	Total	**100.0**

Source: 13th Finance Commission Report.

As per the recommendations of the Fourteenth Finance Commission, the State-specific shares of taxes are given in the Table below.

Inter-se Share of States

(as recommended by the Fourteenth Finance Commission)

Sl.No.	States	Share
1.	Andhra Pradesh	4.305
2.	Arunachal Pradesh	1.37
3.	Assam	3.311
4.	Bihar	9.665
5.	Chhattisgarh	3.08
6.	Goa	0.378
7.	Gujarat	3.084
8.	Haryana	1.084
9.	Himachal Pradesh	0.713
10.	Jammu & Kashmir	1.854
11.	Jharkhand	3.139
12.	Karnataka	4.713
13.	Kerala	2.5
14.	Madhya Pradesh	7.548
15.	Maharashtra	5.521

Sl.No.	States	Share
16.	Manipur	0.617
17.	Meghalaya	0.642
18.	Mizoram	0.46
19.	Nagaland	0.498
20.	Odisha	4.642
21.	Punjab	1.577
22.	Rajasthan	5.495
23.	Sikkim	0.367
24.	Tamil Nadu	4.023
25.	Telangana	2.437
26.	Tripura	0.642
27.	Uttar Pradesh	17.959
28.	Uttrakhand	1.052
29.	West Bengal	7.324
	All States	**100**

Source: Report of the Fourteenth Finance Commission, p. 95.

The Fourteenth Finance Commission decision to give higher tax devolution from the divisible pool was based on the rationale that:—

- The Terms of Reference of the Fourteenth Finance Commission required it to consider total revenue expenditure requirements of the States without making a distinction between plan and non-plan; the Commission had to subsume the grants for State plan schemes (Gadgil formula grants) in its recommendations and that was equivalent to 5.5 per cent of the divisible pool.
- Second, the Commission's analysis showed that between 2002-05 and 2005-11, the Union Government's revenue expenditures on State subjects increased from 14 per cent to 20 per cent and on Concurrent subjects, the increase was from 13 per cent to 17 per cent.[2]

Goods and Services Tax (GST)

The Goods and Services Tax (GST) is, in fact, the biggest tax reforms in India in the field of indirect tax system. On an average, around 60 per cent of the total indirect taxes in the country was collected by the States.[3] This was roughly the entire own tax revenues of States. As the GST introduced in 2017 empowers both the Centre as well as the States to concurrently levy and collect taxes, implementation of GST necessitated amendments to the Constitution (101st Constitutional Amendment).

Constitution (One Hundred and First) Amendment Act, 2016

The Constitution (122nd Amendment) Bill was introduced in the Lok Sabha on 19 December 2014 to address all issues relating to GST which became an Act in 2016. The constitutional amendment enabled the Union Government to tax consumption of goods and allowed States to tax consumption of services. The tax now shall be levied as Dual GST separately but concurrently by the Union (Central tax — CGST) and the States (including Union Territories with legislatures) (State tax — SGST)/ Union Territories without legislatures (Union territory tax—UTGST). The Parliament/Central Government has exclusive power to levy GST (integrated tax — IGST) on inter-State trade or commerce (including imports) in goods or services. The Central Government has the power to levy excise duty in addition to the GST on tobacco and tobacco products. The tax on supply of five specified petroleum products namely crude, high speed diesel, petrol, ATF and natural gas would be levied from a later date on the recommendation of GST Council. In fact, the Constitutional amendment enabled the creation of GST Council. Post constitutional amendment, both the Central and the State tax bases have merged and from this common base both the levels of government will now collect taxes. Introduction of GST also necessitated four Laws, namely, CGST Act, UTGST Act, IGST Act and GST (Compensation to States) Act, which have been passed by the Parliament and since been notified on 12 April 2017. All States and Union Territories with legislatures have already passed their respective SGST Acts.

GST Council

The GST Council has been set up as a Constitutional body for making recommendations to the Union and State Governments on issues related to Goods and Services Tax. As per Article 279A, the GST Council, which will be a joint forum of the Centre and the States, consists of the following:—

- Chairperson — The Union Finance Minister
- Member — The Union Minister of State, in-charge of Revenue or Finance
- Members — The Minister in-charge of Finance or Taxation or any other Minister nominated by each State Government.

As prescribed in the Article 279A (4), the Council shall make recommendations to the Union and the States on important issues related to GST, including GST rates, the goods and services that may be subjected or exempted from GST, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc. One-half of the total number of members of GST Council forms quorum in meetings of GST Council. Every decision in GST Council shall be taken by a majority of not less than three-fourth of weighted votes cast. Centre has one-third weightage of the total votes cast and all the States taken together have two-third of weightage of the total votes cast. All decisions taken by the GST Council have been arrived at through consensus and the option of exercising a vote has not been resorted till date.

Today, the GST Council occupies a position of prime importance, particularly in the field of Centre-State financial relations. Given its constitutional mandate and wider implications of its decisions, the GST Council is set to play a key role in years to come in the country's federal set up.

Some of the salient features of GST

- GST is applicable on 'supply' of goods or services as against the present concept on the manufacture of goods or on sale of goods or on provision of services.

[2] Rao, M. Govinda; 'Not Finance Commission, it is Union Government that decides transfers to States', *The Financial Express*, 31 January 2017.

[3] Chakraborty, Pinaki; "Goods and Services Tax: Fiscal Autonomy vs. Tax Disharmony" (/blog/2016/12/02/goods-and-services—tax-fiscal-autonomy-vs-tax-harmony/) National Institute of Public Finance and Policy (NIPFP)/home-page.

- GST is based on the principle of destination-based consumption taxation as against the present principle of origin-based taxation.

- It is a dual GST with the Centre and the States simultaneously levying tax on a common base. GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States would be called State GST (SGST).

- An Integrated GST (IGST) is levied on inter-State supply (including stock transfers) of goods or services. This is levied and collected by the Government of India and such tax is apportioned between the Union and the States in the manner as may be provided by Parliament by Law on the recommendation of the GST Council.

- Import of goods or services are treated as inter-State supplies and subject to IGST in addition to the applicable customs duties.

- CGST, SGST & IGST are levied at rates to be mutually agreed upon by the Centre and the States. The rates are notified on the recommendation of the GST Council.

- GST is applicable on all goods and services except Alcohol for human consumption.

- GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural Gas) would be applicable from a date to be recommended by the GST Council.

- Tobacco and tobacco products are subject to GST. And, the Centre would have the power to levy Central Excise duty on these products.

- Exports are zero-rated supplies. Thus, goods or services that are exported would not suffer input taxes or taxes on finished products.

- Accounts would be settled periodically between the Centre and the States to ensure that the credit of SGST used for payment of IGST is transferred by the Exporting State to the Centre. Similarly, IGST used for payment of SGST would be transferred by the Centre to the Importing State. Further, the SGST portion of IGST collected on B2C (Business to Consumer) supplies would also be transferred by the Centre to the destination State. The transfer of funds would be carried out on the basis of information contained in the returns filed by the taxpayers.

- The laws, regulations and procedures for levy and collection of CGST and SGST would be harmonized to the extent possible.

- The whole GST system is backed by a robust IT system. In this regard, Goods and Services Tax Network (GSTN) has been set up by the Government. It provides front-end services and will also develop back-end IT modules for States who opted for the same.

Central and State taxes subsumed under GST are:—

- Central Excise Duty
- Duties of Excise (Medicinal and Toilet Preparations)
- Additional Duties of Excise (Goods of Special Importance)
- Additional Duties of Excise (Textiles and Textile Products)
- Additional Duties of Customs (commonly known as CVD)
- Special Additional Duty of Customs (SAD)
- Service Tax
- Cesses and surcharge in so far as they relate to supply of goods and services.

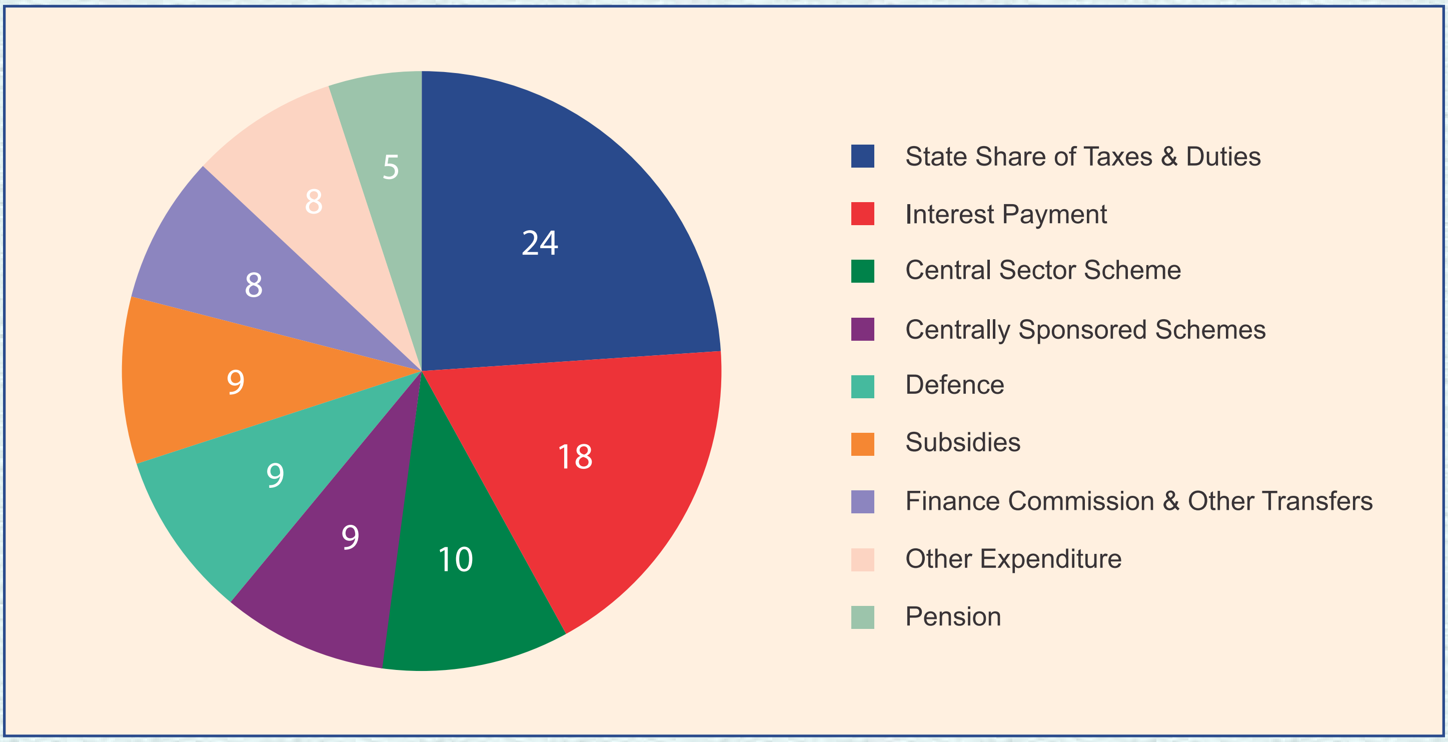
State taxes subsumed under GST include—

- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entry Tax (All forms)
- Entertainment Tax and Amusement Tax (except those levied by the local bodies)
- Taxes on advertisements
- Taxes on lotteries, betting and gambling
- State cesses and surcharges in so far as they relate to supply of goods and services.

Post-GST Scenario

As per the Budget 2018-19, the States' share of taxes and duties, and Finance Commission & other transfers to States constitute about 32 per cent of the total expenditure of the Central Government. The details of the total expenditure as enumerated in the Union Budget 2018-19 are given in the Figure below.

Union Budget 2018-19 — Total Expenditure (Percentage)



Source: Union Budget, 2018-19, p. 3 (Budget at a Glance).

In the Union Budget, 2018-19, an amount of Rs. 12,69,435 crore has been earmarked for transfer to the States. The details of the composition and transfers to the States and UTs (2018-19) are given in the Table below.

Composition of Transfers to States & UTs

(Rs. in crore)

Composition	Amount
Devolution	7,88,093
Scheme related and other Transfers	3,71,969
Finance Commission Grants	1 ,09,374
Total	12,69,435

Source: Union Budget, 2018-19, p. 13 (Transfer of Resources to States and UTs with Legislature).

As regards States dependence on the devolution, grants and other transfers from the Centre, it varies from State to State. Given that different States are at different stages of development, the principles and criteria suggested by the Finance Commissions remain the guiding principles in the devolution and transfers to individual States. Total transfers from the Centre as recommended by the 14th Finance Commission are given in the Table below followed by the Table showing details of transfers to Individual States as assessed by the Commission for the period 2015-20. A detailed Table showing the Total Gross Tax Revenue and Devolution to States (from 2000-01 to 2018-19) as assessed by the last four Finance Commissions (11th, 12th, 13th and 14th) *vs.* Actual is given in *Annexure II*.

Total Transfers recommended by the 14th Finance Commission

Sl.No.	Particulars	Rs. in crore	% Share
A	**Share in Central Taxes**	**3948188**	**88.02**
B	**Grants-in-Aids**	**537353**	**11.98**
i.	Local Bodies	287436	6.41
ii.	Rev. Deficit Grant	194820	4.34
iii.	Disaster Relief	55097	1.23
	Total (A+B)	4485541	100.00

Source: Received from the Fifteenth Finance Commission

State-wise total transfers (Devolution + Grants) assessed by the 14th Finance Commission 2015-20

(Rs. in crore)

Sl. No.	Name of the State	Devolution	Local Bodies	Revenue Deficit	Disaster Relief	Total	Percent
	All States	39,48,188	2,87,436	1,94,820	55,097	44,85,541	100.000
	Gen. States	35,06,144	2,69,091	43,391	48,412	38,67,038	86.211
1.	Uttar Pradesh	7,10,966	46,026	0	3,356	7,60,348	16.951
	NE & HS	4,42,044	18,346	1,51,429	6,685	6,18,504	13.789
2.	Bihar	3,82,529	23,694	0	2,332	4,08,555	9.108
3.	West Bengal	2,89,942	20,832	11,760	2,568	3,25,102	7.248
4.	Madhya Pradesh	2,99,389	18,733	0	4,364	3,22,486	7.189
5.	Maharashtra	2,19,165	27,449	0	7,376	2,53,990	5.662
6.	Rajasthan	2,18,145	18,147	0	5,484	2,41,776	5.390
7.	Andhra Pradesh	1,70,686	12,290	22,112	2,186	2,07,274	4.621
8.	Karnataka	1,86,925	15,146	0	1,374	2,03,445	4.536
9.	Odisha	1,84,070	10,623	0	3,718	1,98,411	4.423
10.	Tamil Nadu	1,59,450	17,010	0	3,377	1,79,837	4.009
11.	Assam	1,31,186	6,387	3,379	2,286	1,43,238	3.193
12.	Gujarat	1,22,453	15,042	0	3,504	1,40,999	3.143
13.	Jharkhand	1,24,408	7,961	0	1,809	1,34,178	2.991
14.	Chhattisgarh	1,22,269	6,832	0	1,196	1,30,297	2.905
15.	Jammu & Kashmir	58,779	4,769	59,666	1,268	1,24,482	2.775
16.	Kerala	98,912	7,682	9,519	919	1,17,032	2.609
17.	Telangana	96,706	8,764	0	1,364	1,06,834	2.382
18.	Himachal Pradesh	28,225	2,012	40,624	1,173	72,034	1.606
19.	Punjab	62,342	6,544	0	1,938	70,824	1.579
20.	Arunachal Pradesh	54,575	1,064	0	259	55,898	1.246
21.	Haryana	42,847	5,963	0	1,529	50,339	1.122
22.	Uttarakhand	41,665	2,699	0	1,042	45,406	1.012
23.	Nagaland	19,692	127	18,476	49	38,344	0.855
24.	Manipur	24,402	379	10,227	95	35,103	0.783
25.	Tripura	25,396	559	5,104	154	31,213	0.696
26.	Mizoram	18,197	120	12,183	84	30,584	0.682
27.	Meghalaya	25,413	32	1,770	121	27,336	0.609
28.	Goa	14,940	354	0	18	15,312	0.341
29.	Sikkim	14,514	198	0	154	14,866	0.331

NE&HS — North East and Himalayan States.

Source: Received from the Fifteenth Finance Commission.

Summing up

Over the years, in the Indian federal system, both the Union and the States have learnt to trust and live with one another. With the implementation of GST, autonomy of all levels of Governments including that of Union Government have been tied to the GST Council on matters of indirect taxation. It is the responsibility of the GST Council to work in a manner that preserves and strengthens fiscal autonomy of all the levels of Governments. Today, both Centre and States have given up their exclusive taxation rights with respect to a particular tax base for a better tax system. This common tax base creation is expected to result in an abolition of fragmented tax regime, development of a common market, elimination of cascading of taxes and help increase the growth of GDP by promoting trade, business and investment. The fact that all decisions in the GST Council have so far been taken on a consensus basis shows the successful working of cooperative federalism on financial matters.

MINISTRY OF FINANCE

(Department of Economic Affairs)

NOTIFICATION

New Delhi, the 27th November, 2017

S.O. 3755(E).—The following order made by the President is to be published for general information:—

ORDER

In pursuance of clause (1) of Article 280 of the Constitution, read with the provisions of the Finance Commission (Miscellaneous Provisions) Act, 1951 (33 of 1951), the President is pleased to constitute a Finance Commission consisting of Shri N.K. Singh, Member of Parliament and former Secretary to the Government of India, as the Chairman and the following four other members, namely:—

1.	Shri Shaktikanta Das, Former Secretary to the Government of India	Member
2.	Dr. Anoop Singh, Adjunct Professor, Georgetown University	Member
3.	Dr. Ashok Lahiri, Chairman (Non-executive, part time) Bandhan Bank	Member (Part time)
4.	Dr. Ramesh Chand, Member, NITI Aayog	Member (Part time)

2. Shri Arvind Mehta shall be the Secretary to the Commission.

3. The Chairman and the other members of the Commission shall hold office from the date on which they respectively assume office up to the date of submission of Report or 30th day of October, 2019, whichever is earlier.

4. The Commission shall make recommendations as to the following matters, namely:—

(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.

5. 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.

6. 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 1st 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 socio-economic 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.

7. 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.

8. The Commission shall use the population data of 2011 while making its recommendations.

9. 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.

10. 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.

11. The Commission shall make its report available by 30th October, 2019, covering a period of five years commencing 1st April, 2020.

Gross Tax Revenue (GTR) and Devolution assessed by the 11th FC, 12th FC, 13th FC and 14th FC *vs.* Actual

(Rs. in crore)

Particulars	As Assessed by the Finance Commissions			Actual			Shortfall (-)/ Excess (+)	
	Gross Tax Revenue	Devolution to States	Devolution to States as % to GTR	Gross Tax Revenue	Devolution to States	Devolution to States as % to GTR	Gross Tax Revenue	Devolution to States
11th FC	1378207	376318	27.30	1151235	305013	26.49	-16.47	-18.95
2000-01	198226	54060	27.27	188603	51688	27.41	-4.85	-4.39
2001-02	230961	63025	27.29	187060	52842	28.25	-19.01	-16.16
2002-03	269185	73495	27.30	216266	56122	25.95	-19.66	-23.64
2003-04	313833	85724	27.32	254348	65766	25.86	-18.95	-23.28
2004-05	366002	100014	27.33	304958	78595	25.77	-16.68	-21.42
12th FC	2300411	613112	26.65	2663960	691526	25.96	15.80	12.79
2005-06	343703	91376	26.59	367474	94385	25.68	6.92	3.29
2006-07	393140	104610	26.61	473512	120330	25.41	20.44	15.03
2007-08	450597	120029	26.64	593147	151800	25.59	31.64	26.47
2008-09	517486	138027	26.67	605299	160179	26.46	16.97	16.05
2009-10	595485	159070	26.71	624528	164832	26.39	4.88	3.62
13th FC	5318246	1448096	27.23	5102103	1422302	27.88	-4.06	-1.78
2010-11	747658	203578	27.23	793072	219303	27.65	6.07	7.72
2011-12	876929	238778	27.23	889177	255414	28.72	1.40	6.97
2012-13	1034381	281650	27.23	1036235	291547	28.14	0.18	3.51
2013-14	1220104	332220	27.23	1138733	318230	27.95	-6.67	-4.21
2014-15	1439174	391870	27.23	1244886	337808	27.14	-13.50	-13.80
14th FC	7840292	2913441	37.16	7389831	2575291	34.85	-5.75	-11.61
2015-16	1567373	579282	36.96	1455648	506193	34.77	-7.13	-12.62
2016-17	1802787	668425	37.08	1715822	608000	35.43	-4.82	-9.04
2017-18 (RE)	2076193	772304	37.20	1946119	673005	34.58	-6.27	-12.86
2018-19 (BE)	2393939	893430	37.32	2271242	788093	34.70	-5.13	-11.79

Source: Received from the Fifteenth Finance Commission

Prepared by Economic and Financial Affairs Wing of the Research and Information Division, Lok Sabha Secretariat, with inputs from the Fifteenth Finance Commission and other published sources, for the use and information of Members of Parliament.