A fair share: On the concerns of high performing States

The Hindu

Paper - III
(Indian Economy)

At a meeting in Thiruvananthapuram last week, the Finance Ministers of five-Opposition-ruled States demanded a raise in the divisible pool of taxes from 41%- the Fifteenth Finance Commission's recommendation to a 50% apportionment, and a cap on the amount the Centre can collect as cesses and surcharges that usually appear as top-ups on invoices meant to fund specific central government projects and beyond the ambit of the devolution mechanism. The Karnataka Chief Minister Siddaramaiah has also reignited the debate by announcing his interest in convening a meeting of Chief Ministers of Opposition and BJP-ruled States to discuss the growing infringement on States' autonomy to collect taxes since the introduction of the GST framework and the penalising of States with better economic indices. The meeting assumes significance in the backdrop of the paltry sums allocated in the 2024-25 Union Budget for marquee plans such as Bengaluru's Suburban Rail Project, or the non-allocation of central funds for Kerala's Vizhinjam Port and the second phase of the Chennai Metro Rail project. The meeting must also be viewed in the backdrop of natural disasters striking various States across India such as the flooding in Tamil Nadu's southern delta regions last December, the recent heavy rains in western Gujarat, and the devastating landslide at Wayanad, Kerala. The Sixteenth Finance Commission's recommendations on tax devolution are expected by October 2025.

While the difference in the State Gross Domestic Product between States is rightly given the highest weightage of 45% by the Fifteenth Finance Commission in determining tax devolution as a measure to provide for the development of India's poorer regions, this has led to considerably reduced devolutions to top tax revenue contributing States such as Gujarat, Karnataka, Maharashtra and Tamil Nadu. As indus-

Constitution of the Sixteenth Finance Commission

- The Sixteenth Finance Commission was constituted on 31.12.2023 with Shri Arvind Panagariya as its Chairman. The Commission has been requested to make its recommendations available by 31.10.2025, covering an award period of 5 years commencing from 1st April 2026.

What are the Major Terms of Reference for 16th Finance Commission?

- Division of Tax Proceeds: Recommending the distribution of taxes between the Union Government and the States under Chapter I, Part XII of the Constitution.This includes the allocation of shares among the States from these tax proceeds.
- Principles for Grants-in-Aid: Establishing the principles governing grants-in-aid to the States from the Consolidated Fund of India.This encompasses determining the amounts to be provided to the States as grants-in-aid, specifically under Article 275 of the Constitution, for purposes beyond those outlined in the provisos to clause (1) of that article.
- Enhancing State Funds for Local Bodies: Identifying measures to enhance the Consolidated Fund of a State. This is aimed at supplementing the resources available to Panchayats and Municipalities within the State, based on recommendations made by the State's own Finance Commission.
- Evaluation of Disaster Management Financing: The Commission may review the current financing structures related to Disaster Management initiatives. This involves examining the funds created under the Disaster Management Act, 2005, and presenting suitable recommendations for improvements or alterations.

trial and economic powerhouses, these States require tailor-made capital and social expenditures that could address particular developmental, climate and industrial needs of their varied regions. Apart from the restrictions on States by the GST framework on tax collections, low devolution has also meant that the governments of high-performing States are finding their hands tied at a crucial juncture in their economic and social trajectories. Moreover, neither the GST nor the Finance Commission have addressed contingency expenses, which are now relevant more than ever, to mitigate extreme weather events. In a large and complex country such as India, with vastly divergent social and economic indicators and an equally diverse spread of natural resources and vulnerabilities, it is time for an urgent intervention to amend the tax devolution frameworks that will lead to greater autonomy to the States. This would allow for a truly federal and a participatory governance model.

Expected Question for Prelims

Que. Consider the following statements -

1. Division of tax income
2. Principles of grant-in-aid
3. Increasing state funds for local bodies

What are the main terms of reference for the 16th Finance Commission from the above?

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of the Above

Answer : D

Mains Expected Question & Format

Que.: "It has been a matter of concern that the high performing states in India do not get a share in the tax distribution commensurate with their performance, on which these states have also raised demands from time to time." What steps do you think the 16th Finance Commission needs to take to solve this problem? Discuss.

Answer's Approach:

- In the first part of the answer, discuss the three fronts of the current Israeli conflict.
- In The second part discuss Israel's urgent need for a ceasefire with Hamas.
- Finally give a way forward.

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.