Agenda for 15th Finance Commission

Why in news?

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15th Finance Commission is about to be formed in the context of a massive change in the indirect tax structure.

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What is finance commission?

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- The Finance Commission (FC), an autonomous body which is governed by the government of India.
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- It was established by the President of India in 1951 under Article 280 of the Indian Constitution.
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- It was formed to define the financial relations between the central government of India and the individual state governments.
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- As per the Constitution, the Commission is appointed every five years and consists of a chairman and four other members.
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What is the scope of the commission?

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- Article 280 of the Indian Constitution defines the scope of the Commission:
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1. The President will constitute a Finance Commission within two years from the commencement of the Constitution and thereafter at the end of every fifth year or earlier, as the deemed necessary by him/her, which shall include a chairman and four other members.
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2. Parliament may by law determine the requisite qualifications for appointment as members of the Commission and the procedure of selection.
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3. The Commission is constituted to make recommendations to the president about the distribution of the net proceeds of taxes between the Union and States and also the allocation of the same amongst the States themselves.
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4. It is also under the ambit of the Finance Commission to define the financial relations between the Union and the States. They also deal with devolution of non-plan revenue resources.
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What are the recommendations of 14th finance commission?

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- The share of states in the net proceeds of the shareable Central taxes should be 42%.
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- This is 10 percentage points higher than the recommendation of 13th Finance Commission.
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- Revenue deficit to be progressively reduced and eliminated, Fiscal deficit to be reduced to 3% of the GDP by 2017–18.
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- A target of 62% of GDP for the combined debt of centre and states.
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- The Medium Term Fiscal Plan(MTFP) should be reformed and made the statement of commitment rather than a statement of intent.
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- Both centre and states should conclude 'Grand Bargain' to implement the model Goods and Services Act(GST).
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- Initiatives to reduce the number of Central Sponsored Schemes(CSS) and to restore the predominance of formula based plan grants.

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- States need to address the problem of losses in the power sector in time bound manner.

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What are the challenges before 15thFinance commission?

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- The task before this FC will be challenging, considering the structural changes the economy has undergone in recent times

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- The GST is an unknown quantity that could complicate both vertical and horizontal devolution.

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- It would appear that the Centre stands to lose as Central GST is lower than the erstwhile excise duty, and service tax has to be equally shared with states.

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- Now the focus has shifted from states of origin to states of destination.

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- The Integrated GST (IGST), which supplants the Central Sales Tax (CST) of the past will now go to destination states.

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- The problem of devolution becomes even more complicated by the fact that the effective rate of GST is not clear with its multiple rates of tax and presently uncertain tax base.

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- Perhaps calculations made by different states of revenue neutral rates during the GST calculations may provide some data.

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What are the options before the FC?

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- The foundations of the GST are, however, shaky at present, changes are being made frequently and there is general unease about the multiplicity of rates and the effectiveness of its platform.

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- The state of the economy, the changes taking place in the financial sector and the need for more public investment in the context of public debt needs

consideration by the next FC.
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- It would be desirable for the next Finance Commission to delve a little deeper into the cyclical factors
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- This will raise the GDP, the denominator in the equation, leading (in the short term) to automatic adjustment of the ratio.
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Source: Business Standard

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