

# 15th Finance commission

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**Source:** [Finance commission website](#)

The 15th FC was set up under the chairmanship of NK Singh to suggest measures for the five years from 2020 to 2025



## Constitutional provisions related to Finance commission

The article 280 of the constitution of India prescribes that the President of India shall constitute a Finance Commission in every five years to give recommendations to him about the transfer of central revenues to the states and its allocation among them and other matters assigned to it.

## What is Finance Commission?

It is a Constitutional body created in every five years to transfer financial resources from the centre to the states.

## Areas of recommendations of Finance Commission

- Resource transfer to the states and the criteria for the allocation of such resources among the states, the
- The principle that should guide the allocation of grants in aid to the states out of the center's Consolidated Fund and
- The measures to support the finances of the local bodies are to be suggested by the FC.

## Terms of Reference(ToR) for the Fifteenth Finance Commission

**The ToR to** the Fifteenth Finance Commission has been given under eight guidelines. The first one which is added below contains the traditional three recommendatory functions of the finance commission. In this:

1. **Terms of Reference and the matters that shall be taken into consideration by the Fifteenth Finance Commission in making the recommendations are as under:**

- The distribution between the Union and the States of the net proceeds of taxes which are to be divided between them under and the allocation between the States of the respective shares of such proceeds;
- 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 of India and
- 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

2. FC to consider the finances of the centre and states, fiscal consolidation map etc. But under this head, the ToR specifically asks that “The Commission may also examine whether revenue deficit grants be provided at all.”

3. The 15th FC is also asked to consider the six federal finance aspects while making its recommendations. Few of them are:

- 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
- 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.

- **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.
- **The impact of the GST, including payment of compensation for possible loss of revenues for 5 years**, and abolition of a number of cesses, the compensation to states etc., on the finances of Centre and States.
- On article 293, that is about the conditions that can be set by the centre on states' borrowings.

Now, besides these aspects, the ToR contains **9 measurable performance-based incentives for states that can be considered by the FC for making a proposal on them**. These nine incentives are attached under item 4 of the ToR.

**4. FC may consider proposing measurable performance-based incentives for States, at the appropriate level of government, in the following areas;**

- Efforts made by the States in expansion and deepening of tax net under GST;
- Efforts and Progress made in moving towards replacement rate of population growth;
- Achievements in implementation of flagship schemes of Government of India, disaster resilient infrastructure, sustainable development goals, and quality of expenditure;
- Progress made in increasing capital expenditure, eliminating losses of power sector
- 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;

- Progress made in promoting ease of doing business.
- Provision of grants in aid to local bodies for basic services and other incentives.
- Control or lack of it in incurring expenditure on populist measures.
- Progress made in sanitation, solid waste management and open defecation.

5. One significant guideline mentioned in the ToR is that the Commission should follow 2011 census population figures while making its recommendations

6. The Commission may review the present arrangements on financing Disaster Management initiatives, with reference to the funds constituted under the Disaster Management Act, 2005

7. 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.

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