

## **FINANCE COMMISSION - KEY TAKE AWAY POINTS**

- Article 280 of the Indian constitution deals with the creation of Finance commission by the President for every five years. It is a constitutional body, as it derives its power from the constitution.
- Any institution/body which is created by the Parliamentary law is known as the statutory body.
- Till now, fifteen finance commissions have been constituted. The Chairman of the present finance commission is N.K.Singh.
- Article 270 deals with sharing of the central taxes.
- Article 275 emphasizes the sharing of the grants-in-aid.
- Article 280 embodies the effective functioning and meaning of the finance commission.
- Article 281 deals with reports of the finance commission.
- After 80<sup>th</sup> and 88<sup>th</sup> constitutional amendment, there has been increased sharing of taxes between the Centre and the states.
- Finance commission consists of one chairman and four other domain experts. Members are

1. Expert in Public affairs(Chairman)

The other four members are selected from people who:

2. Have an experienced person in financial administration.
  3. Have an experienced person in government finances
  4. Have Special knowledge person in Economics.
  5. Are qualified to be a High Court Judge.
- These five members will decide the sharing of revenues from the Centre to the states.
  - Generally, tax devolution to the states are based on the 1971 population census, but the 15<sup>th</sup> Finance commission's terms of reference called for the 2011 population census as a base data.

- This new yardstick of selecting the 2011 population census will reduce the amount of revenue share to population-controlled states like Kerala, Tamil Nadu. These states have spent a huge amount on the control of the population.
- So, division of revenue based on the 2011 census will be a positive factor for populated states like Uttar Pradesh, Bihar and negative factor for population-controlled states.
- The general functions of the finance commission are expression of percentage of tax division between Centre and States. Currently, 42% is shared with the states and the remaining 58% with the Centre.
- The Methodology of distribution of Grants-In-Aid between the Centre and States are expressed by finance commission.
- Finance Commission also recommends suggestions to the State governments regarding sharing of taxes to local bodies.
- Any other function mentioned by the president of India, the finance commission members are expected to perform.
- The most significant thing is as per constitution, the reports and recommendation of the finance commission are **not binding** on the central government. So, the final deciding authority is the central government.