



FINANCE COMMISSION – POLITY

NEWS: What is the role of the Finance Commission?

WHAT'S IN THE NEWS?

How is horizontal devolution of taxes between States decided? For how long do the recommendations of the Commission last? Why do States complain that the Centre does not give them an ample share of the tax revenue? From where do States get their funds?

BODIES	APPOINTMENT	TENURE	REMOVAL	QUALIFICATION
FINANCE COMMISSION (280,281)	PRESIDENT	They hold office for such period specified by president in his order Eligible for re-appointment	Pleasure of president	Chairman & 4 members Chairman: experience in public affairs. Members: 1) Judge of high court or eligible for it. 2) special knowledge on finance & account 3) special knowledge of economics 4) experience in financial matters & in administration.

Key Points from the Article on the Sixteenth Finance Commission:

1. Leadership and Timeline:

- Chaired by former Niti Aayog Vice-Chairman Arvind Panagariya.
- Constituted in December last year.
- Expected to submit recommendations by October 2025.
- Recommendations valid for five years starting April 1, 2026.

2. Role of the Finance Commission:

- A constitutional body recommending the distribution of tax revenues between the Centre and States.
- Reconstituted every five years, typically taking a couple of years for recommendations.

3. Decision-Making Process:

- Decides on the proportion of the Centre's net tax revenue for States (vertical devolution).
- Distributes funds among States based on a formula considering population, income level, geography, etc. (horizontal devolution).



4.Past Recommendations:

- 13th, 14th, and 15th Finance Commissions recommended sharing 32%, 42%, and 41% of funds, respectively, from the divisible pool with States.

5.Local Bodies:

- Expected to recommend ways to increase revenues for local bodies like panchayats and municipalities.
- Noted that only about 3% of public spending happens at the local body level in India.

6.Centre-State Friction:

- States argue they should receive more funds due to greater responsibilities like education, healthcare, and policing.
- Complaints about the Centre reducing States' tax collection powers and not providing adequate funds.

7.Disagreements:

- States claim they receive less than recommended by the Finance Commission.
- Issues with the Centre's collection of cesses and surcharges not being shared with States, reducing their overall share.
- Developed States argue they are penalized for better governance by receiving less than they contribute in taxes.

8.Specific Cases:

- Tamil Nadu received only 29 paise for each rupee it contributed, while Bihar received more than ₹7 for each rupee.

Source : <https://www.thehindu.com/news/national/what-is-the-role-of-the-finance-commission-explained/article68419381.ece>