

# Mrunal's Economy: pillar2- Budget Taxation Public Finance



2A) Handout#1 (Already uploaded)

- Budget Introduction, Direct Taxes



2A) Handout #2

- Indirect Taxes & GST



2B)

- Black Money, 15th Finance commission



2C)

- Subsidies, Pay Commission, Revenue Expenditure



2D)

- Disinvestment, Fiscal Deficit, FRBM Act etc

Handout uploaded on  
course page



Edu Doubt?  
Ask through  
Google Forms

# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



We've to give some ₹₹ to States  
from Union's Taxes.  
= Finance Commission



Further self-study & HINDI TERMS @ M.Laxmikanth's Indian Polity ch.45.	
14th FC: YV Reddy	Recommendation Period: 1st April, 2015 to 31st March, 2020
15th FC: NK Singh	Originally, it was meant to cover: 1st April, 2020 to 31st March, 2025 But later, Modi Govt ordered it to submit two reports: 1) Report#1: for 1/Apr/2020 to 31/March/2021 → submitted to President in 2019-Nov, and accepted in 2020-Jan. 2) Report#2: for 1/Apr/2021 to 31/March/2026. (to be submitted by 30 October 2020)

## 23.2 🔍 (1) FIFTEENTH FC COMPOSITION (SETUP IN 2017-Nov)



Chairman	N.K. Singh (Retd. IAS, Ex-Member of Parliament)
Member1	Shaktikanta Das (Retd. IAS, RBI Gov)
Member2	Dr. Anoop Singh, Professor
Member3 (Part Time)	Dr. Ashok Lahiri, Bandhan Bank
Member4 (Part Time)	Prof. Ramesh Chand, member of NITI Aayog & Agri Economist.
Secretary	Arvind Mehta (IAS)

### 23.2.1 🔍 15th FC Terms of Reference (TOR: विचारार्थ विषय)?

- President of India has ordered them to study and recommend following:
1. Union Taxes' vertical devolution to the states, and its horizontal distribution among the states. (except cess, surcharge and IGST).
  2. Union's grant-in-aids to the states.
  3. How to augment State Govts' Consolidated funds to help their PRI/ULBs
  4. Any other matters referred by the President of India such as:

- ✓ Use Census-2011 for your calculation. (जनगणना)
- ✓ Keep in mind Union's responsibilities for New India 2022 vision. (2022 के नए भारत के लिए केंद्र सरकार की जिम्मेदारियों को ध्यान में रखना)
- ✓ Recommend State Govts' roles in the same.
- ✓ Should the Central Govt have a role in State Govts' financial management?
- ✓ How to augment State Govts' Consolidated funds to help their PRI/ULBs
- ✓ Performance of State Govts in terms of development and welfare measures.
- ✓ (2019-2020) Inter-state fiscal audit.

Audio/Video Problem?  
Fis...



Edu Doubt?  
Ask through

Google  
Forms

union and  
(राजस्व घाट की

प्रारित प्रोत्साहन)  
efence and

# Finance Commission is setup under Article 280

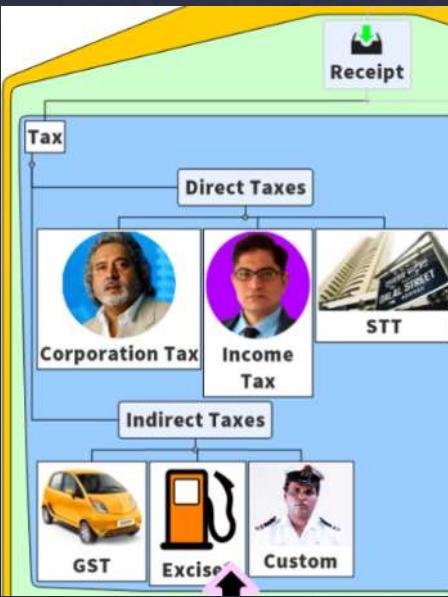
केंद्र और राज्यों को अपने करो से हिस्सा नहीं देगा तो प्रादेशिक संतुलन बिगड़ेगा



41% verticle tax devolution



**Guj**



**Union**



**KERALA**



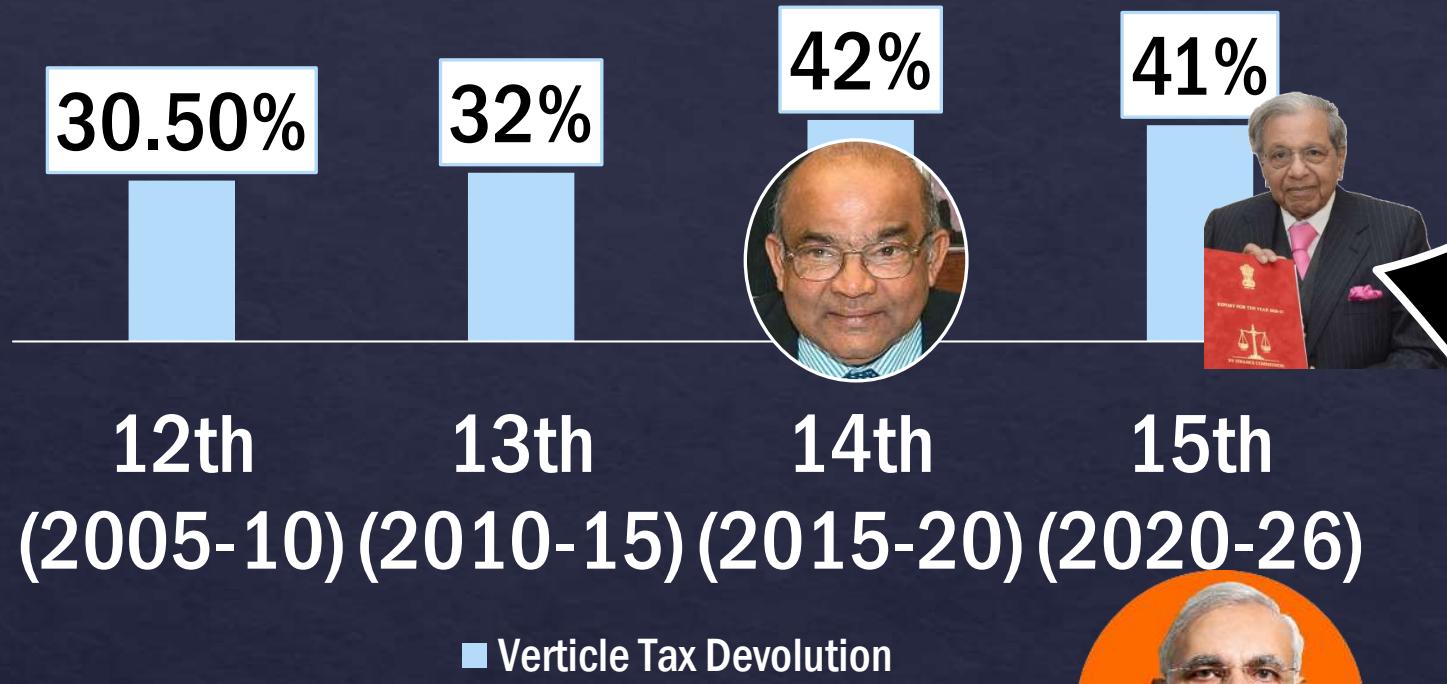
- State government's taxation powers is low.
- so if union doesn't share of its revenue with states in equitable manner
- Then ↑ regional disparities
- Therefore FC required



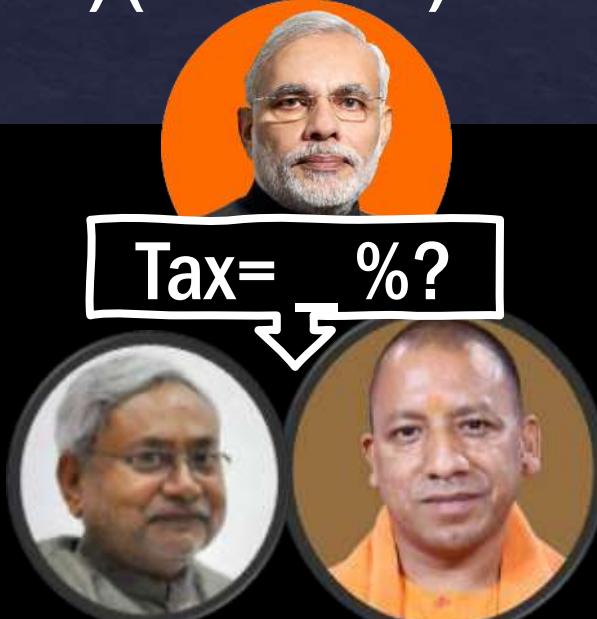
**Bihar**

FC: verticle devolution: Union should share \_\_\_ % of its taxes with States:

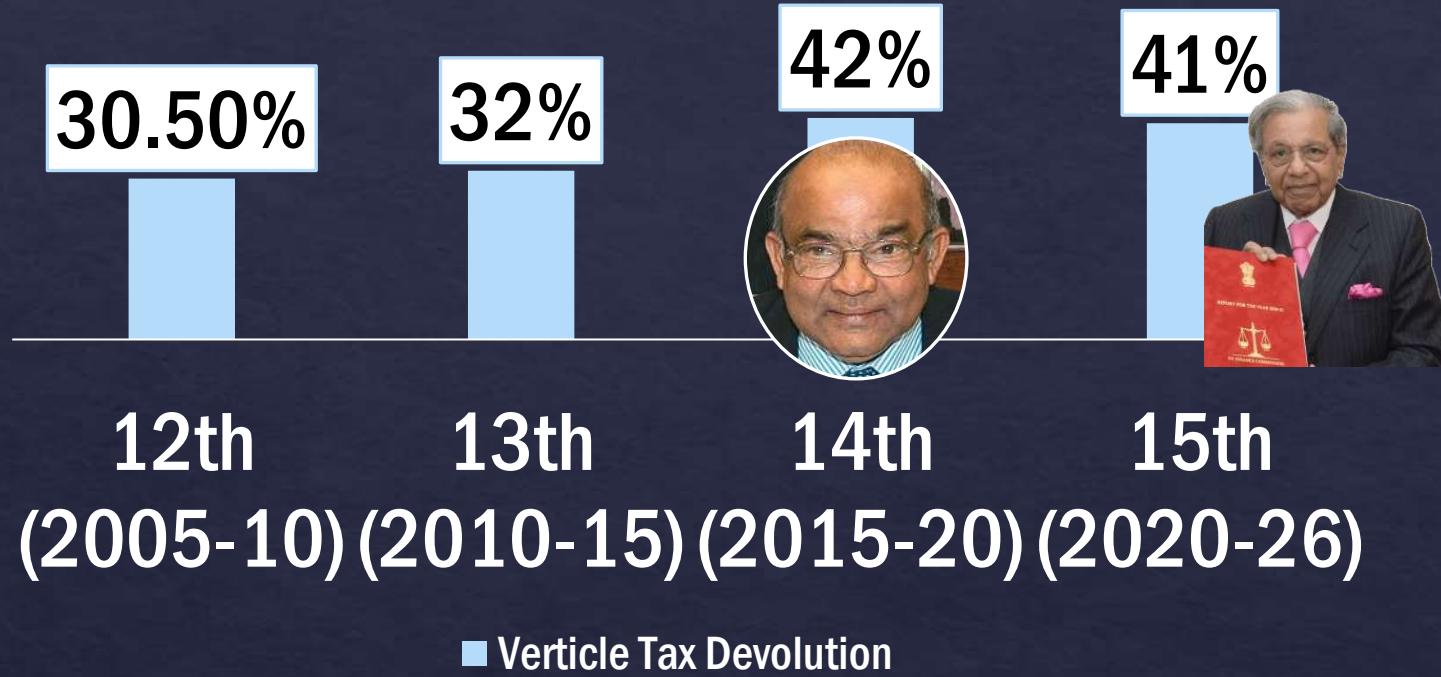
केंद्र सरकार ने, अपने करो में से, राज्यों को कितने प्रतिशत हिस्सा देना चाहिए



- 15<sup>th</sup> FC: NK Singh**
- 1% less because now J&K & Ladakh's security & other responsibilities with Union. क्योंकि केंद्र ने जम्मू कश्मीर और लद्दाख का भी ख्याल रखना है इसलिए केंद्र के हिस्से ज्यादा दो
  - So, better to give only 41% instead of 42%



# FC: verticle devolution: Union should share \_\_\_ % of its taxes with States:



14th Y.V.Reddy : 2015-20

- 1/4/15 to 31/3/20



15th NK Singh: 2020-25

- 1/4/20 to 31/3/25

But after  
J&K-370, Govt  
modified timeframe



Report#1:

1<sup>st</sup> April 20 to 31<sup>st</sup> March 2021



Report#2:

1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2026

Tabled in Parliament in Feb-2021

# Constitution → Article 280 → 15<sup>th</sup> FC Composition

अरे दीवानो,  
मुझे पहचानो

Chairman N.K. Singh (Retd. IAS, Ex-Member of Parliament)

Member1 Shaktikanta Das (Retd. IAS, RBI Gov)

Member2 Dr. Anoop Singh, Professor

Member3  
(Part Time) Dr. Ashok Lahiri, Bandhan Bank

Member4 Prof. Ramesh Chand.  
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Secretary Arvind Mehta (IAS)



IAS

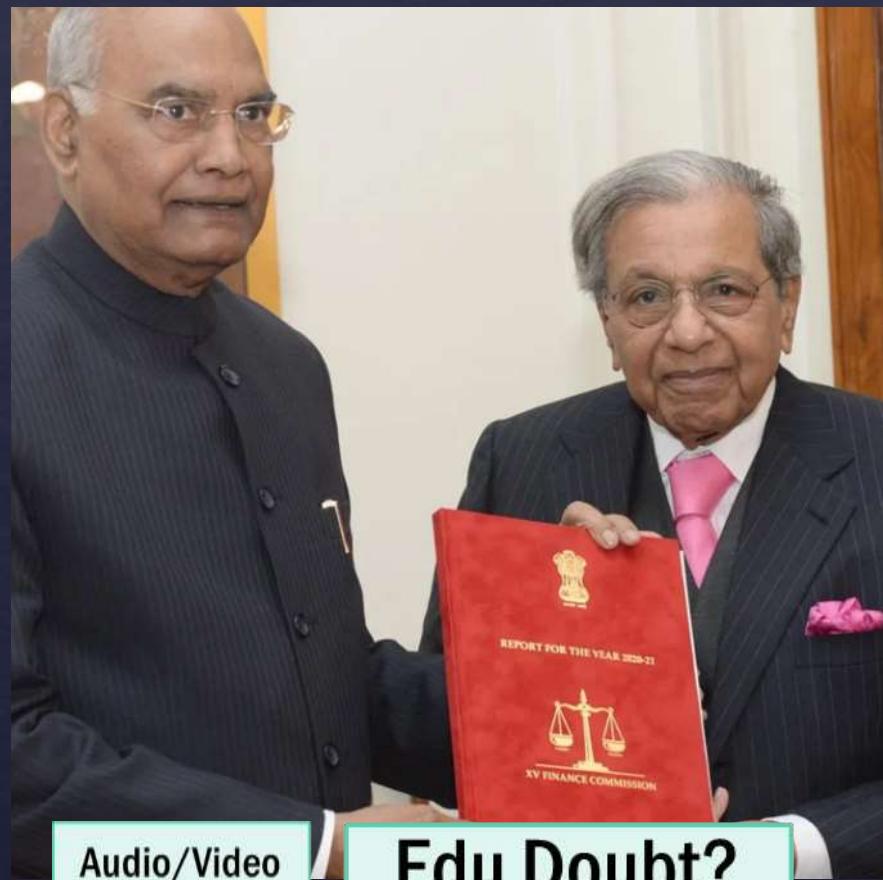
IAS

# 15th FC: terms of reference विचाराधीन विषय



- FC is a 'quasi-judicial' body (अर्ध-न्यायिक निकाय)
- has powers of a civil court to summon officials and documents.  
एक कोर्ट की तरह, अफसरों को गवाहों को दस्तावेजों को तलब कर सकती है
- (otherwise what IF Non-BJP State minister refuse to show documents- कागज नहीं दिखाएंगे about their financial situation & then complaint that Union is not giving ₹ ₹ just to create electoral hype )

# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



Audio/Video  
Problem?



CTRL

R

Edu Doubt?  
Ask through

Google  
Forms



Tomorrow we'll study इस  
मुद्दे को बाद समझते हैं

पहले इसको समझते हैं

- 1)
- 2)
- 3)
- 4)
- 5) ₹ 6700kcr Special Grants: (विशेष अनुदान, -6700kcr)

(Batch:PCB1) Arunal's Economy Pillar#2: Budget → Revenue → 15<sup>th</sup> FC, Black Money, Subsidies → Page 248

- 6) ₹ 60kcr Performance-based incentives (निष्पादन-आधारित प्रोत्साहन)

2020-21	Approx. Amount in ₹cr.
Rural Local Bodies - given to all three tiers in the panchayats, i.e. village, block and district. And also, for 5 <sup>th</sup> and 6 <sup>th</sup> Sch. areas	-60k. Out of this, ⇒ 50% is Tied Grants (निश्चिह्न) = meant only for specific objectives 1) sanitation 2) water (स्वच्छता और पानी) ⇒ 50% is Untied/basic (प्राथमिक) = can be used for any objective depending on location. Except salary & establishment (building renovation, electricity bill etc.) From 1/4/2021 they'll be required to submit audited accounts online through Panchayati Raj Institutions Accounting Software (PRIAsoft) to Comptroller and Auditor General (CAG: नियंत्रक और महालेखा परीक्षक)

# 15<sup>th</sup> Finance Commission:

41%

Verticle Devolution



Guj



Union



Kerala



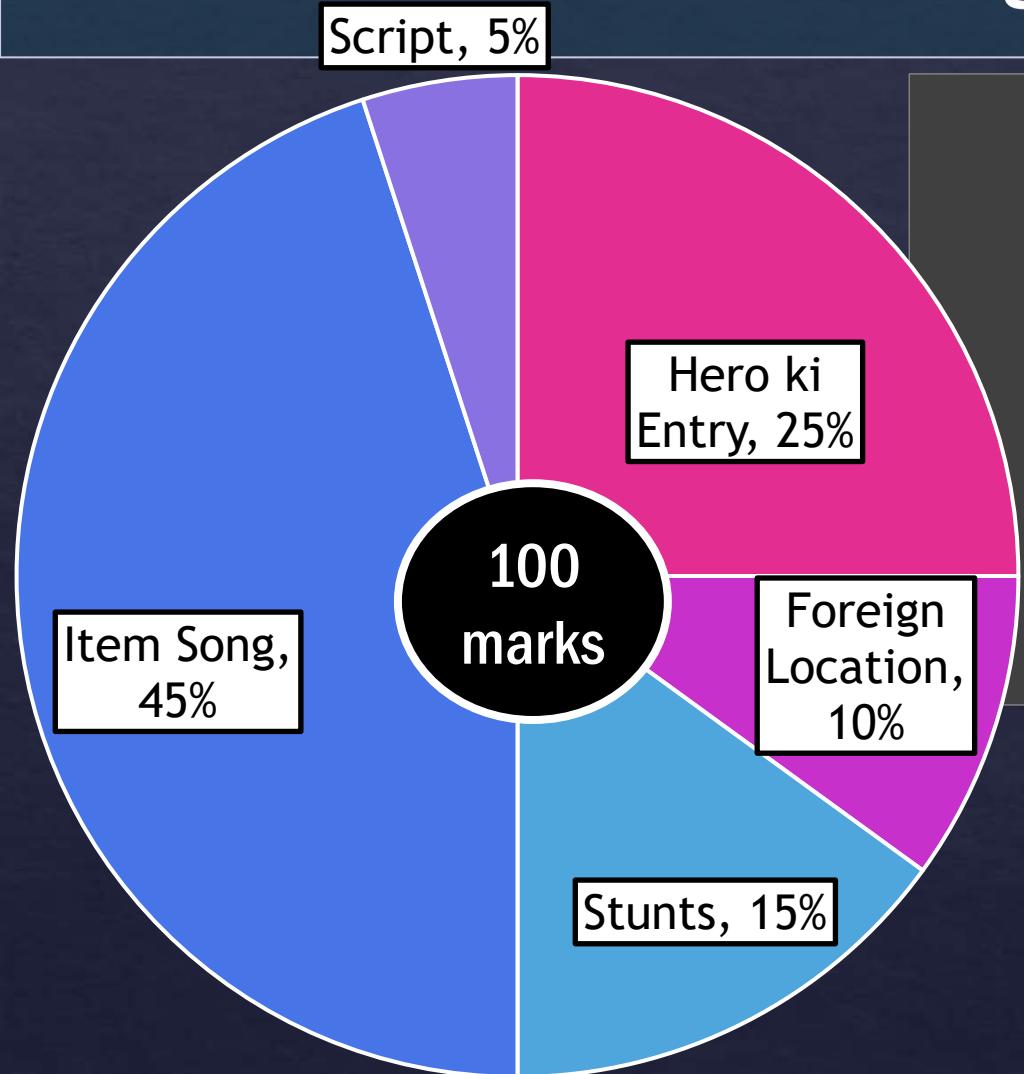
Bihar

**Horizontal devolution of Union's Tax**

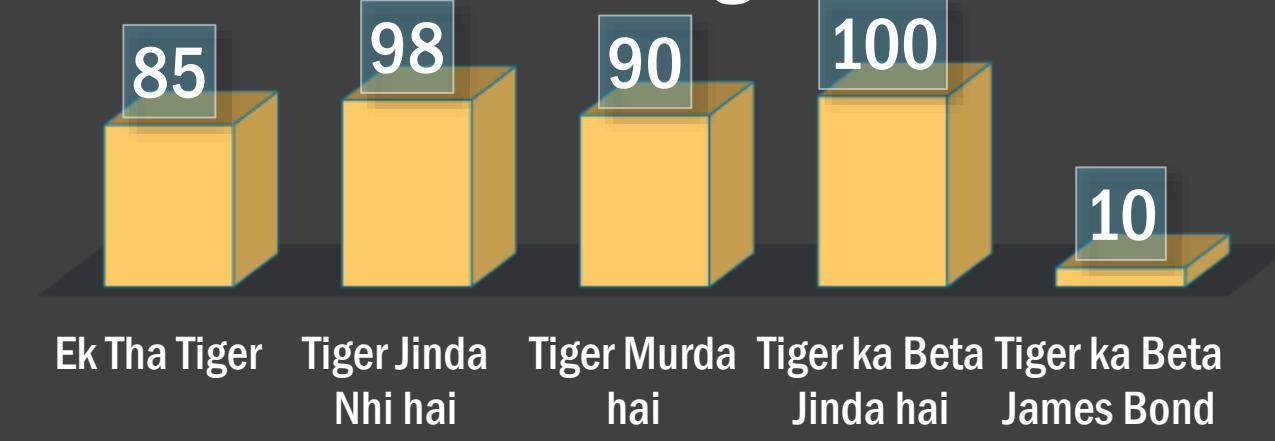
₹41 मे से हर राज्य को कितना हिस्सा मिलेगा?

क्षेत्रिक कर अंतरण

# Constructing an index for Movie Review



then assign scores



# 15<sup>th</sup> FC: Horizontal Tax Devolution (क्षैतिज कर अंतरण) from the ₹41

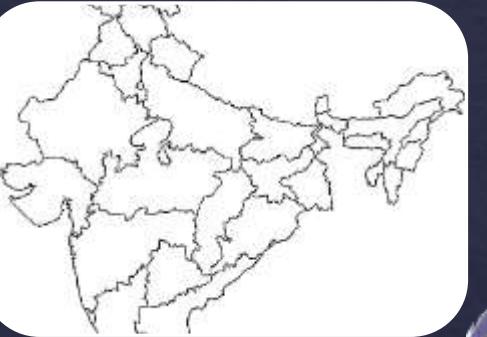
जो ज्यादा गरीब है, उस राज्य को ज्यादा पैसा मिलेगा



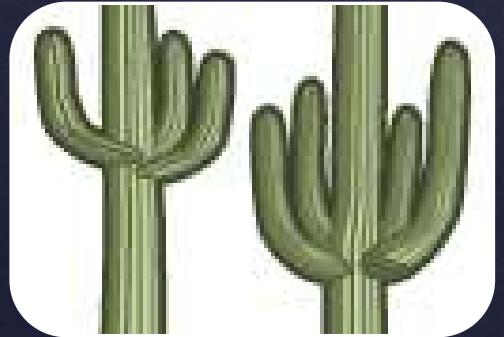
Income Distance  
(45%)



Population (15%)



Area (15%)



Forest & Ecology  
(10)



Demographic  
performance (12.5)



Tax Effort (2.5%)

Our public is more poor.  
So we should get more ₹ from  
Union's tax devolution than  
**Gujarat**

गरीब राज्य को ज्यादा पैसा मिलना चाहिए ताकि संतुलित विकास हो

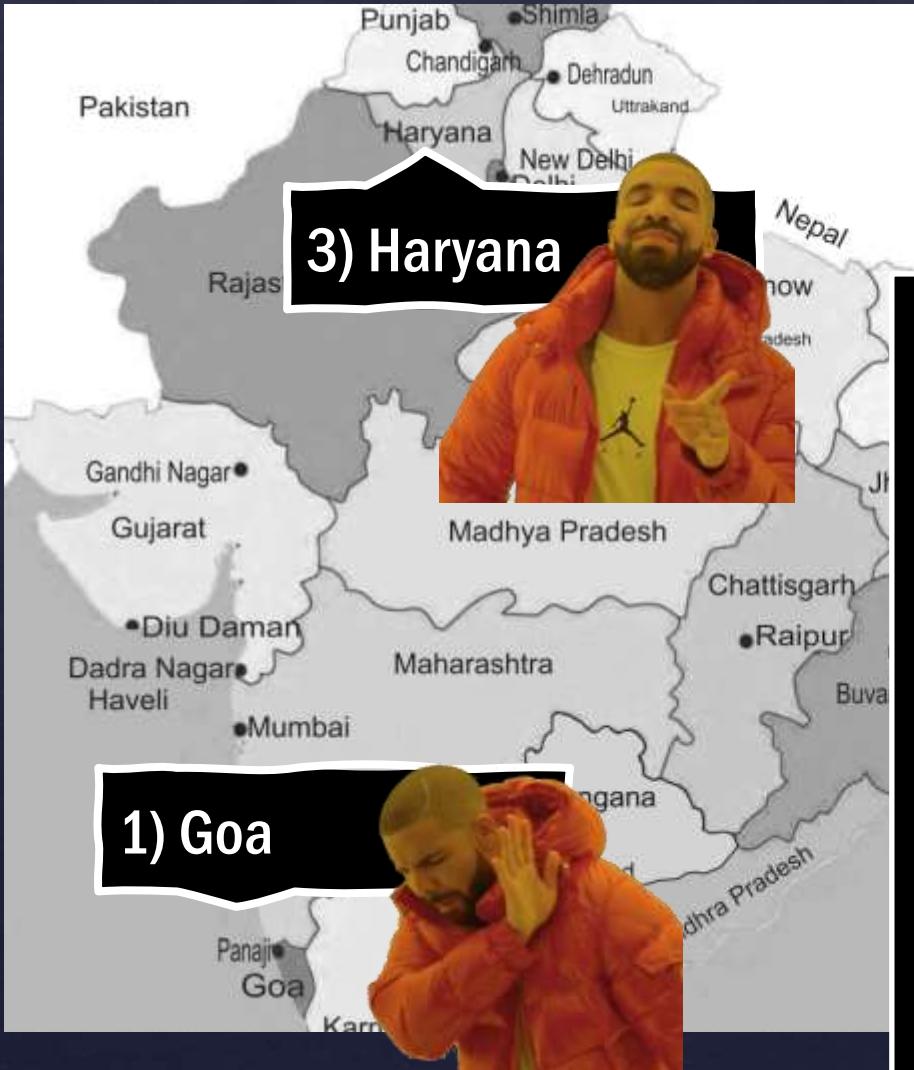
First, we've to find which state is more poor?

1) Find the total value of goods & services produced in your state in the given year = **GSDP**  
राज्य का सकल घरेलू उत्पाद

*Gross State Domestic Product (GSDP)*  
=  $\frac{\text{State's Population}}{\text{Per Capita Income of State}}$

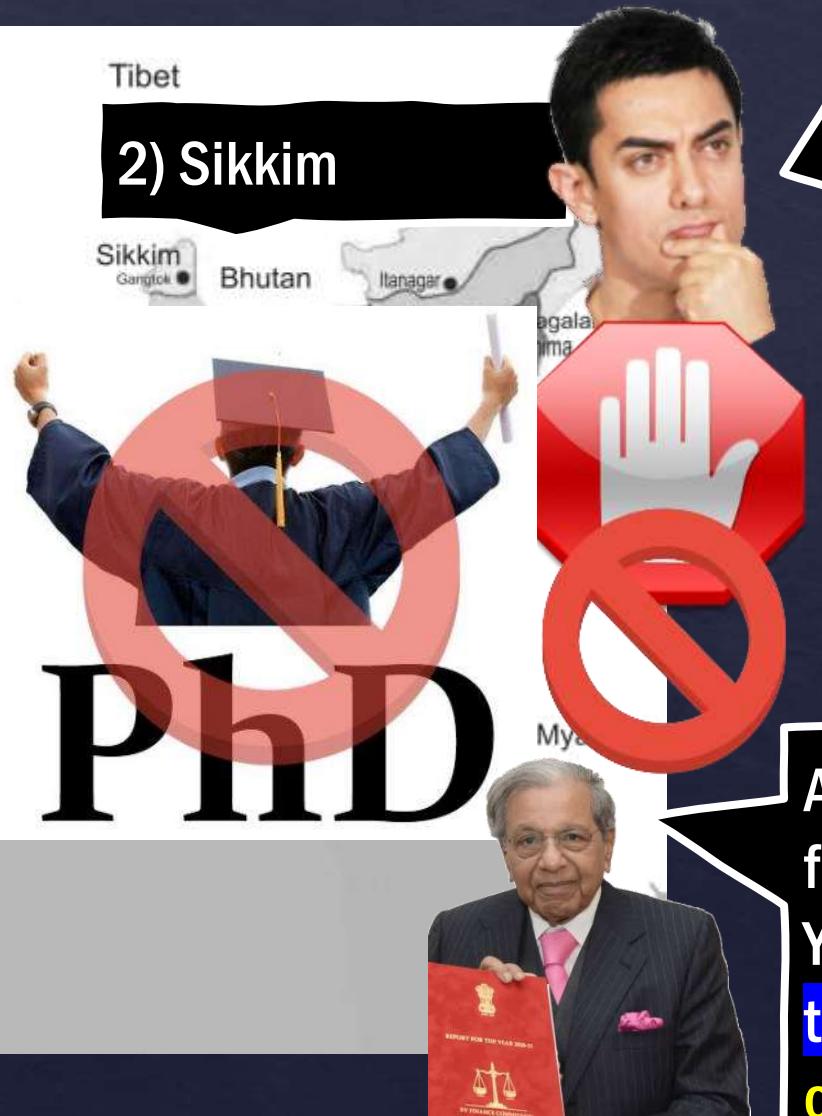
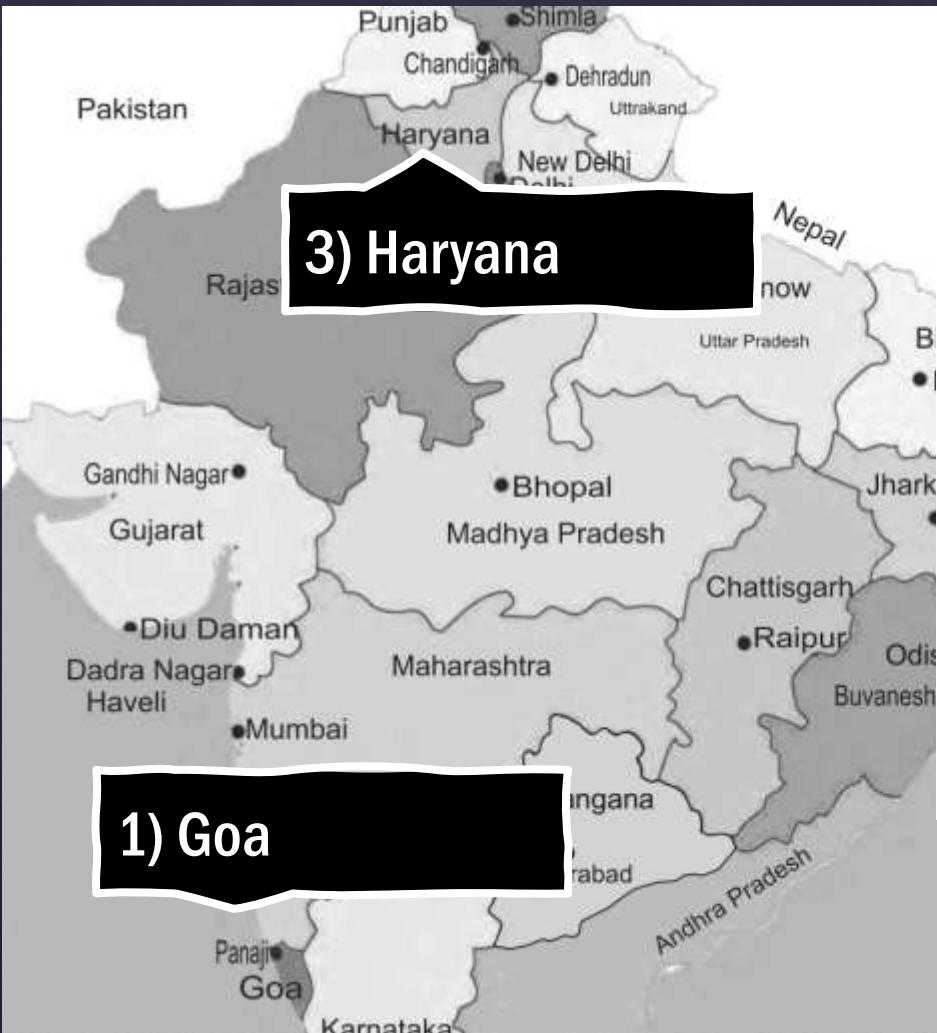
# States' Per capita income: highest....

## राज्यों प्रति व्यक्ति आय के हिसाब से देखो



- **Goa, Sikkim= very small states, unique economy so it'll distort statistical formula.**
- **For most states, Haryana's per capita GSDP is taken as benchmark.**
- **How poorer is your state compared to Haryana= more ₹₹ you'll get.**
- **हरियाणा की तुलना में आपका राज्य जितना ज्यादा गरीब है उतना ज्यादा पैसा मिलेगा**

# States' Per capita income: highest....



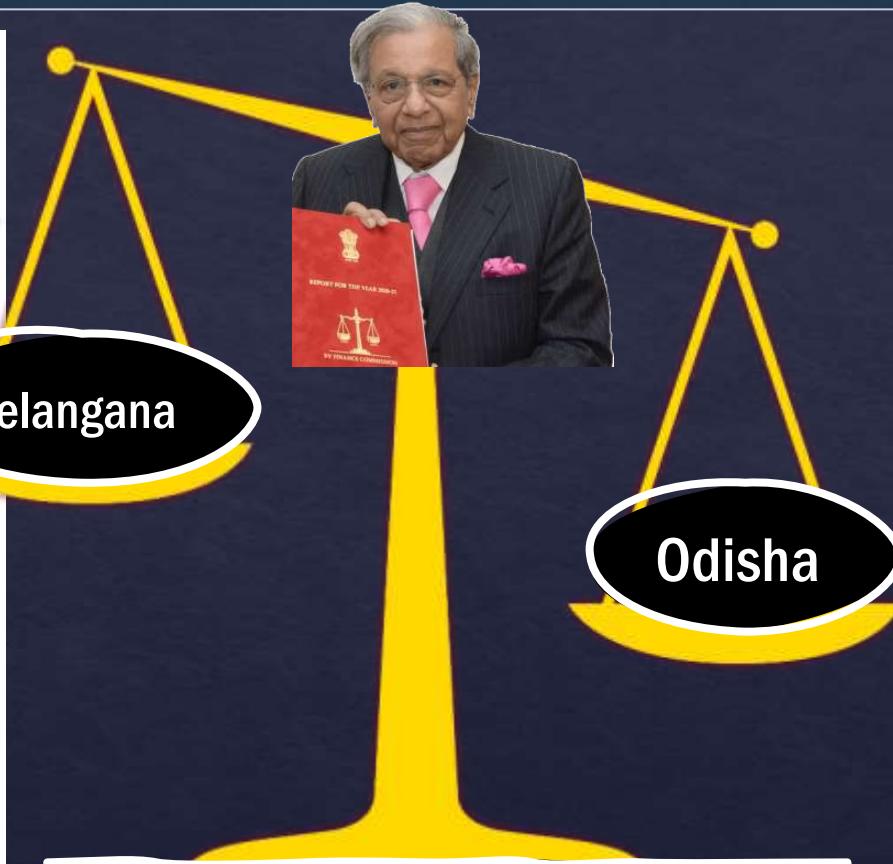
If Haryana is taken as benchmark then how is Sikkim and Goa adjusted?

Ans. Internal adjustment in formula.  
You are FREE TO WASTE your time doing PhD from my original 128 pages report .

# States' Per capita income : more income distance from benchmark state (Haryana) = your state gets more ₹₹ from Union's tax share



हरियाणा की प्रति व्यक्ति आय की तुलना में आपका राज्य कितना ज्यादा गरीब है?  
जितना ज्यादा गरीब है उतना ज्यादा पैसा मिलेगा



Who get  
more ₹₹ from union's  
₹41 tax devolution?

जो राज्य ज्यादा  
गरीब उसको ज्यादा  
पैसा मिलेगा



Income  
Distance (45%)



Population (15%)



Area (15%)



We've more population. So we  
should get more ₹ from Union's tax  
devolution than KERALA

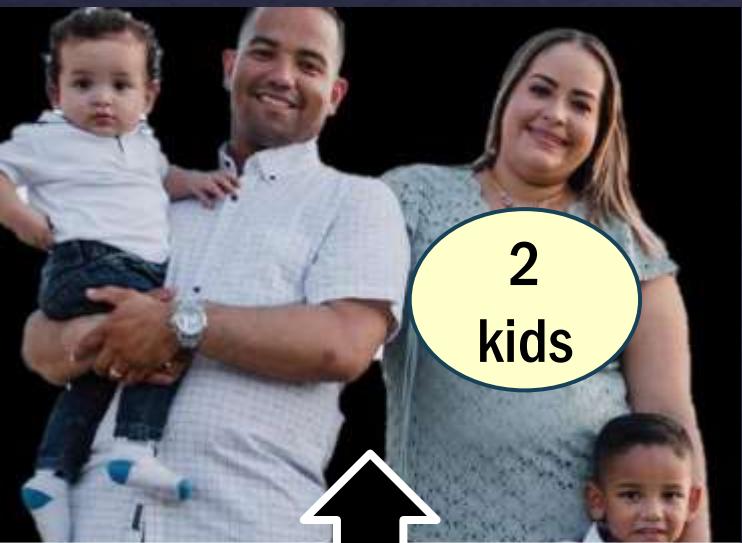
## Census-2011:

State with large population get  
more ₹ ₹ राज्य की आबादी ज्यादा →  
तो ज्यादा पैसा मिलेगा



# Total Fertility Rate (TFR) - कुल प्रजनन दर (More in Pillar6)

IF woman lived through 15-49 age group,  
how many TOTAL babies  
would she have produced hypothetically (परिकल्पित)?



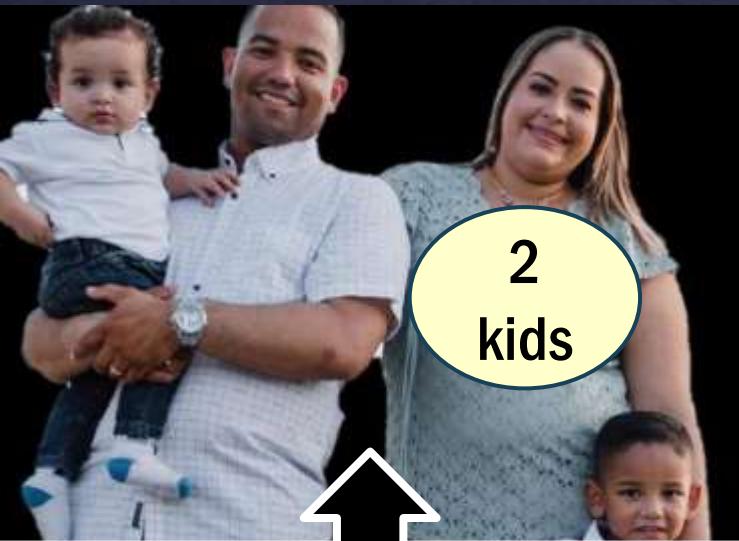
दो व्यक्ति मरेंगे पीछे दो व्यक्ति छोड़कर जाएंगे  
तो आबादी स्थिर रहेगी



Population growth

# Total Fertility Rate (TFR) - कुल प्रजनन दर (More in Pillar6)

IF woman lived through 15-49 age group,  
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would she have produced hypothetically (परिकल्पित)?



दो व्यक्ति मरेंगे पीछे दो व्यक्ति छोड़कर जाएंगे  
तो आबादी स्थिर रहेगी

$$TFR = \frac{2 \text{ kids} + 3 \text{ kids}}{2 \text{ Mothers}}$$

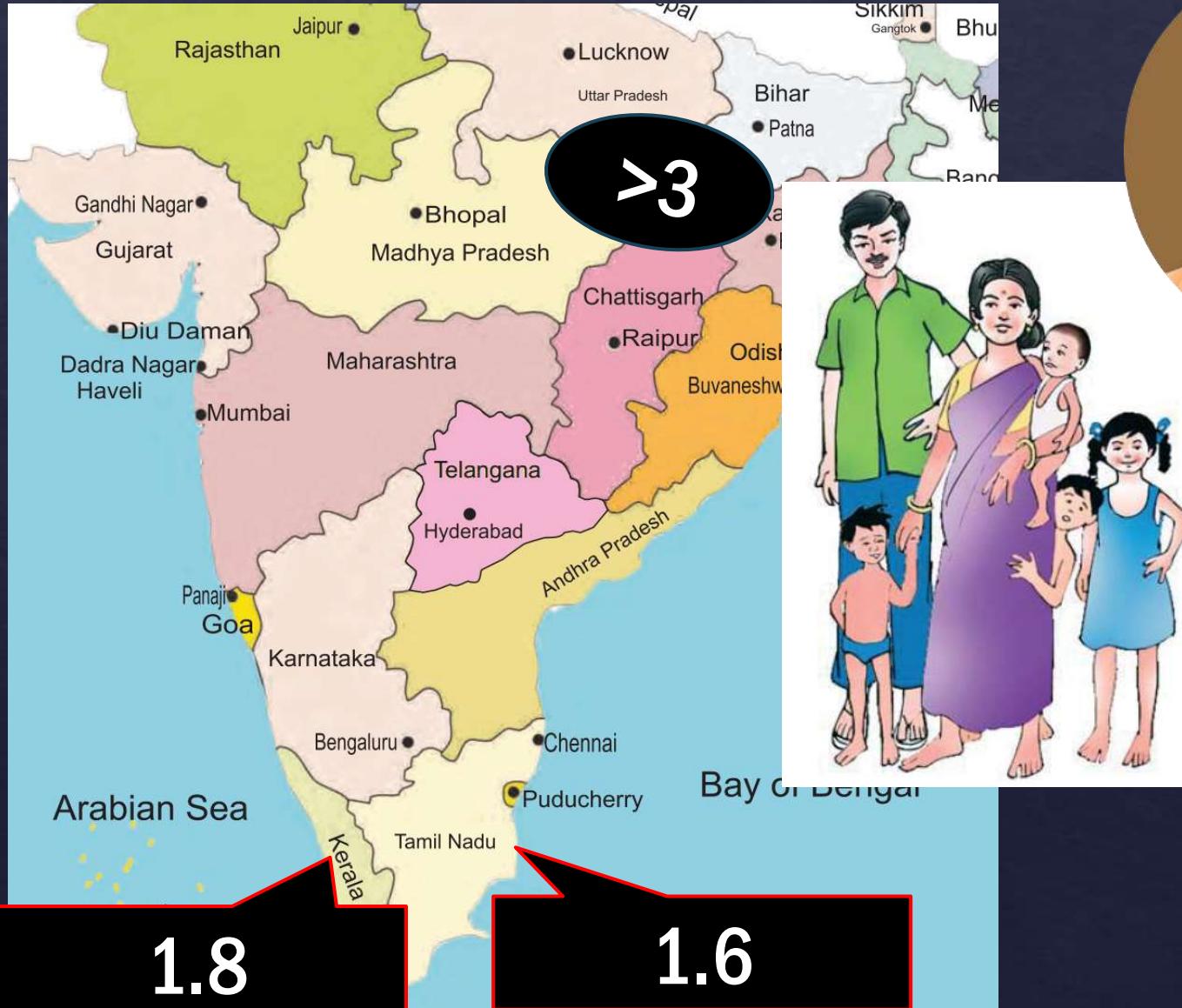
$$= \frac{5}{2} = 2.5$$

Real formula more  
complicated than this.



Population growth ↑

# More about census, population in Pillar6



राज्य की आबादी ज्यादा  
तो ज्यादा पैसा मिलेगा



Why is our  
population control  
effort not  
appreciated? 😞

जनसंख्या नियंत्रण का  
कोई इनाम नहीं मिलेगा  
हमें?? 😞 😞

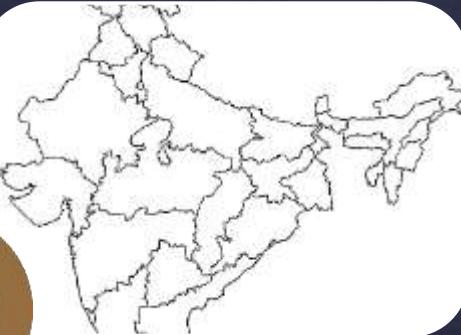
# 15<sup>th</sup> FC: Horizontal Tax Devolution (क्षैतिज कर अंतरण)



Income Distance  
(45%)



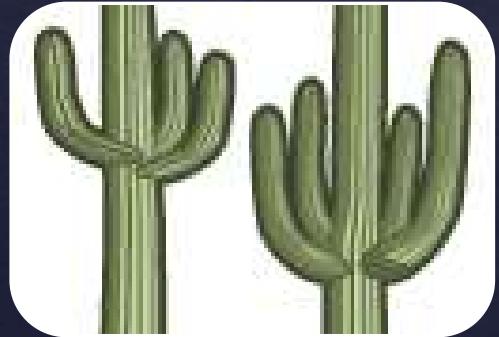
Population (15%)



Area (15%)

1) Census-2011:

- State with large population get more ₹₹ आबादी ज्यादा तो ज्यादा पैसा मिलेगा



Forest & Ecology (10)



Demographic performance (12.5%)

जनसांख्यिकीय प्रदर्शन



Tax Effort (2.5%)



दक्षिण के राज्यों को खुश करने के लिए

2) States that have ↓ Total Fertility Rate (TFR), will get more ₹₹ कुल प्रजनन दर में कमी करें तो ज्यादा पैसा मिलेगा

# Aren't these contradictory? Population ↑, population control ↑ क्या यह दो आपस में विरोधाभासी चीज नहीं हैं?

## 1. Population



where  $\text{POP}_{j2011}$  = population of the  $j^{\text{th}}$  State as per Census of year  $y$ .

$$\text{Inter se share of } i^{\text{th}} \text{ state} = \frac{\text{POP}_{i2011}}{\sum_{j=1}^{28} \text{POP}_{j2011}}$$



एक साथ दो चीज कैसे संभव है  
कि आबादी ज्यादा है उसको भी ज्यादा  
पैसा मिले और  
जिसने आबादी नियंत्रण किया उसको भी  
ज्यादा पैसा मिले!?

## 5. Demographic Performance

From Census 2011, total fertility rate of  $i^{\text{th}}$  State ( $TFR_i$ ) calculated from Age-Specific Fertility rates ( $ASFR_{ik}$ ) where  $ASFR_{i,k}$  is the  $k^{\text{th}}$  age-specific fertility rate in the  $i^{\text{th}}$  State.

$$ASFR_{i,k} = \frac{\text{Number of live births last year in the } k^{\text{th}} \text{ age group of females in the } i^{\text{th}} \text{ state}}{\text{Mid - year female population}^{\#} \text{ in the } k^{\text{th}} \text{ age group in the } i^{\text{th}} \text{ state}}$$

# The female population as registered in the age group by Census 2011 is taken as the mid-year female population.

Total Fertility Rate of  $i^{\text{th}}$  State is,

$$TFR_i = 5 \times \sum_{k=15-19}^{45-49} ASFR_{i,k}$$



state shares by six parameters or criteria – population, area, forest and ecology, income distance, geographic performance:

$$S_i = \sum_{m=1}^6 S_i^m \omega_m$$

value of  $m^{\text{th}}$  parameter and  $S_i^m$  is the inter se share of the  $i^{\text{th}}$  State under the  $m^{\text{th}}$



 PHD  
unnecessary. we  
are not here for  
**ISS (Statistical  
Service Exam)**

# 15<sup>th</sup> FC: Horizontal Tax Devolution (क्षेत्रिज कर अंतरण)

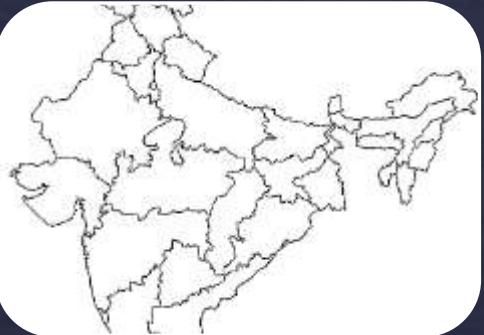
जिनके पास इलाका या जंगल ज्यादा होंगे उनको भी ज्यादा पैसा मिलेगा



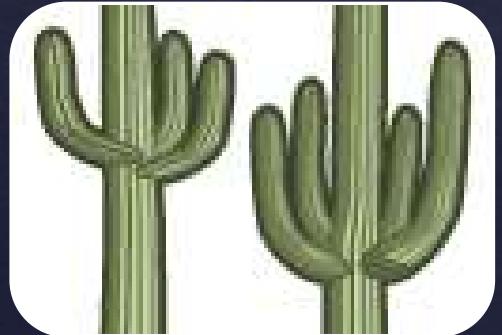
Income Distance  
(45%)



Population (15%)



Area (15%)



Forest & Ecology  
(10%)



Demographic  
performance (12.5)



Tax Effort (2.5%)



नाम से ही स्वयं स्पष्ट है

- More area = more ₹₹
- More forest = more ₹₹

# 15<sup>th</sup> FC: Horizontal Tax Devolution (क्षेत्रिज कर अंतरण)

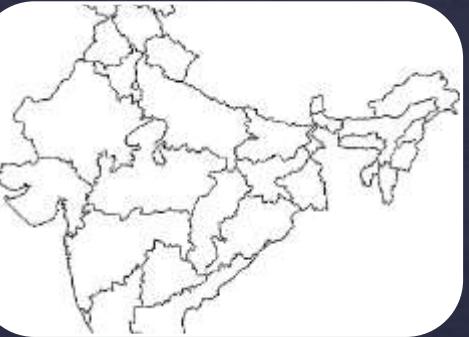
seriousness in collecting state tax is like property tax, professional tax



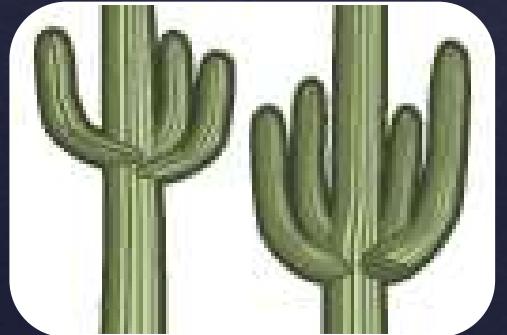
Income Distance  
(45%)



Population (15%)



Area (15%)



Forest & Ecology  
(10)



Demographic performance (12.5)



Tax Effort (2.5%)

कर प्रयास: जिन राज्यों ने अपने खुद के करो में अच्छी आमदनी की → उन्हें केंद्र की तरफ से ज्यादा पैसा मिले

- States who've ↑ their per capita (state) tax collection in the last 3 years
- They get more ₹₹ from Union's ₹41

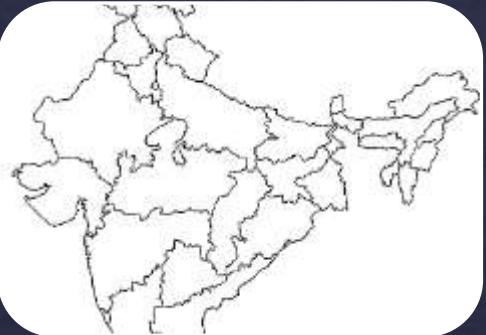
# 15<sup>th</sup> FC: Horizontal Tax Devolution (क्षैतिज कर अंतरण)



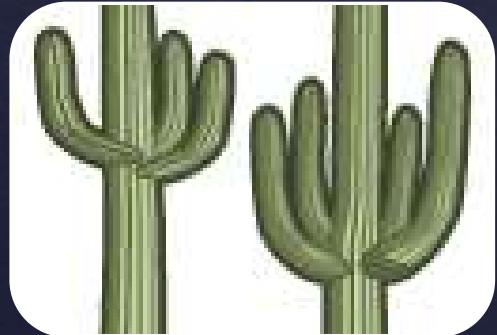
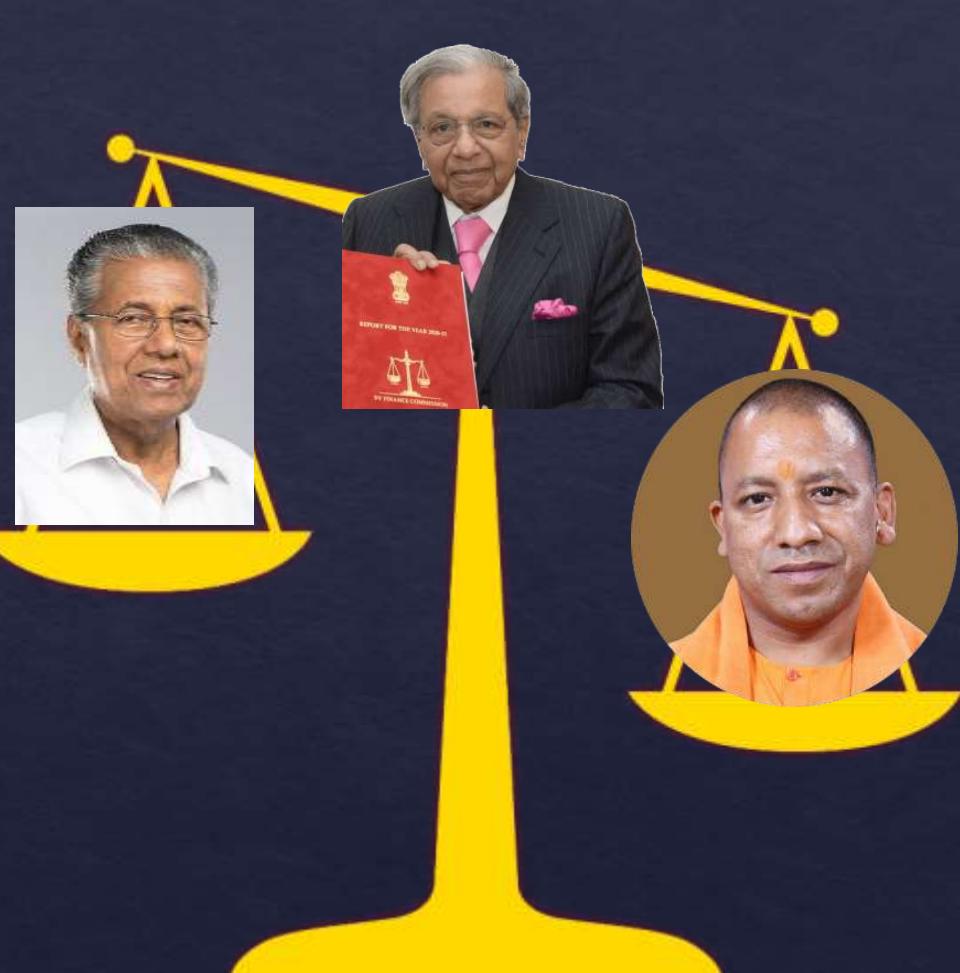
Income Distance  
(45%)



Population (15%)



Area (15%)



Forest & Ecology  
(10)

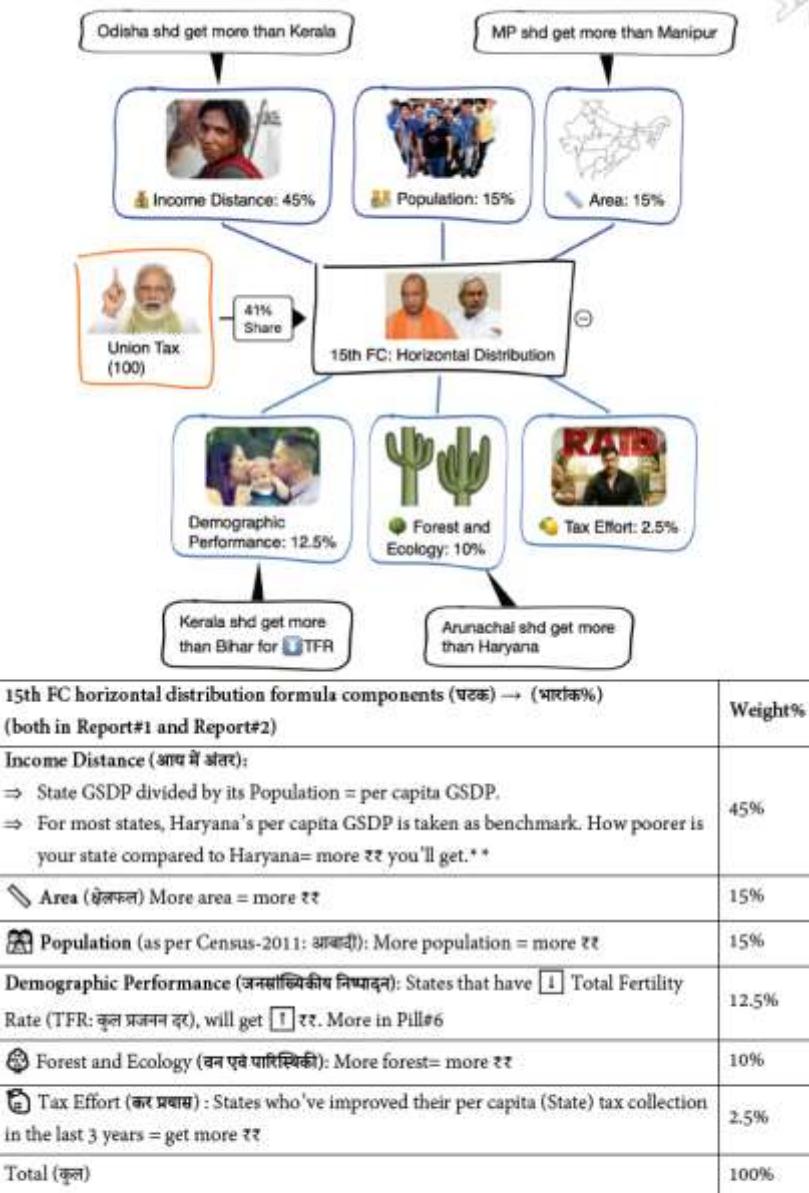


Demographic  
performance (12.5)



Tax Effort (2.5%)

# Handout मैं दिया है यह सब कुछ

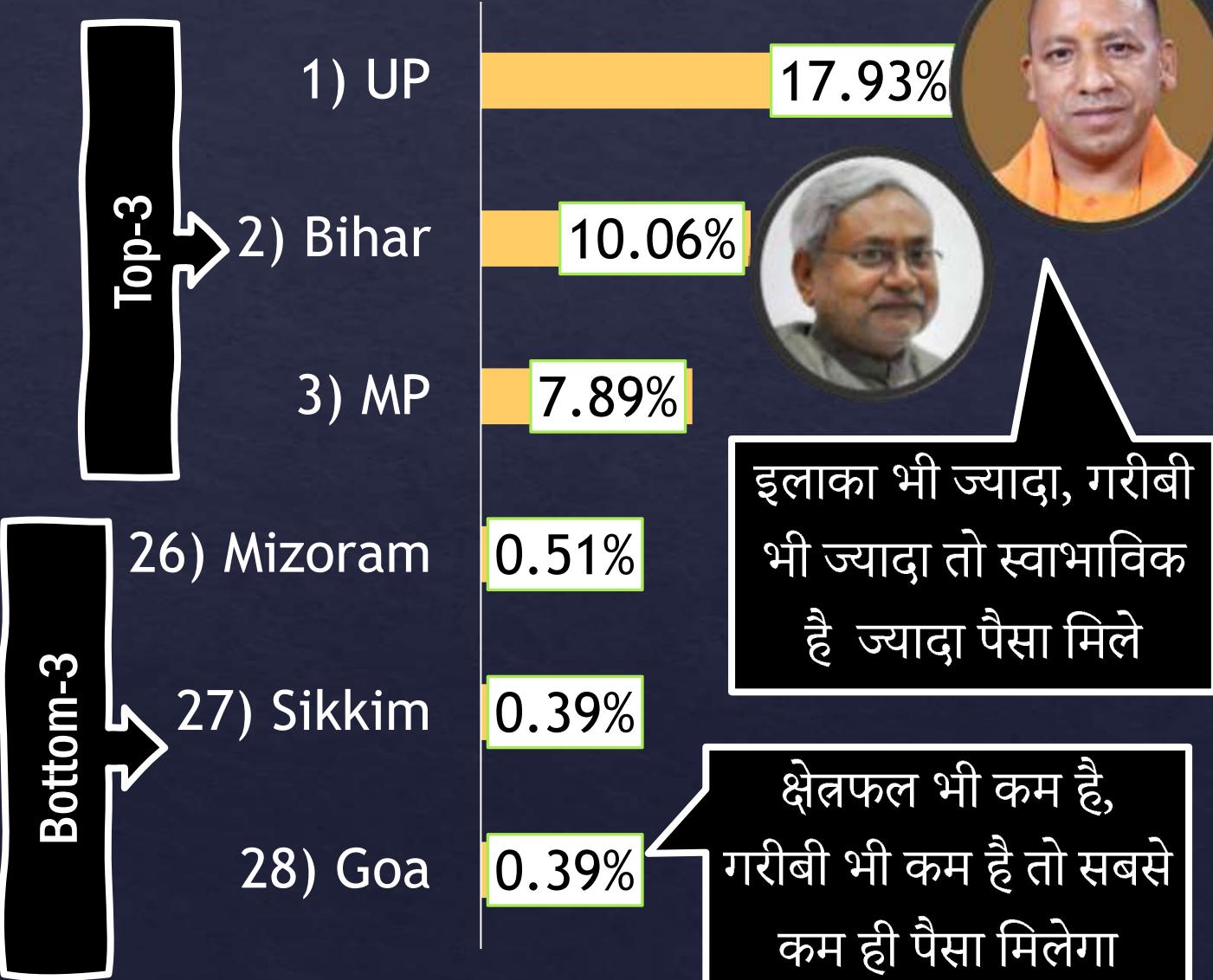
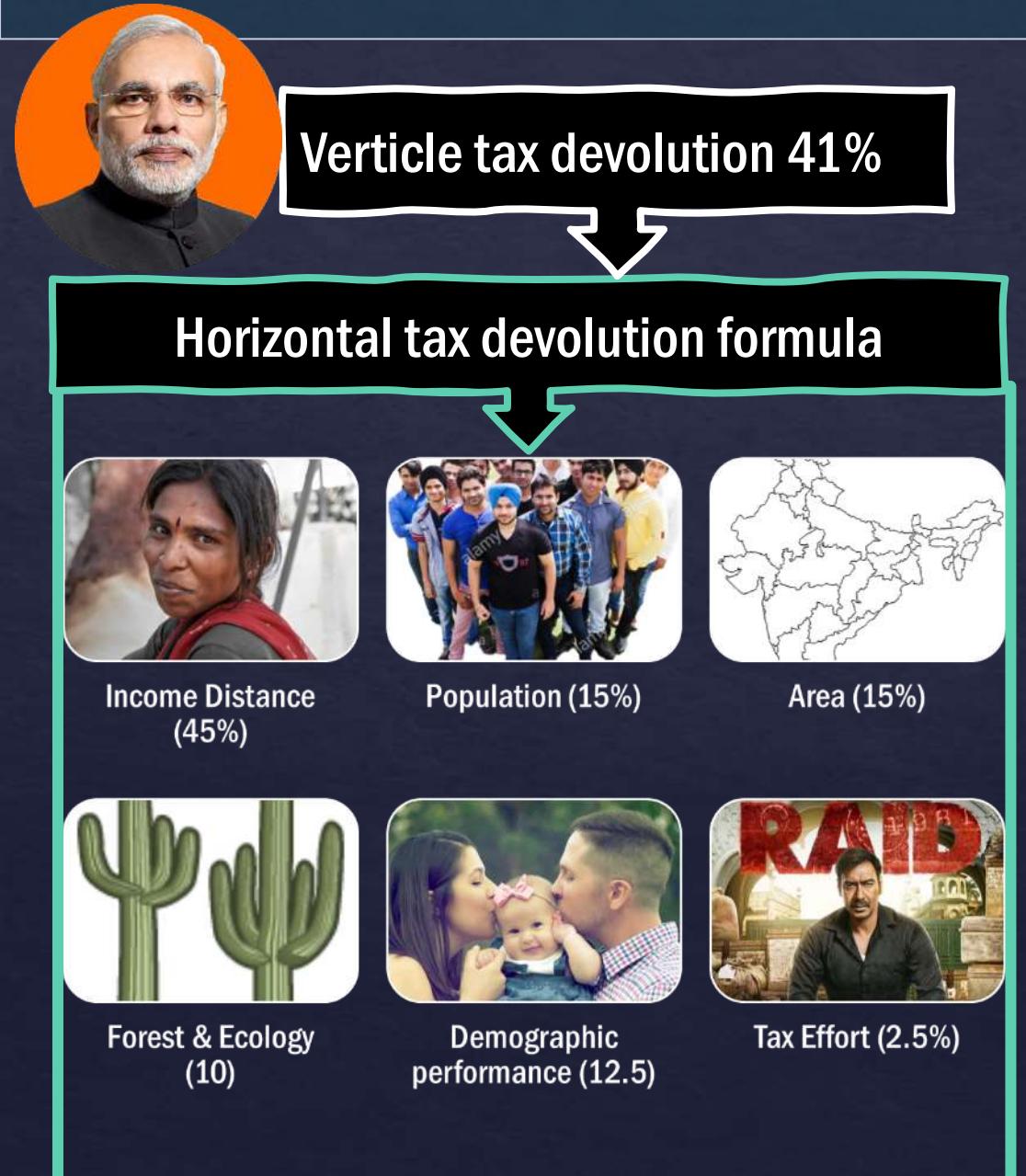


But I am unable to study as I  
am too busy with meme-  
sharing



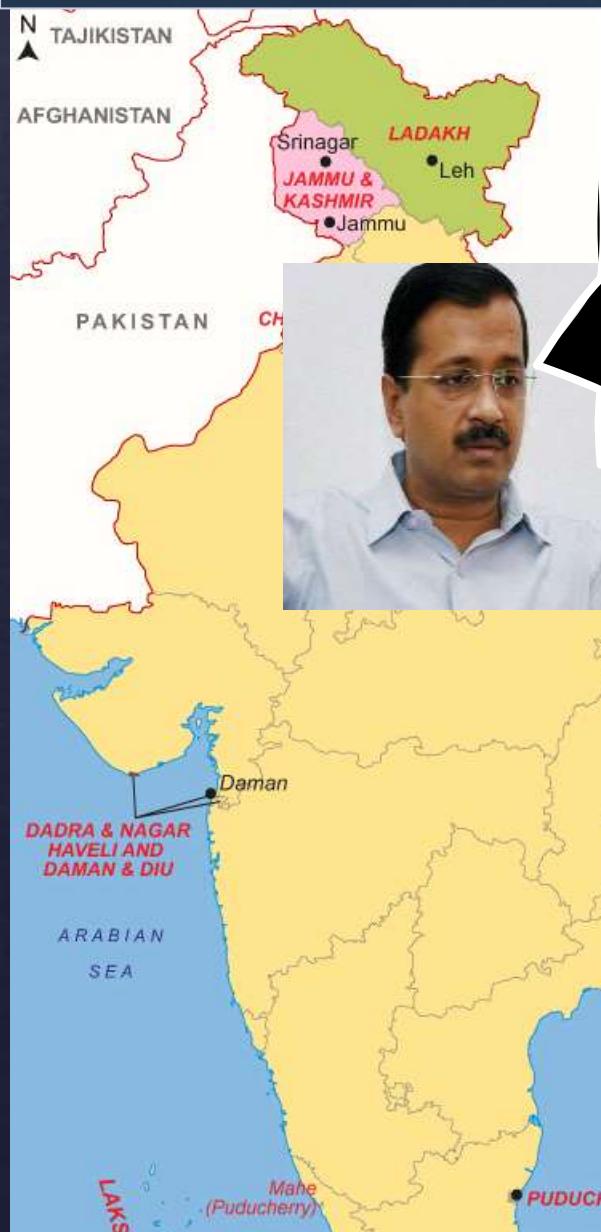
यूपीएससी के  
बाबू शोने

# Which state receives highest tax devolution?



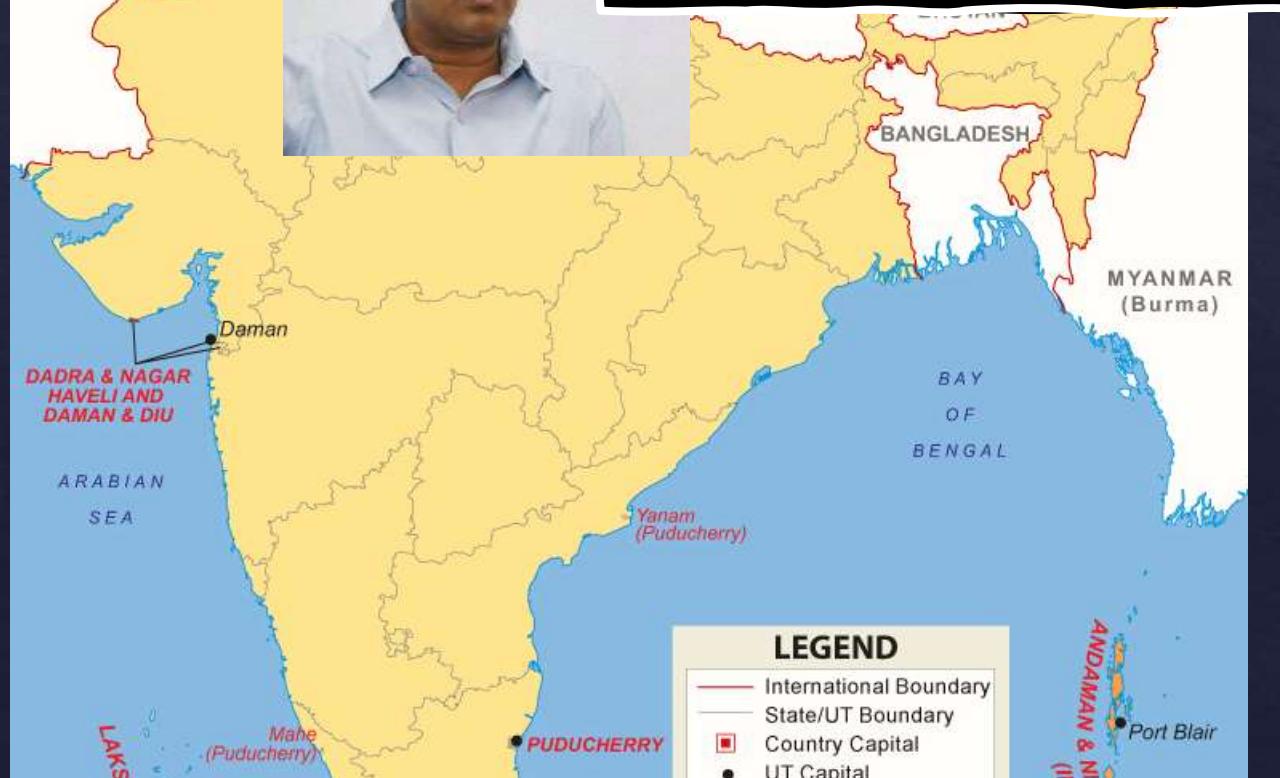
# Union territories get no money in finance Commission formulas

वित्त आयोग केंद्र शासित प्रदेशों को फूटी कौड़ी भी नहीं देता क्योंकि वो संविधान में नहीं



3) Even though we're a UT  
with Legislature, we'll not  
get anything from FC.

बहुत नाइंसाफी है जी 😢 😢



## LEGEND

- International Boundary
- State/UT Boundary
- Country Capital
- UT Capital



1) FinMin decides  
₹₹ allocation for  
all TYPES OF UT



2) केंद्रशासित प्रदेश हमारे  
कार्यक्षेत्र में नहीं है।

👉 UT not in FC's  
jurisdiction

# Your home States' share prepare for interview

आपकी राज्य को कितना हिस्सा मिलने वाला है वह आपको इंटरव्यू में पता होना चाहिए



## 23.5.1 15<sup>th</sup> FC: Horizontal devolution: States' share in ↓ order

Table 1: Try to remember 3-5 names in top & bottom each, & your home state.

1) Uttar Pradesh (17.931%)	11) Chhattisgarh (3.418%)	21) Himachal (0.799%)
2) Bihar (10.061%)	12) Gujarat (3.398%)	22) Meghalaya (0.765%)
3) MP (7.886%)	13) Jharkhand (3.313%)	23) Manipur (0.718%)
4) W. Bengal (7.519%)	14) Assam (3.131%)	24) Tripura (0.709%)
5) Maharashtra (6.135%)	15) Telangana (2.133%)	25) Nagaland (0.573%)
6) Rajasthan (5.979%)	16) Kerala (1.943%)	26) Mizoram (0.506%)
7) Odisha (4.629%)	17) Punjab (1.788%)	27) Sikkim (0.388%)
8) Tamil Nadu (4.189%)	18) Arunachal (1.76%)	28) Goa (0.386%)
9) Andhra (4.111%)	19) Uttarakhand (1.104%)	<hr/> ANY type of UT = 0% here
10) Karnataka (3.646%)	20) Haryana (1.082%)	

## 23.5.2 Finance Commission

Until 10th Finance Commission  
between the Union Govt &



# 14<sup>th</sup> Finance Commission: Y.V.Reddy's formula (1/4/15 to 31/3/20)

इसके पहले वाले वित्त आयोग में → फार्मूला थोड़ा अलग था

42%



Verticle Devolution



Union



Guj



Kerala



Bihar

Horizontal distribution of Union's Tax

It will depend on following parameters related to ur state

Income-Distance

- 50% weight (कितने गरीब हो?)

Population Census 1971

- 17% weight

Demo.Change Census 2011

- 10% weight

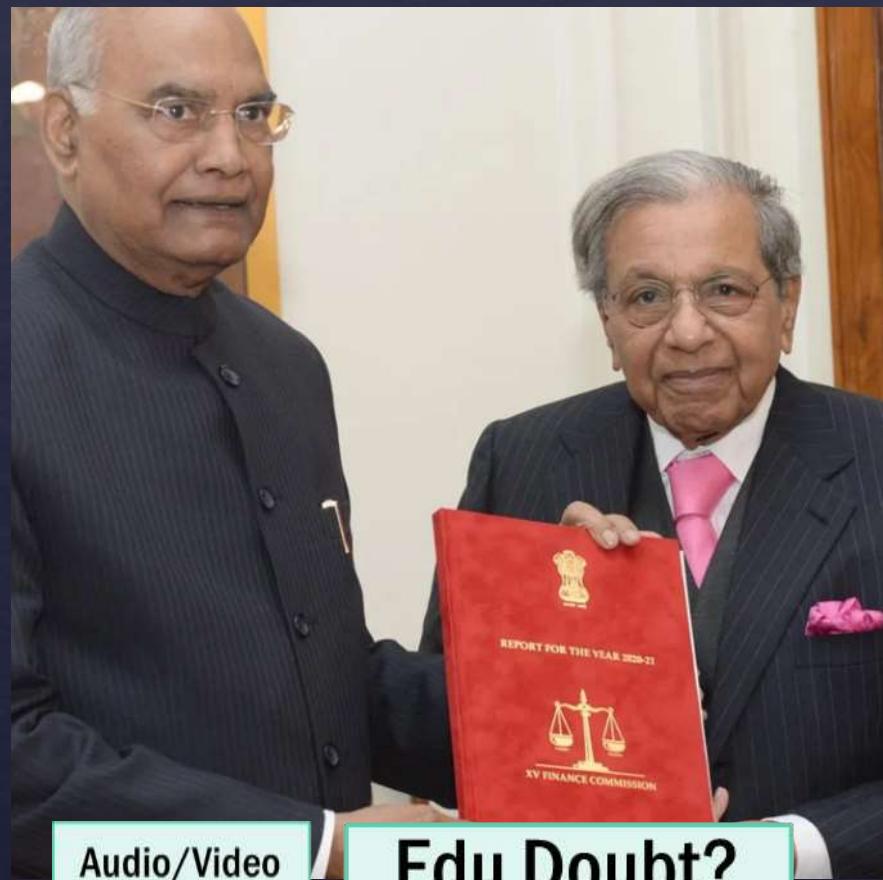
Area

- 15%(इलाका)

Forest-Cover

- 8% (ज्यादा जंगल तो ज्यादा पैसा)

# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



Audio/Video  
Problem?

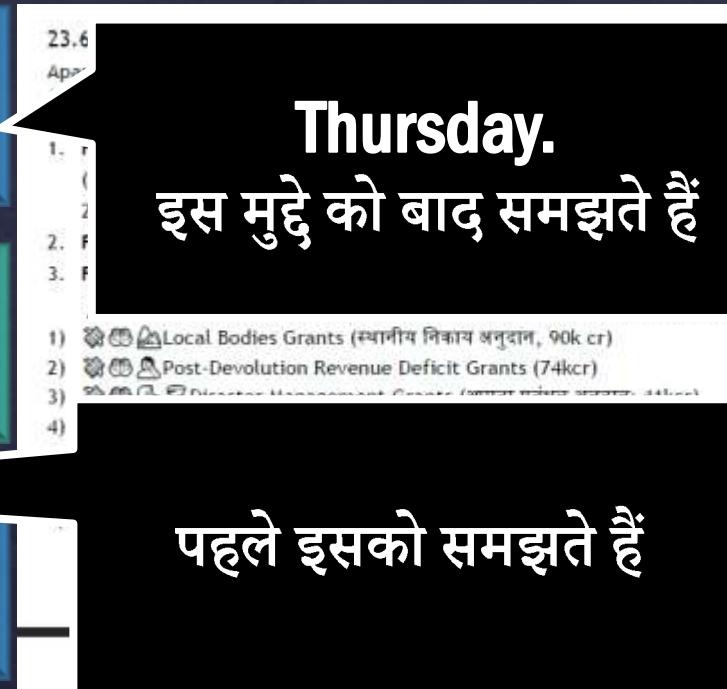
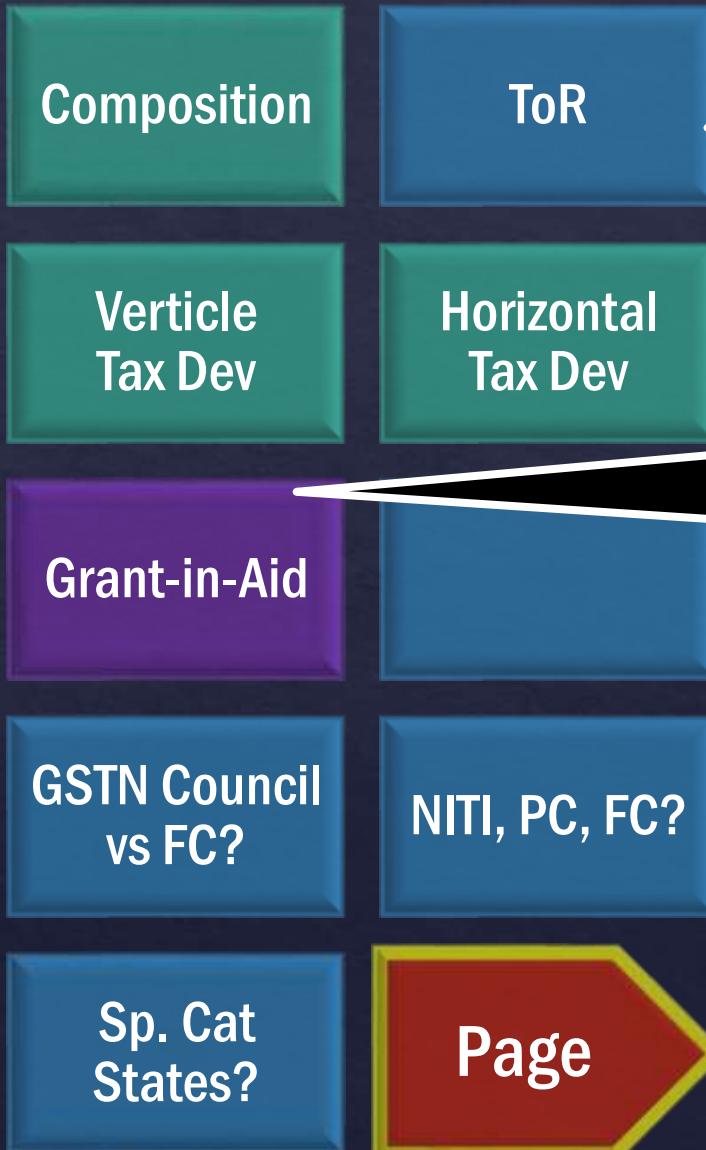


CTRL

R

Edu Doubt?  
Ask through

Google  
Forms



2020-21	Approx. Amount in ₹cr.
Rural Local Bodies	- 60k. Out of this, ⇒ 50% is Tied Grants (निश्चिह्नित) = meant only for specific objectives 1) sanitation 2) water (स्वच्छता और पानी)
	⇒ 50% is Untied/basic (प्राथमिक) = can be used for any objective depending on location. Except salary & establishment (building renovation, electricity bill etc.) From 1/4/2021 they'll be required to submit audited accounts online through Panchayati Raj Institutions Accounting Software (PRIAsoft) to Comptroller and Auditor General (CAG: नियंत्रक और महालेखा परीक्षक)

# 15<sup>th</sup> FC

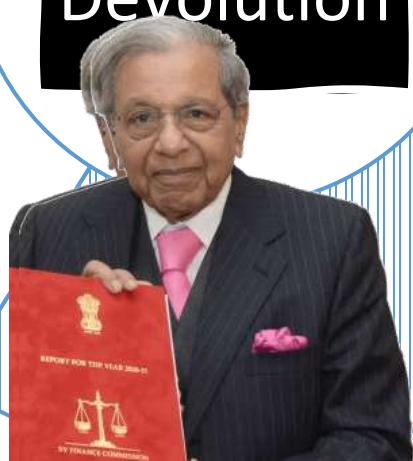


# 15<sup>th</sup> FC



States  
41%

Tax  
Devolution



राज्यों को यह तो  
मिलेगा ही मिलेगा  
इसके अतिरिक्त  
भी पैसा मिलेगा



Union  
59%



Additionally  
union will give ₹ from its ₹59

Grants (अनुदान)  
(means it is not  
loans. State need not  
be return ₹₹ back)  
• as per 15<sup>th</sup> FC

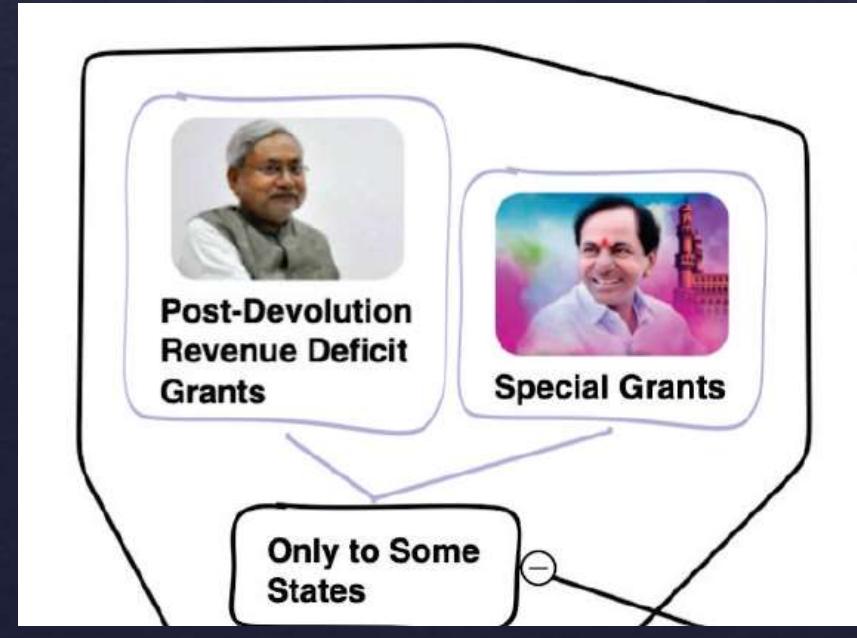
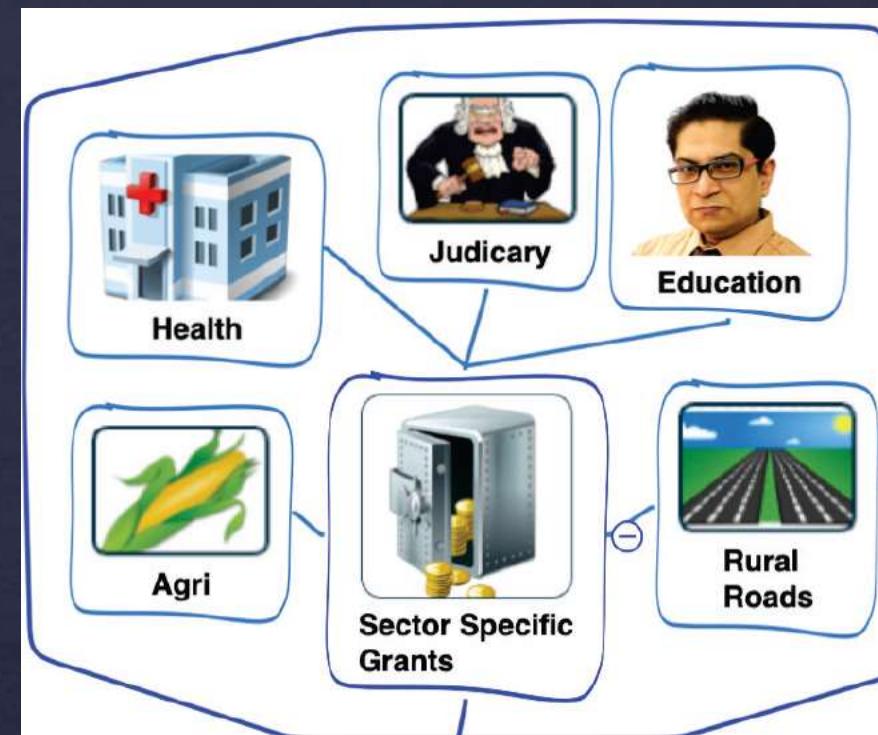
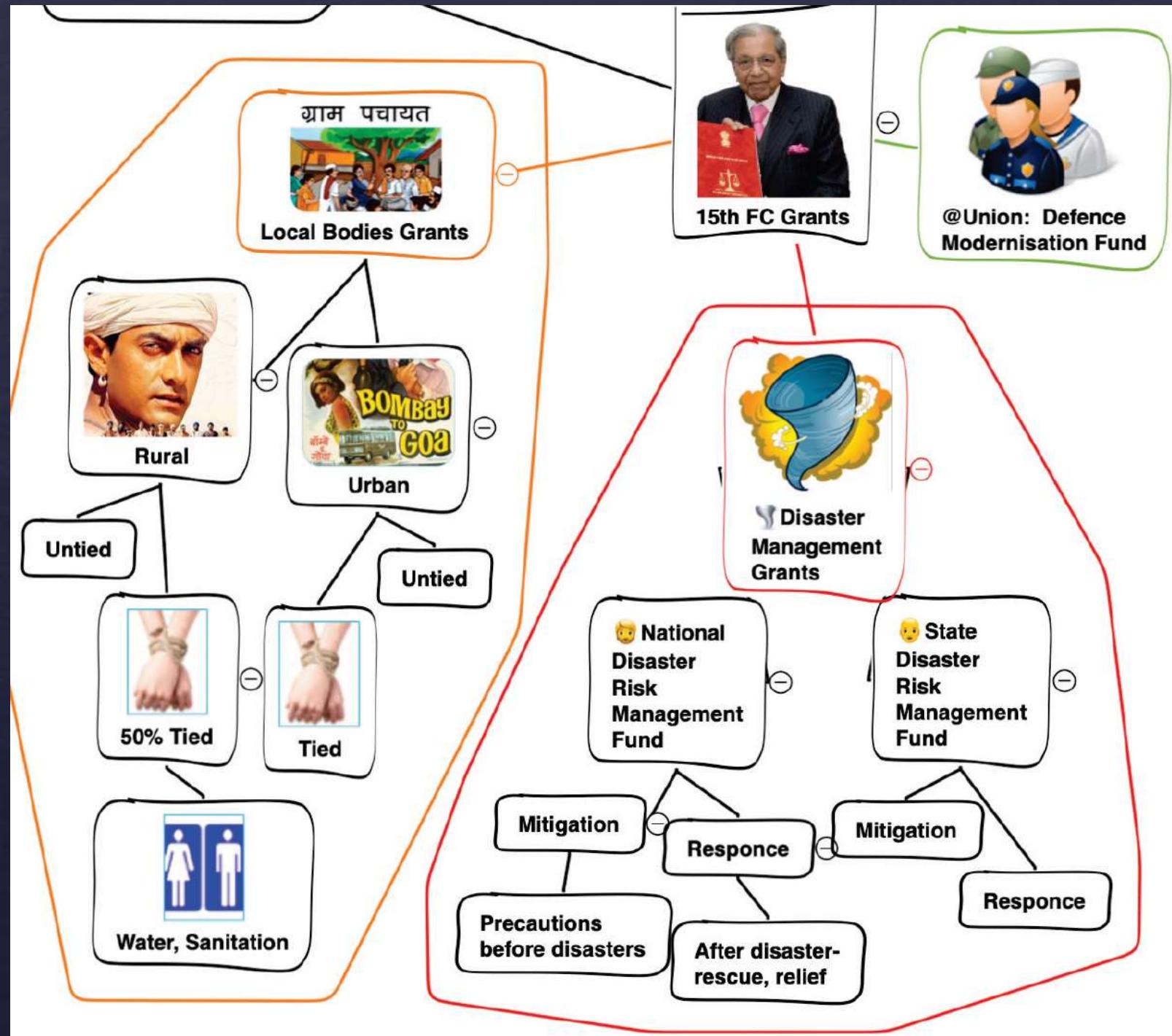
राज्य को  
अनुदान में  
कितना पैसा  
देना है हम  
तय करेंगे

Centrally Sponsored  
Schemes (CSS)

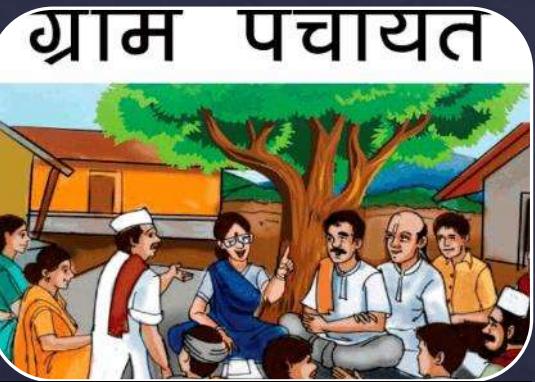
- As per FinMin
- e.g. PM-JAY
- FASAL Bima



केन्द्र द्वारा प्रयोजित  
योजनाओं के लिए  
कितना पैसा देना है वो  
वित्त मंत्रालय तय करें



# 15<sup>th</sup> FC: grant-in-aid (अनुदान)



1) Local Bodies Grants



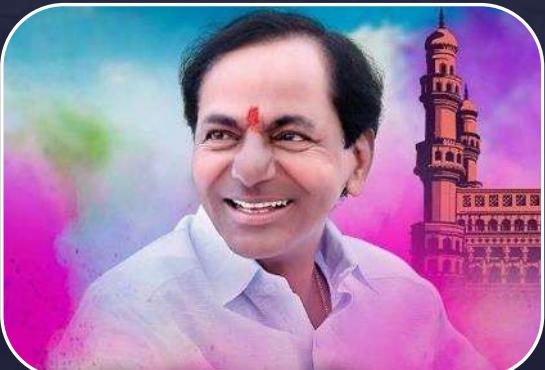
2) Post-Devolution  
Revenue Deficit Grants



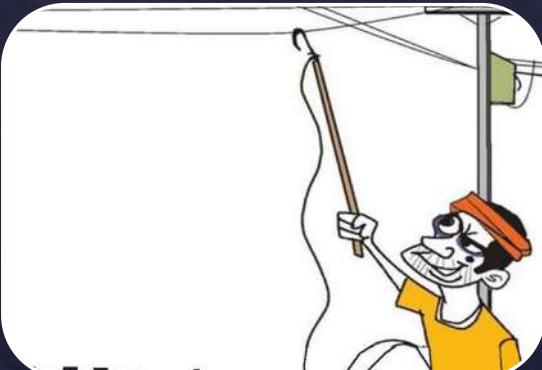
3) Disaster  
Management Grants



4) Sector Specific:  
Nutrition



5) Special Grants



6) Performance-based  
incentives

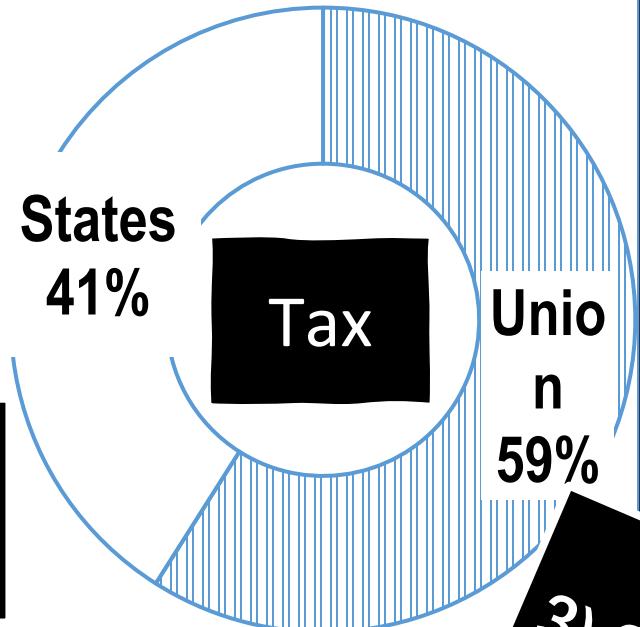




1) gave tax devolution money

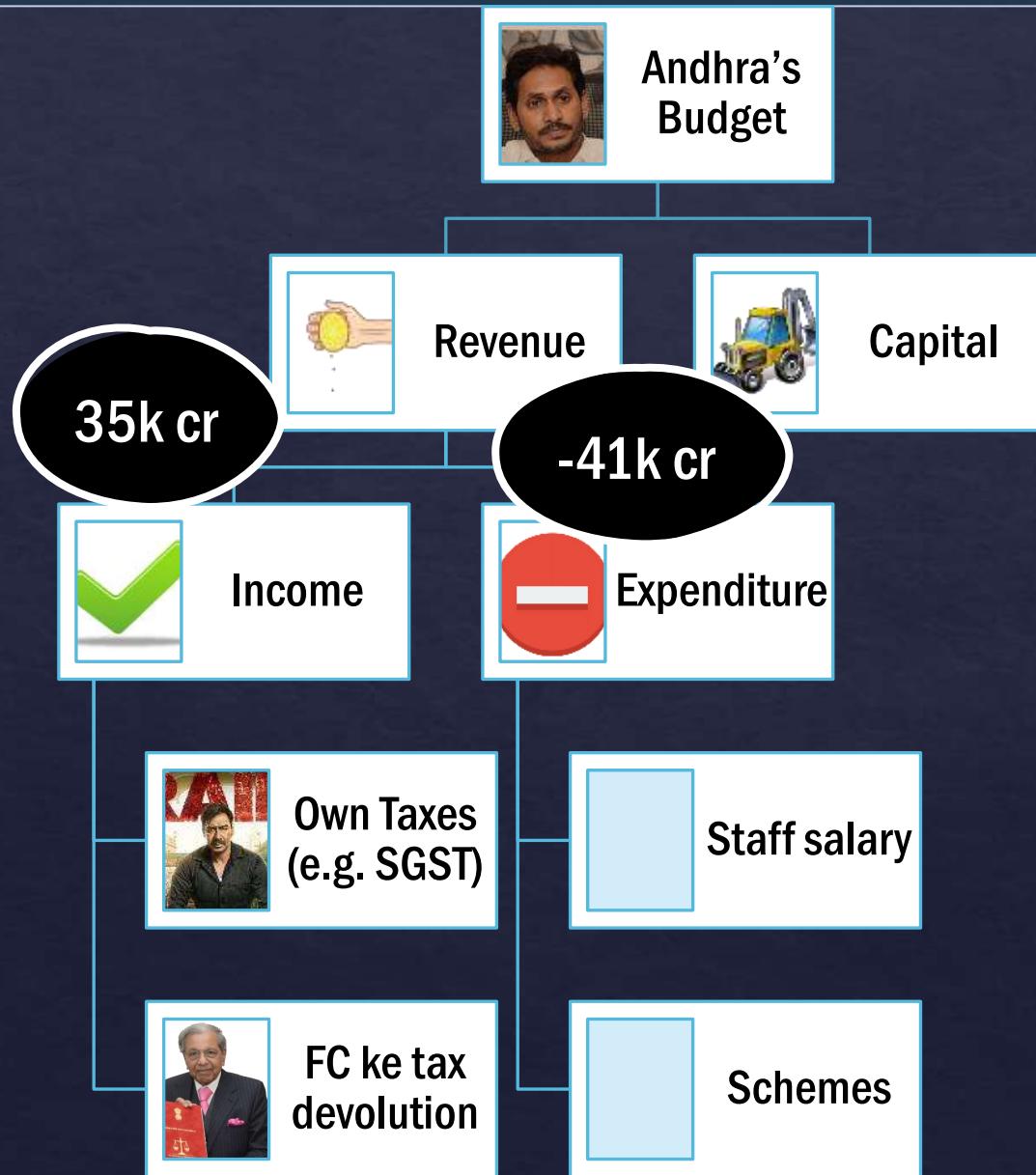


2) Still I've loss even after tax devolution

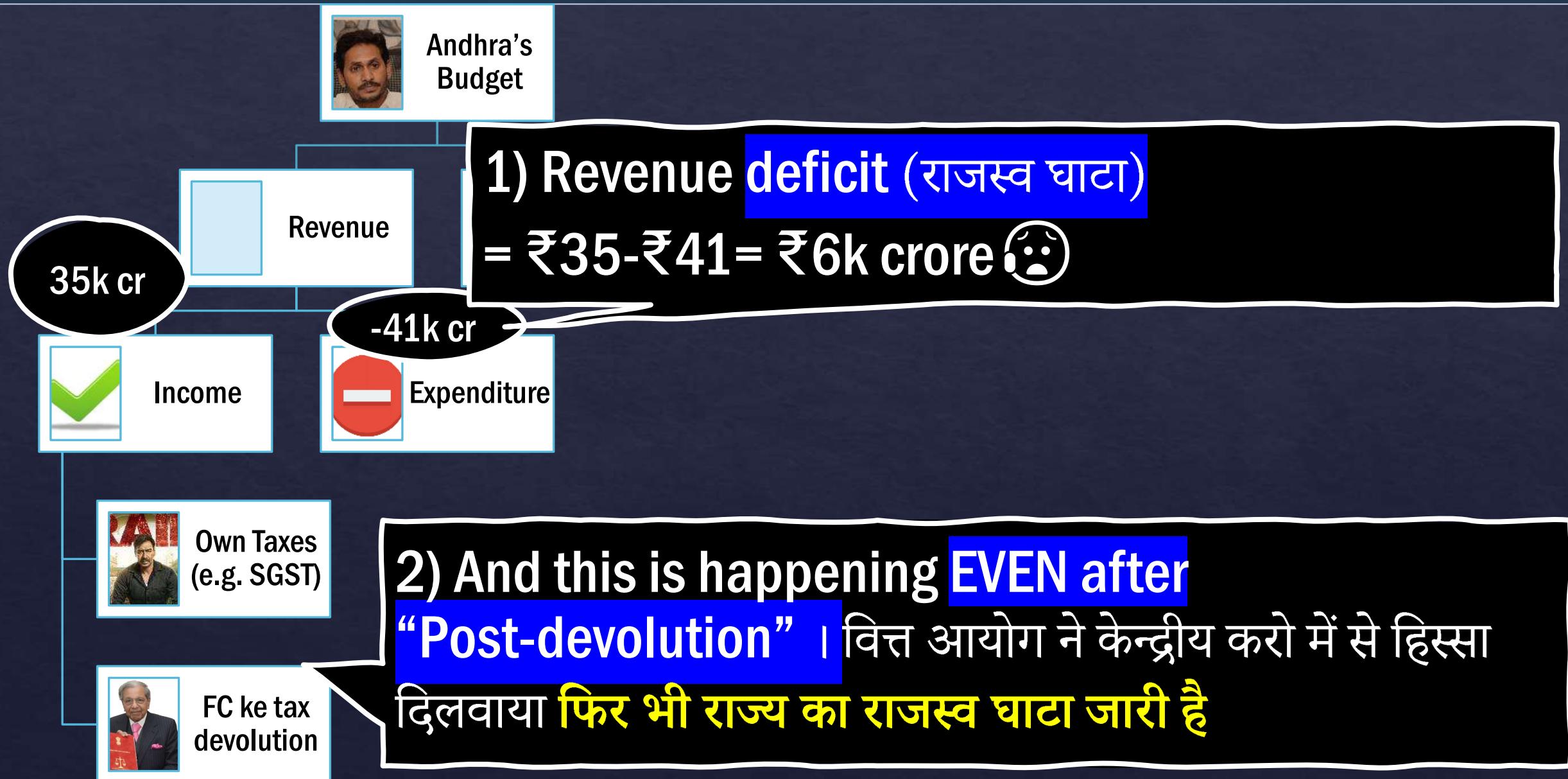


3) Give some more money as 'grants'  
This is done after devolution  
=post devolution

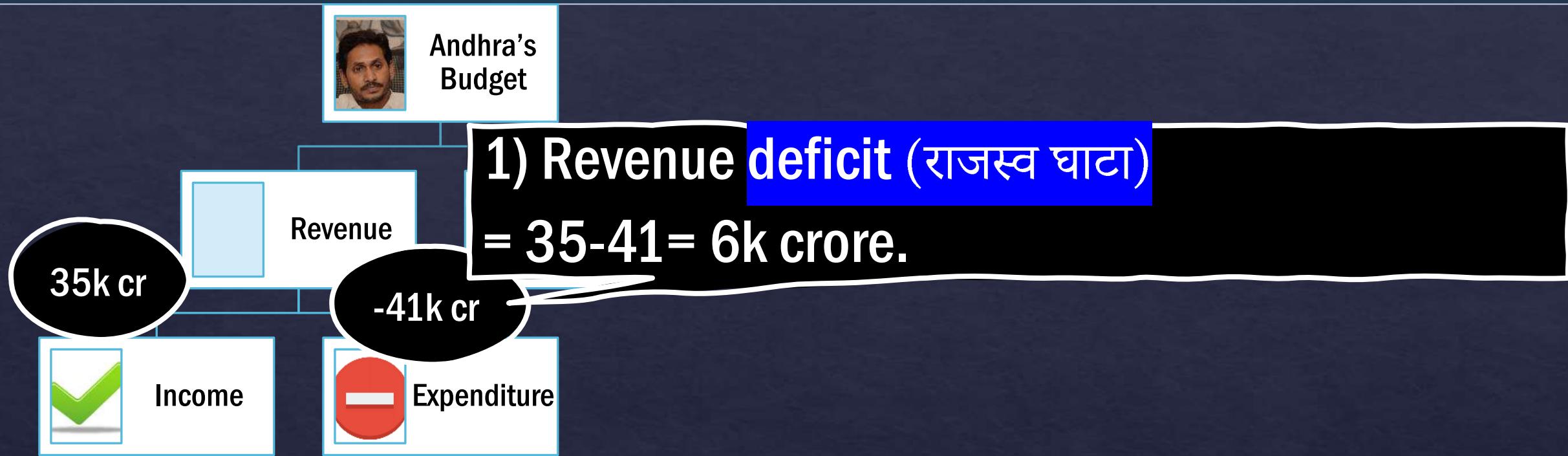
# Post-Devolution Revenue Deficit Grants: given to only 14 States (who've deficit)



# Post-Devolution Revenue Deficit Grants: given to only 14 States (who've deficit)



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आंध्र प्रदेश सरकार की राजस्व आमदनी कम और खर्चे ज्यादा है, तो स्वाभाविक है घाटा हो जाएगा

# Post-Devolution Revenue Deficit Grants: given to only 14 States (who've deficit)

कर अंतरण के पश्चात भी राजस्व घाटा रहे तो राज्य को अनुदान दिया जाएगा



1) Revenue deficit (राजस्व घाटा)  
 $= 35 - 41 = 6\text{k crore.}$

2) And this is happening EVEN after

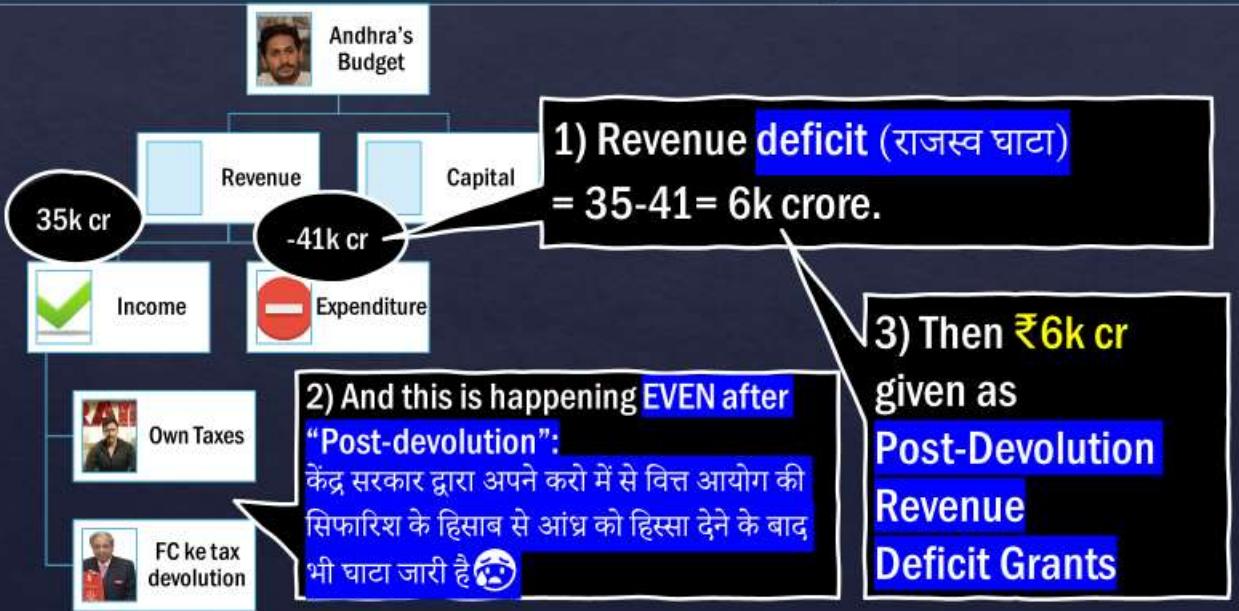
"Post-devolution":

केंद्र सरकार द्वारा अपने करो में से वित्त आयोग की सिफारिश के हिसाब से आंध्र को हिस्सा देने के बाद भी घाटा जारी है 😢

3) Then ₹6k cr  
given as  
Post-Devolution  
Revenue  
Deficit Grants

## Post-Devolution Revenue Deficit Grants: given to only 14 States (who've deficit)

कर अंतरण के पश्चात भी राजस्व घाटा रहे तो राज्य को अनुदान दिया जाएगा



Q1) If 15<sup>th</sup> FC keeps doing this, then states will spend money in irresponsible manner?

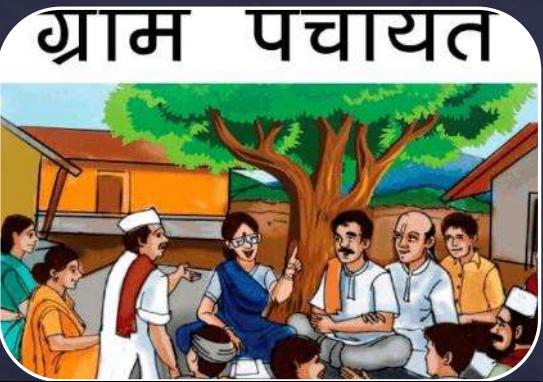
Ans) there is FRBM Act to keep

control on it.

Wait till reach Pillar# 2D



# 15<sup>th</sup> FC: grant-in-aid (अनुदान)



1) Local Bodies Grants



2) Post-Devolution  
Revenue Deficit Grants



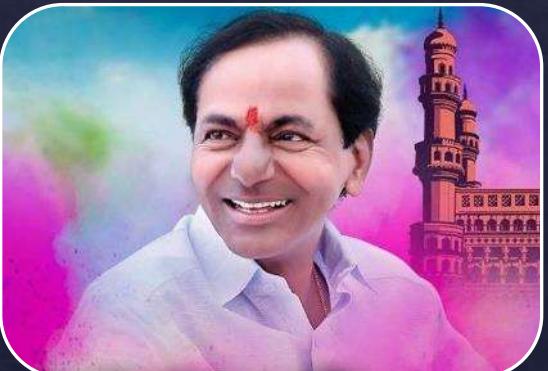
3) Disaster  
Management Grants



4) Sector Specific:  
Health



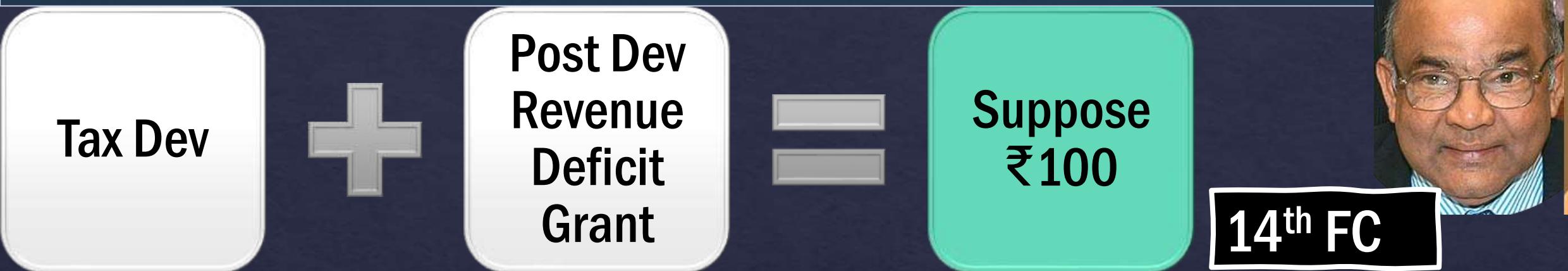
5) Sector Specific:  
Other Sectors



6) Special Grants



# 15th FC → Grants → Special Grants: (विशेष अनुदान)



मान लीजिए 14वें वित्त आयोग ने तेलंगाना को

कर-अंतरण और

राजस्व घाटे की भरपाई के लिए अनुदान

के रूप में ₹100 दिए थे 😊

और 15 में वित्त आयोग में उससे कम पैसा मिल रहा है 😢



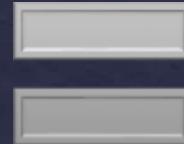
# 15th FC → Grants → Special Grants: (विशेष अनुदान)



Tax Dev



Post Dev  
Revenue  
Deficit  
Grant



Suppose  
₹100

14<sup>th</sup> FC

Tax Dev



Post Dev  
Revenue  
Deficit  
Grant



Suppose  
₹90

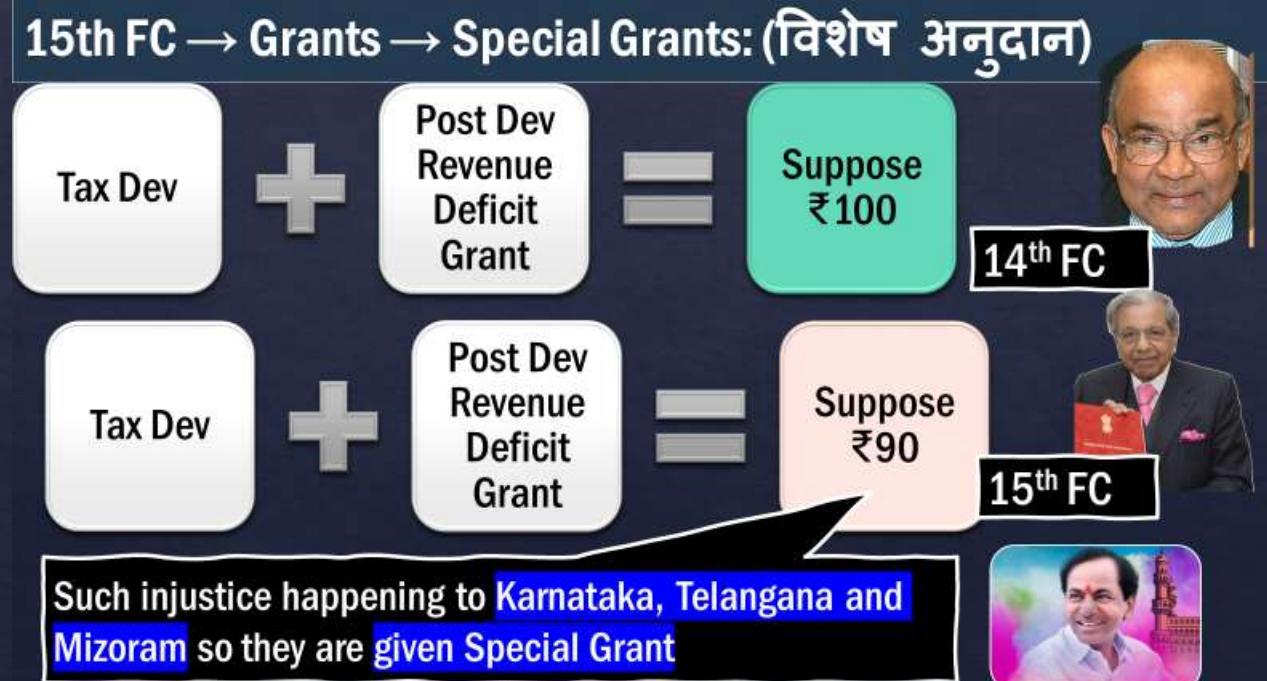
15<sup>th</sup> FC

Such injustice happening to Karnataka, Telangana and  
Mizoram so they are given Special Grant

Only for 2020-21



# Moral outrage- नैतिक आक्रोश- झंडा लेकर आंदोलन करेंगे

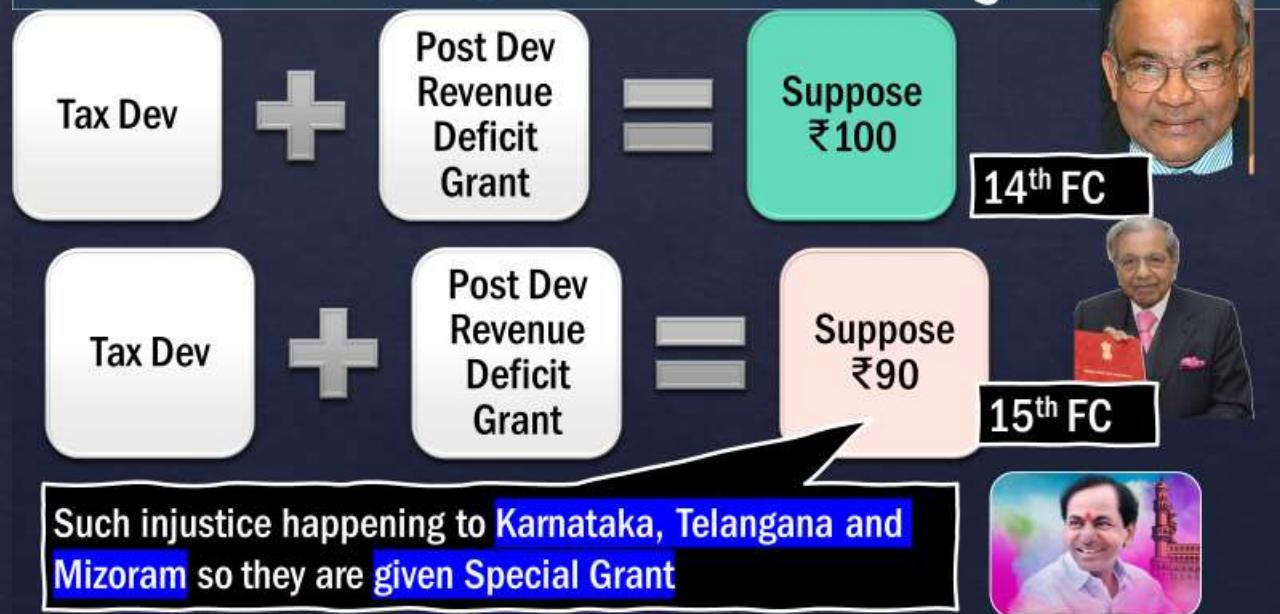


Why is it like this?  
Why did not 15<sup>th</sup> FC make formula properly? ऐसा क्यों है? क्यों फार्मूला ठीक से नहीं बनाई के ऐसी नाइंसाफी हुए ही नहीं?

- 1) Because 15<sup>th</sup> FC tax devolution formula is different than 14<sup>th</sup> FC
- 2) 15<sup>th</sup> FC boss NK Singh is ex-IAS. So you also become IAS someday you'll become FC chairman then you design injustice-free formula.  
BUT until that happens, prepare things as they're in handout.
- 3) #थोड़ा-पढ़ो-आगे-बढ़ो . हर छोटी चीज की पंचात में घुस मत जाओ

# Moral outrage- नैतिक आक्रोश- झंडा लेकर आंदोलन करेंगे

15th FC → Grants → Special Grants: (विशेष अनुदान)



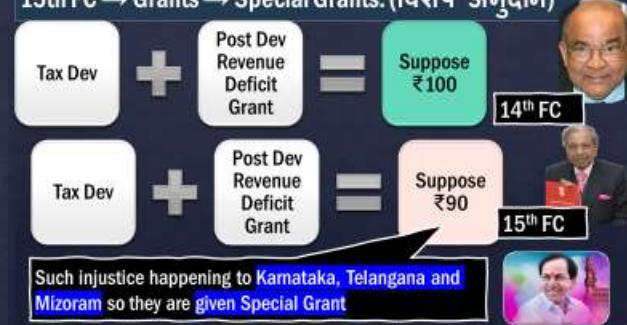
- Why special grant only for 2020-21
- Why is IT not given for 2021-26



- 1) maybe finance Commission felt it is no longer necessary after 2021-26
- 2) They have not bothered to tell it in the official press statement we need not study the 500 pages report separately by ourselves

# Moral outrage- नैतिक आक्रोश- झंडा लेकर आंदोलन करेंगे

15th FC → Grants → Special Grants: (विशेष अनुदान)



Why special grant only for 2020-21  
Why is IT not given for 2021-26



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इसमें जो ढिढोरा पीट के उसने नहीं बोला वह  
तो हमने खुद से google-search/ 500  
page PDF study नहीं करना है

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Finance Commission

The Report of the Fifteenth Finance Commission

Posted On: 01 FEB 2021 10:09PM by PIB Delhi

- The Fifteenth Finance Commission (XVFC)'s ToR was unique and wide ranging in many ways. The Commission was asked to recommend performance incentives for States in many areas like power sector, adoption of DBT, solid waste management etc.
- Another major ToR was to re-examine funding mechanism for defence and internal security.
- The XVFC's Report is organized in four volumes.
- Volumes I and II, as in the past, contain the main report and the accompanying annexes.
- Volume III is devoted to the Union Government and examines key departments at greater depth, with the medium-term challenges and the roadmap ahead.
- Volume IV is entirely devoted to the States. We have analyzed the finances of each State in great depth and have come up with State-specific considerations to address the key challenges that individual States face.
- In total, main report has 117 core recommendations. Vol-III and IV has numerous suggested reforms for the Union ministries and State government respectively.

#### Vertical devolution:

- In order to maintain predictability and stability of resources, especially during the pandemic, XVFC has recommended maintaining the vertical devolution at 41 per cent – the same as in our report for 2020-21. It is at the same level of 42 per cent of the divisible pool as recommended by FC-XIV. However, it has made the required adjustment of about 1 per cent due to the changed status of the erstwhile State of Jammu and Kashmir into the new Union Territories of Ladakh and Jammu and Kashmir.
- In XVFC's estimation, gross tax revenue for 5-year period is expected to be 135.2 lakh crore. Out of that, Divisible pool (after deducting cesses and surcharges & cost of collection) is estimated to be 103 lakh crore.
- States' share at 41 per cent of divisible pool comes to 42.2 lakh crore for 2021-26 period.
- Including total grants of Rs. 10.33 lakh crore (details later) and tax devolution of Rs. 42.2 lakh crore, aggregate transfers to States is estimated to remain at around 59.9 per cent of the divisible pool during 2021-26 period.
- Total XVFC transfers (devolution + grants) constitutes about 34 per cent of estimated Gross Revenue Receipts of the Union leaving adequate fiscal space for the Union to meet its resource requirements and spending obligations on national development priorities.

#### Horizontal devolution:

• The principles of need, equity and performance, overall devolution formula is as follows:

Criteria	Weight (%)
Demographic	25.0
Geography	17.0
Frontier & ecology	30.0
Income distance	4.0
Tax & fiscal efforts	3.5
Demographic performance	12.5
<b>Total</b>	<b>100</b>

- On horizontal devolution, while XVFC agreed that the Census 2011 population data better represents the present need of States, to be fair to, as well as reward, the States which have done better on the demographic front, XVFC has assigned a 12.5 per cent weight to the demographic performance criterion.
- XVFC has re-introduced tax effort criterion to reward fiscal performance.

#### Revenue deficit grants:

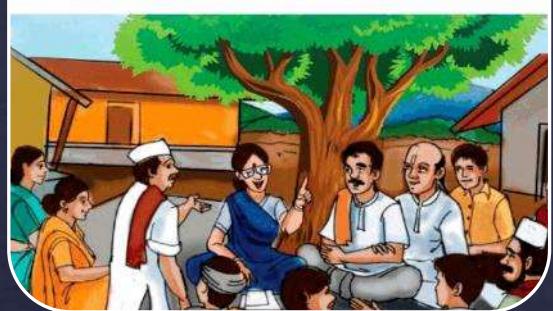
- Based on uniform norms of assessing revenues and expenditure of the States and the Union, XVFC has recommended total revenue deficit grants (RDG) of Rs. 2,94,514 crore over the award period for seventeen States.

#### Rural Government:

- The total size of the grant to local governments should be Rs. 4,36,361 crore for the period 2021-26.
- Of these total grants, Rs. 8,000 crore is performance-based grants for initiation of new cities and Rs. 450 crore is for shared municipal services. A sum of Rs. 2,36,805 crore is earmarked for rural local bodies, Rs.1,21,655 crore for urban local bodies and Rs. 70,051 crore for

# 15<sup>th</sup> FC: grant-in-aid (अनुदान)

ग्राम पचायत



1) Local Bodies Grants

Read Polity →  
local bodies



4) Sector Specific:  
Health



2) Post-Devolution  
Revenue Deficit Grants



3) Disaster  
Management Grants



5) Sector Specific:  
Other Sectors



6) Special Grants



अनुदान मतलब वो पैसा केंद्र  
ने राज्यों को दिया लेकिन वो  
कर्ज नहीं है। राज्य सरकार ने  
वह रकम केंद्र को वापस नहीं  
करनी है





Rural (₹2.3 Lcr)



Gram Panchayat  
Local Bodies Grants  
₹4.3 Lcr  
(2021-26)



Urban  
(₹1.2 Lcr)

Health Infra @local Bodies (₹70 Kcr)

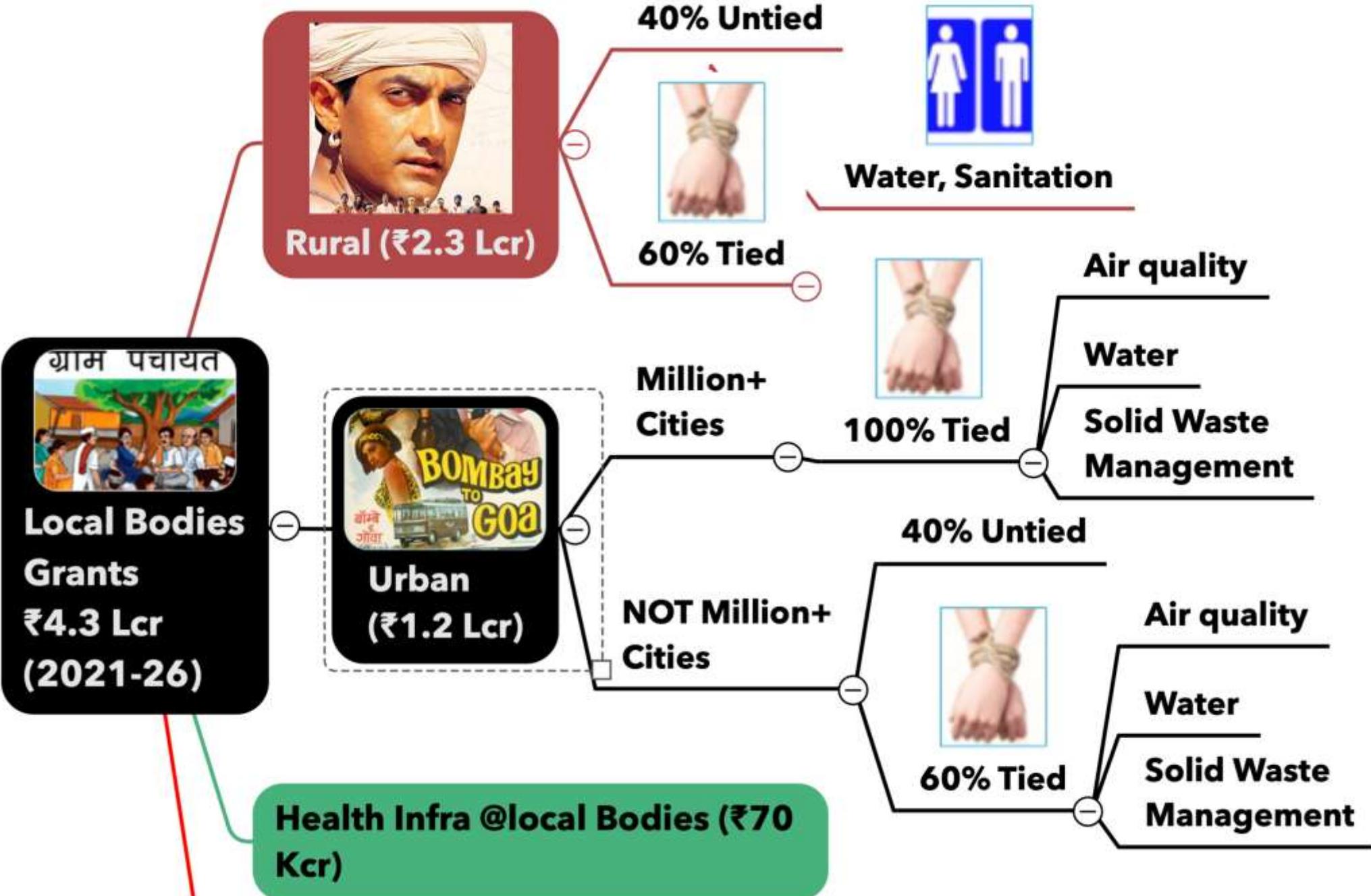
Conditions  
to get ₹



**Untied = use for other projects Except salary & Office establishment**  
=not for electricity bill, AC/TV, furniture...मे नही इस्तेमाल कर सकते



Tied= निर्दिष्ट →  
के सिंध इस खास मकसद के  
लिए ही ₹ ₹ खर्च करना है





**Local Bodies  
Grants  
₹4.3 Lcr  
(2021-26)**



**Urban  
(₹1.2 Lcr)**

**Health Infra @local Bodies (₹70 Kcr)**

**Conditions  
to get ₹**

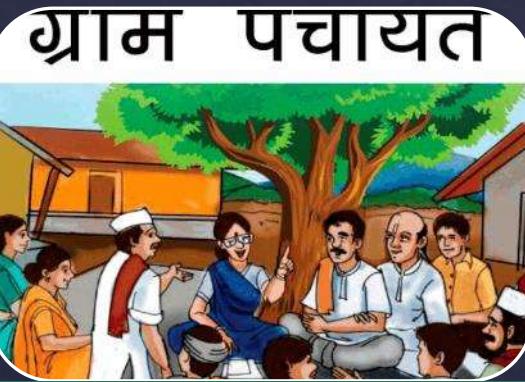
**Must upload audited accounts online**

**State govt must setup State finance  
commissions (SFC) → implement its  
report by 2024**

**ULB must start levying property tax.  
India- property tax collection is  
hardly 0.2% of GDP. USA: 3% of GDP**



# 15<sup>th</sup> FC: grant-in-aid (अनुदान)



1) Local Bodies Grants



2) Post-Devolution  
Revenue Deficit Grants



3) Disaster  
Management Grants



4) Sector Specific:  
Health



5) Sector Specific:  
Other Sectors

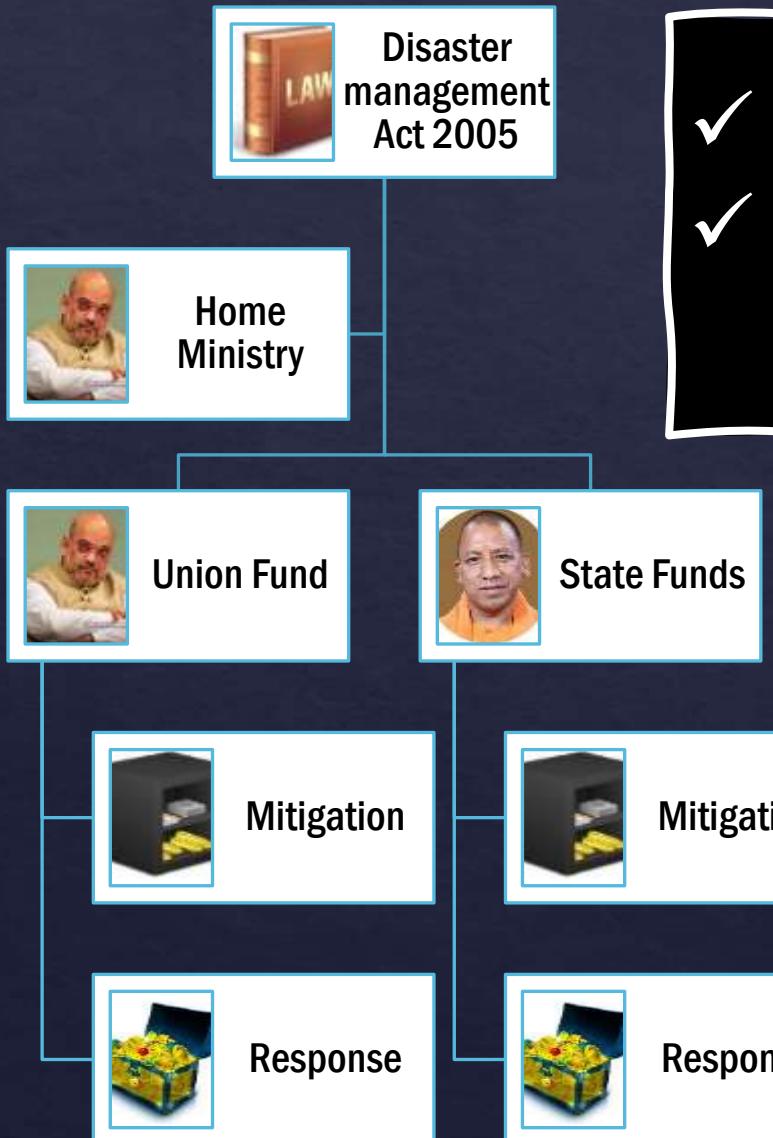


6) Special Grants



# 15th FC → Grants → Disaster management

## आपदा प्रबंधन के लिए अनुदान



- ✓ Suggested ₹₹ for all these funds.
- ✓ Details given in handout but don't loose sleep.



Precautions before disasters  
e.g. flood embankment  
आपदा से पहले ही नुकसान कम करने के  
लिए कदम

After disaster- rescue, relief  
ops- आपदा के बाद बचाव-राहत



# 15<sup>th</sup> FC: grant-in-aid (अनुदान)

ग्राम पंचायत



1) Local Bodies Grants



2) Post-Devolution  
Revenue Deficit Grants



3) Disaster  
Management Grants



4) Sector Specific:  
Health



5) Sector Specific:  
Other Sectors



6) Special Grants

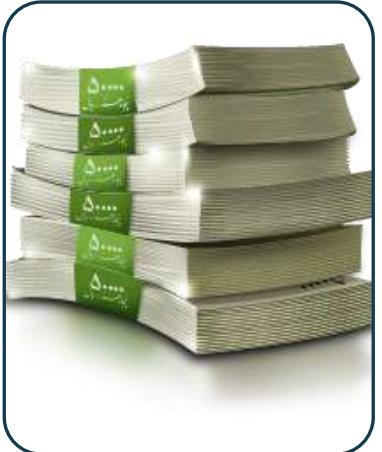


Read  
Polity →  
local bodies



# 15<sup>th</sup> FC: Grants → Sectoral → Health

अनुदान → क्षेत्र विशेष → स्वास्थ्य



>1 lakh crore ₹ given

- PHC upgrade, New hospitals, Training of doctors/allied healthcare workers.
- internal components given in handout but do not lose sleep. Some rough idea req.

यह लो स्वास्थ्य क्षेत्र  
के लिए ढेर सारा  
अनुदान



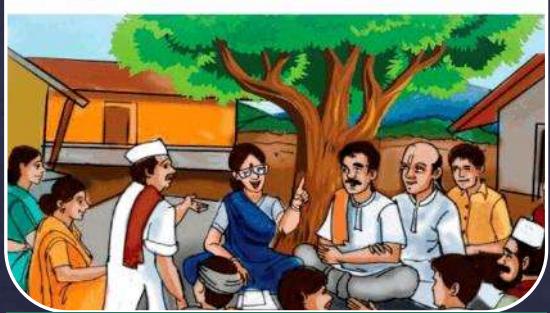
Addl recommendations

- similar to IAS/IPS, create new all India service:  
**"All India Medical and Health Service"**
- Union+State Health Expenditure: 2.5% of GDP By 2025 (More in Pillar#6)



# 15<sup>th</sup> FC: grant-in-aid (अनुदान)

ग्राम पचायत



1) Local Bodies Grants



2) Post-Devolution  
Revenue Deficit Grants



3) Disaster  
Management Grants



4) Sector Specific:  
Health



5) Sector Specific:  
Other Sectors



6) Special Grants



# 15<sup>th</sup> FC: Grants → Sectoral → Other

अनुदान → क्षेत्र विशेष → अन्य क्षेत्रों के विकास के लिए



## Health

- <seen in previous slide>



## Agriculture (More in Pillar4)



## Rural Roads (Pillar5)



## Judiciary (Pillar4B)

- State got more ₹₹ to setup more courts/judges



## Education

- E-learning
- Translating Medical/Engineering courses



## State specific

- grants for tourism, historical, monuments, infra etc

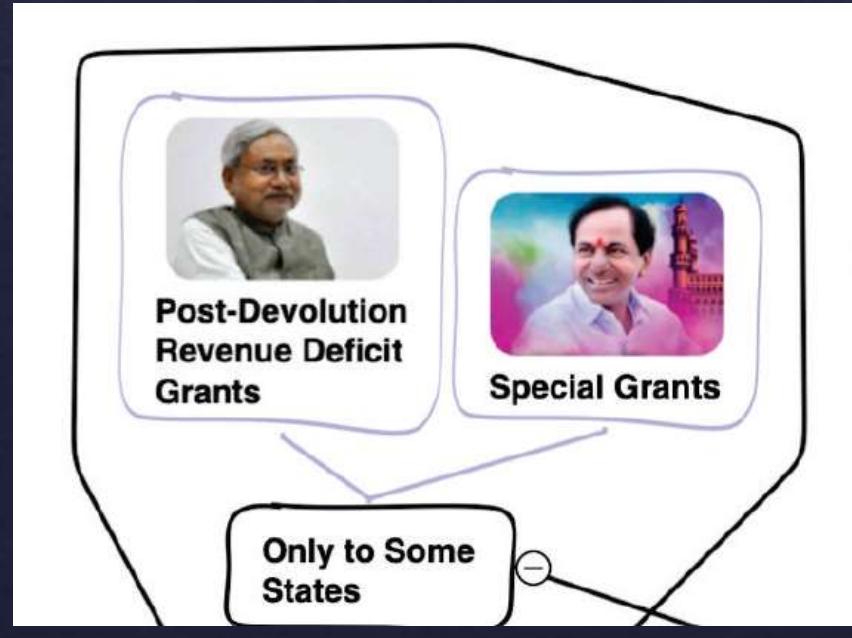
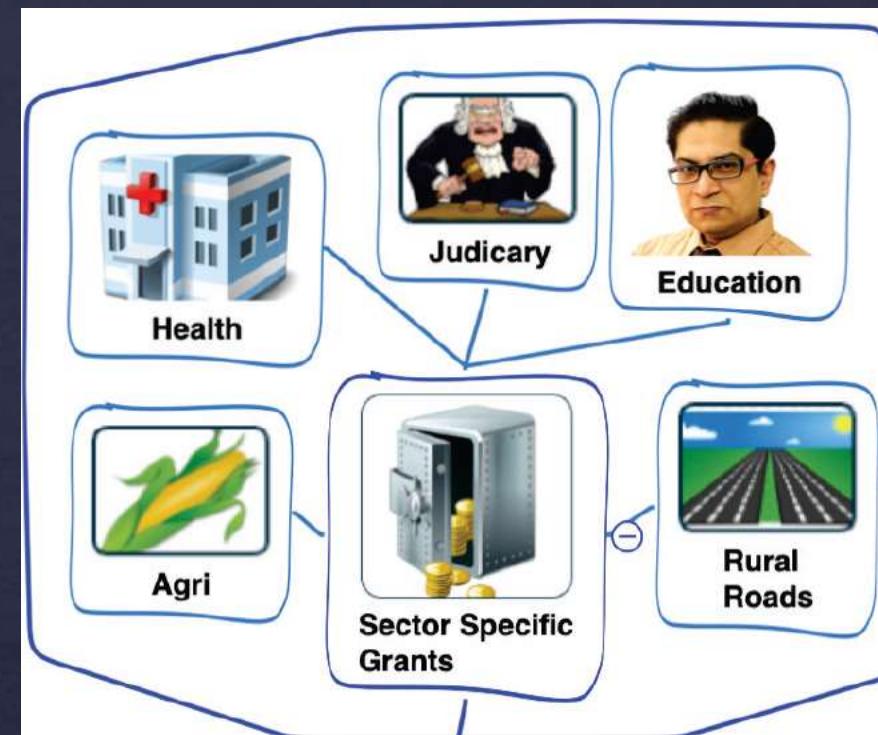
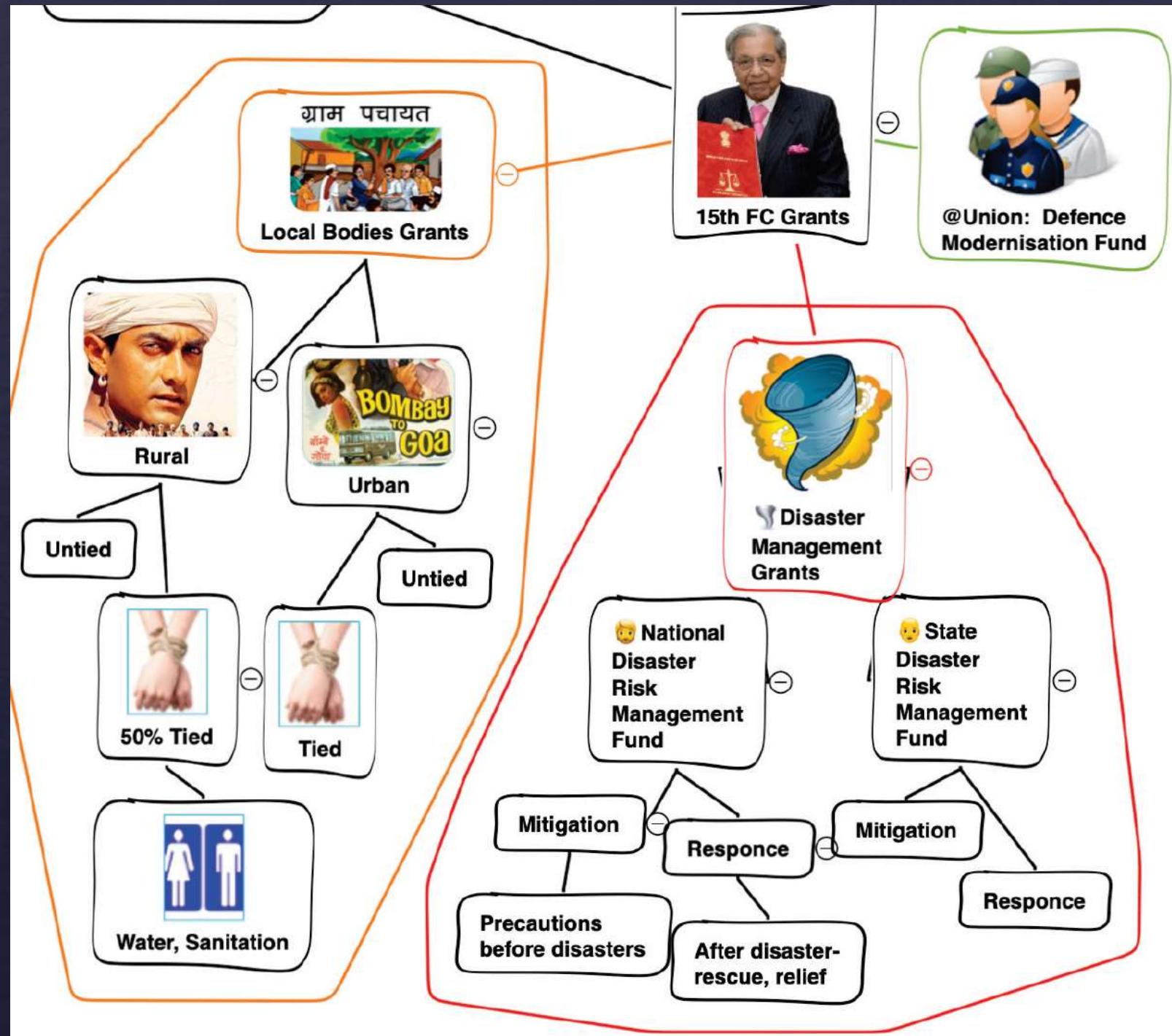
States will give grants for this... ++  
bonus based on Performance

(इन सभी अनुदान में कुछ अंदरूनी/आंतरिक कोटा होता है जिसमें अधिक अच्छा प्रदर्शन करने वाले राज्यों को अधिक रकम मिल सके)

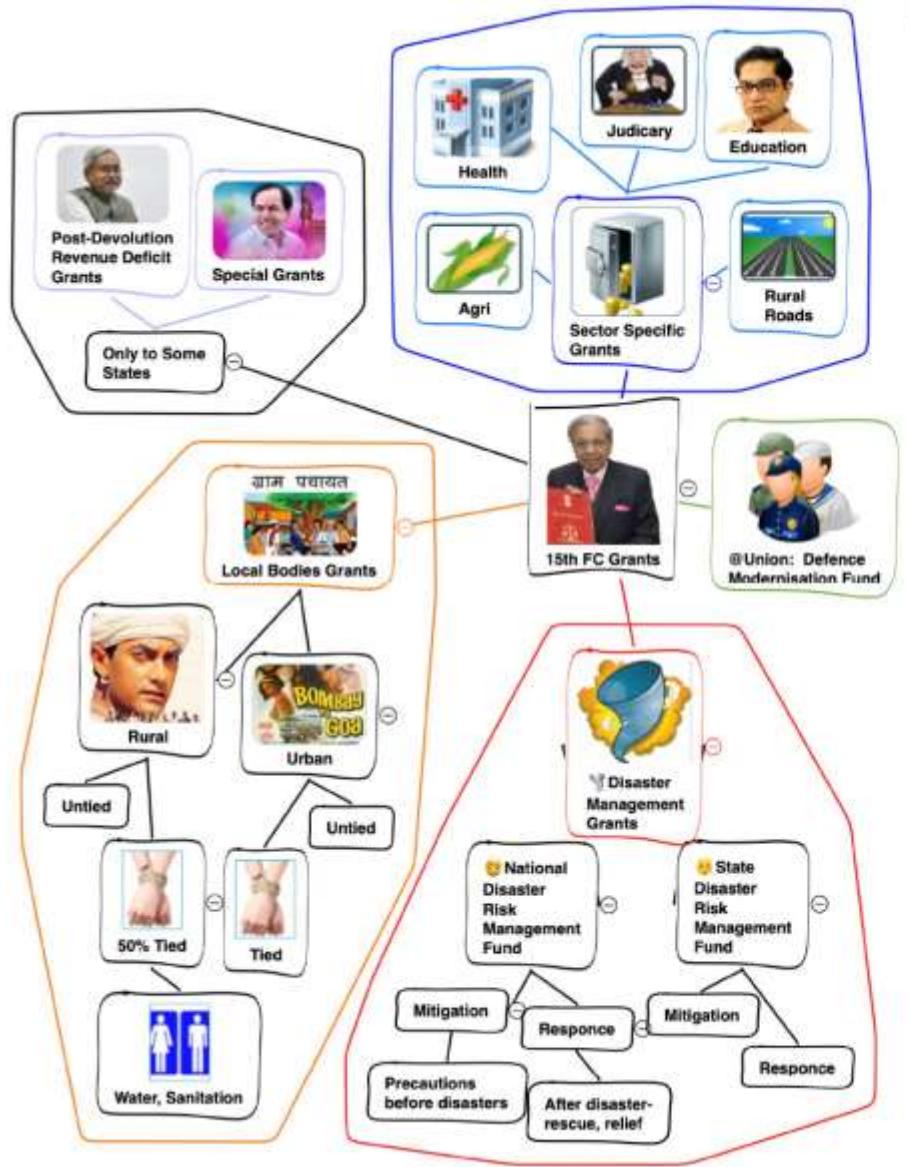
See, we are giving so much money!



It is our constitutional right.  
Not an Alm! हक है, खैरात नहीं दे रहा वित्त आयोग



# No need to lose too much sleep over the data. word Association required



Type	Report#2	Find
3)    Disaster Management Grants (आपदा प्रबंधन अनुदान)	A) 68 kcr in Union funds B) 1.22 Lcr in State funds	leads
4)   Sector Specific Grants: (सेक्टर-विशिष्ट अनुदान) with   Performance-based incentives (निष्यादन-आधारित प्रोत्साहन)	>1 lakh crore for Health, Education reforms, rural roads, Statistics, Aspirations	leads
6)   State specific grants for tourism, historical monuments, infrastructure, water etc.	49599 cr.	leads
7)   Special Grants: (विशेष अनुदान)		leads
8) Union Govt ke liye Defense and Internal Security		leads
Total		leads

23.4.5 Post-Devolution Revenue Deficit G.



# Just 1 Word Asso

Figure 1: द्वितीय अंतर्राष्ट्रीय, दूसरी राजसत्र योजना का नियन्त्रण का तहम्	
Suppose (amt in ₹cr)	2020-21
Andhra's own State Budget:	(-) 41 kcr
Revenue Expenditure -minus Revenue Income = Revenue Deficit (राजस्व घाटा)	
Andhra's share from Union's taxes based on horizontal devolution	(+) 35 kcr
Andhra's Post-Devolution Revenue Deficit =	41-35=6 kcr.

So 15th FC will give Andhra extra 6 kcr as Post-Devolution Revenue Deficit Grant (अंतरण-पश्च राजस्व धारा अनुदान). Only 14 states eligible: Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttarakhand, Andhra, Kerala, Punjab, Tamil Nadu, West Bengal.

► ⚙️ FAQ: On above logic/formula, wouldn't a careless state govt spend truckload of money by borrowing from market? Ans. REF: Pillar2D: FRBM Act.



# Defence and Internal Security Fund for Union: 2.38 Lcr

रक्षा तथा आंतरिक सुरक्षा के नवीनीकरण/आधुनिकीकरण के लिए



## For whom?

- Union Government (केंद्र सरकार के लिए)



## Where?

- Public Account of India → Modernisation Fund for Defence and Internal Security (MFDIS: लोक लेखा निधि के अंतर्गत रक्षा तथा आंतरिक सुरक्षा के नवीनीकरण/आधुनिकीकरण के लिए कोष या निधि).



Type: **Non-lapsable Fund** बिनव्यपगत निधि

- The money in such fund will not lapse on 31st March, so it can be used in future without getting another approval from parliament.
- 31 मार्च तक वाले पैसा खर्च ना किया हो तो भी मंत्रालय ने वापस संसद की अनुमति नहीं लेनी होगी

More in Pillar2D

रक्षा तथा आंतरिक सुरक्षा के नवीनीकरण/आधुनिकीकरण के लिए



## For whom?

- Union Government (केंद्र सरकार के लिए)



## Where?

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## Type: Non-lapsable Fund बिनव्यपगत निधि

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भी मंत्रालय ने वापस संसद की अनुमति नहीं लेनी होगी

[More in Pillar2D](#)

इसमें जो ढिडोरा पीट के उसने नहीं बोला  
वह तो हमने खुद से **google-search**  
नहीं करना है

If it is public account then  
automatically parliament  
permission not required. Then  
why keep it non-lapsable?

- FC Not bothered to tell it in their Press release.
- PubAD Optional → Financial Administration we are not preparing for GS

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Finance Commission

**The Report of the Fifteenth Finance Commission**

Posted On: 01 FEB 2021 10:09PM by PIB Delhi

The Fifteenth Finance Commission (XVFC)'s ToR was unique and wide ranging in many ways. The Commission was asked to recommend performance incentives for States in many areas like power sector, adoption of DBT, solid waste management etc.

Another unique ToR was to recommend funding mechanism for defence and internal security.

The XVFC's Report is organised in four volumes:

- Volume I and II, as in the past, contain the main report and the accompanying annexes.
- Volume III is devoted to the Union Government and examines key departments at greater depth, with the medium-term challenges and the roadmap ahead.
- Volume IV is entirely devoted to the States. We have analysed the finances of each State in great depth and have come up with State-specific considerations to address the key challenges that individual States face.
- In total, main report has 117 core recommendations. Vol-III and IV has numerous suggestion reforms for the Union ministries and State government respectively.

Vertical devolution:

- In order to maintain predictability and stability of resources, especially during the pandemic, XVFC has recommended maintaining the vertical devolution at 41 per cent – the same as in our report for 2020-21. It is at the same level of 42 per cent of the divisible pool as recommended by FC-XIV. However, it has made the required adjustment of about 1 per cent due to the changed status of the erstwhile State of Jammu and Kashmir into the new Union Territories of Ladakh and Jammu and Kashmir.
- In XVFC's estimation, gross tax revenue for 5-year period is expected to be 135.2 lakh crore. Out of that, Divisible pool (after deducting cesses and surcharges & cost of collection) is estimated to be 103.2 lakh crore.
- States' share at 41 per cent of divisible pool comes to 42.2 lakh crore for 2021-26 period.
- Including total grants of Rs. 10.33 lakh crore (details later) and tax devolution of Rs. 42.2 lakh crore, aggregate transfers to States is estimated to remain at around 59.9 per cent of the divisible pool during 2021-26 period.

Total XVFC transfers (devolution + grants) constitutes about 34 per cent of estimated Gross Revenue Receipts of the Union leaving adequate space for the Union to meet its resource requirements and spending obligations on national development priorities.

Sectoral devolution:

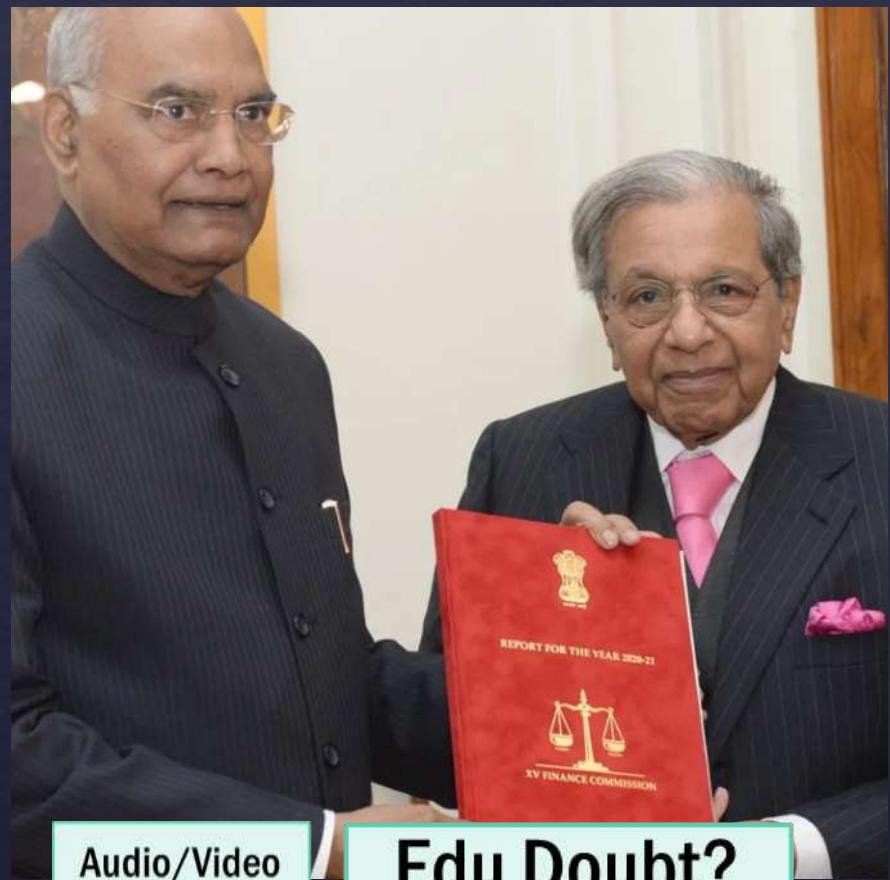
On the principle of need, equity and performance, overall devolution norms is as follows:

Criteria	Weight (%)
State	25.0
Area	15.0
Front & ecology	10.0
Income disparity	10.0
Tax & fiscal efforts	10.0

States to be fair to the poor and less developed states. The weightage to the poor and less developed states is 10.0%.



# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission terms of reference विचाराधीन विषय



Audio/Video Problem?

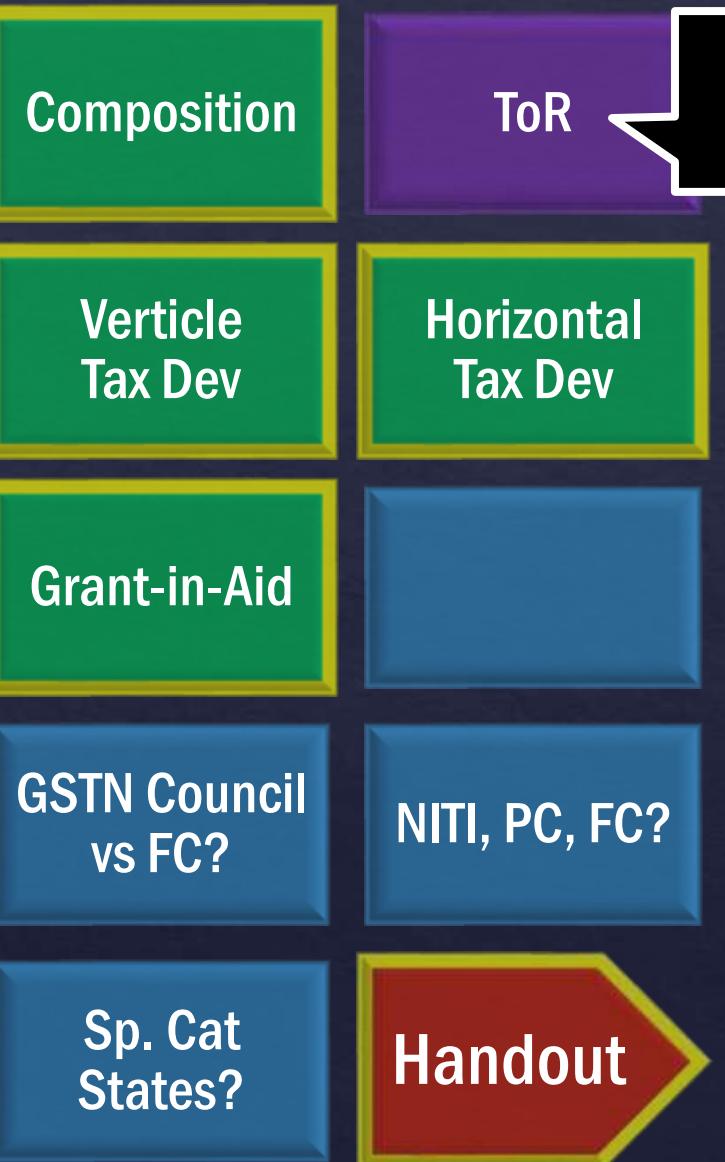


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Edu Doubt?  
Ask through

Google  
Forms



Now what's  
this?

; TOR: APPREHENSION OF THE STATES

राज्य आशकावाल क्यों हैं

India 2022

! vision in mind (wherein Modi government aims using for all, achieve 175GW of renewable

ENERGY SUFF.

⇒ 15th FC also required to keep in mind Union's additional burden regarding Defence, Internal Security, Infrastructure, Railways, Climate Change, commitments towards administration of UTs without legislature etc.

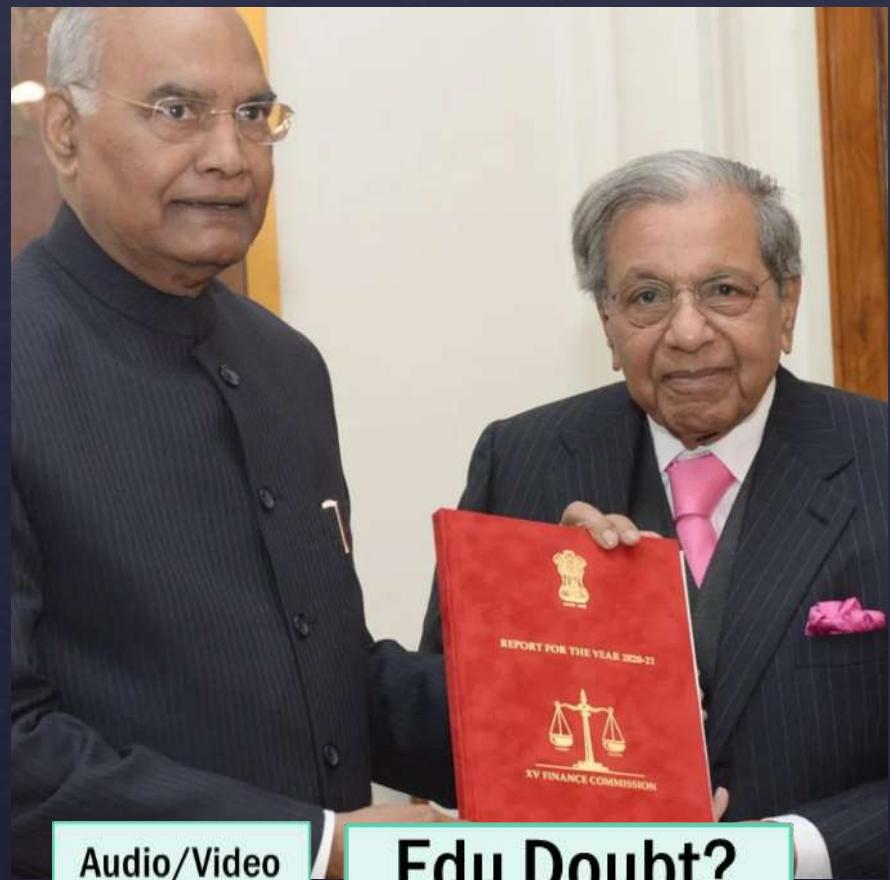
⇒ So, TOR indirectly implying that 15th FC should give less than 42% to state governments because union government needs more ₹₹ for aforementioned activities. So, Non-BJP states are angry- "Tax devolution is our constitutional right". (केंद्र के काम में हिस्सा हमारा संवेदनानिक विविकार है)

### 23.3.2 States fear#2: Performance based incentives (प्रदर्शन आधारित प्रोत्साहन)

15th FC asked to recommend performance-based incentives based on (list not exhaustive)

Performance parameter	Why states apprehensive?
State's Efforts in expansion of tax-net कर-जात का विस्तार बढ़ाना	► Manipur can't do as much as Maharashtra in deepening the GST tax net, owing to the variety of economic, geographic and political factors (frequent bandh and blockades). ► Secondly, Constitution provides for a separate GST council with representatives of state governments. FC doesn't have state representatives.
State's Efforts in population control जन्मावधी नियंत्रण	Gangetic plain states' total fertility rate higher, so they're apprehensive that Kerala & other Southern States will get more money. <More about TFR in Pill#6>
State's efforts in controlling the expenditure on populist schemes/measures (लोकसुभावन चोकनाएं)	Southern states have been running populist schemes for free TV, Fridge, Mixer, Idli at ₹ 1 etc. Similarly Northern states run schemes for farm-loan waiver, free bicycle, mobile & laptop schemes. They fear they'll be reviewed negatively, and union will get to keep more ₹₹ for itself.
State's Efforts in controlling power sector losses (कर्ज़ों / वित्तनी)	Electricity theft is a rampant problem in certain Gangetic states but their ruling parties turn blind eye because of electoral populism of farmers and villagers. Now they are apprehensive of getting less money.
Behavioral changes to end open defecation. (मुकुल में शौच जाने के बताति में मुश्वर)	► States resent that Modi's Swatchh Bharat Mission is 'imposed upon them'. ► FC devolution is their Constitutional right, and not an alim (ऐरात) tied to their implementation of central schemes.

# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission terms of reference विचाराधीन विषय



Audio/Video Problem?

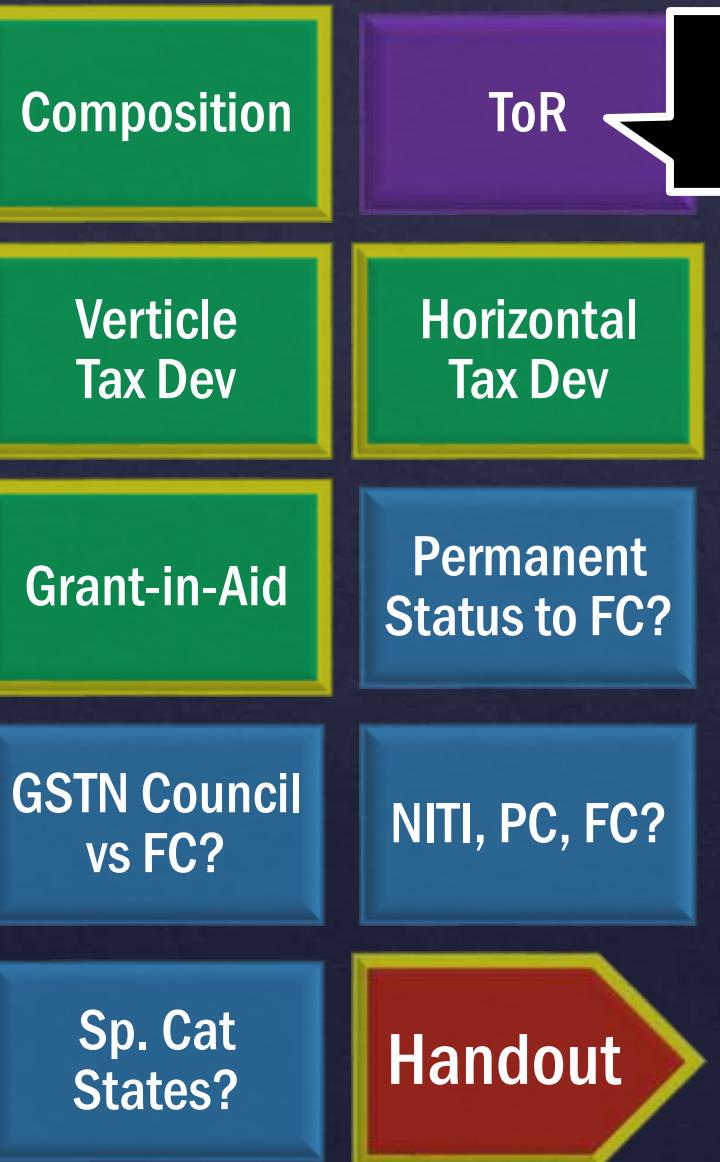


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**ToR: APPREHENSION OF THE STATES**  
राज्य आशकावाल क्यों हैं  
**India 2022**  
vision in mind (wherein Modi government aims using for all, achieve 175GW of renewable)

- ⇒ 15th FC also required to keep in mind Union's additional burden regarding Defence, Internal Security, Infrastructure, Railways, Climate Change, commitments towards administration of UTs without legislature etc.
- ⇒ So, TOR indirectly implying that 15th FC should give less than 42% to state governments because union government needs more ₹₹ for aforementioned activities. So, Non-BJP states are angry- "Tax devolution is our constitutional right". (केंद्र के कर में हिस्सा हमारा संवेदनानिक अधिकार है)

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State's Efforts in population control जन्मावधी नियंत्रण	Gangetic plain states' total fertility rate higher, so they're apprehensive that Kerala & other Southern States will get more money. <More about TFR in Pill#6>
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Behavioral changes to end open defecation. (मुकुल में शौच जाने के बताति में मुश्वर)	<ul style="list-style-type: none"> <li>► States resent that Modi's Swatchh Bharat Mission is 'imposed upon them'.</li> <li>► FC devolution is their Constitutional right, and not an alim (ऐरात) tied to their implementation of central schemes.</li> </ul>

# Finance Commission → Terms of Reference (TOR: विचारार्थ विषय)?

भैया, मेरे लिए तीखी वाली बनाना  
make spicy pani puri for me



भैया, मेरे लिए मीठी वाली बनाना  
make sweet Panipuri for me



- I'll give you a list of
- Directions and topics
- You make report accordingly. ok?
- मैं कहुं, उस स्वाद वाली पानी पुरी आपने बनानी है

# 15th FC Terms of Reference (TOR: विचारार्थ विषय) & why States were unhappy



## Use Census-2011 (instead of Census 1971)

- Southern states were apprehensive 😟
- We'll get less than UP, Bihar who have higher population.



## keep New India 2022 vision in mind

- i.e. Modi's Swatch Bharat, Smart city etc 😟
- = give more funds to Union side / TIED GRANTS
- States angry this is not given in Constitution!!

मैं कहुं, उस स्वाद  
वाली पानी पुरी आपने  
बनानी है 😟

Ok sir



## keep Union's Defense & internal security responsibilities in mind

- In other words, give more towards Union side. 😟
- Yes, done: 42% → 41% saying J&K security
- Yes: Modernisation Fund for Defence and Internal Security



हमें यह स्वाद  
पसंद नहीं  
है 😟

# 15th FC Terms of Reference (TOR: विचारार्थ विषय) & why States were unhappy



## Suggest performance-based incentives

- e.g. if state controlling electricity theft, stopping populist schemes like Amma-idli @Rs1.
- 😞 States: this is not 'Alm' (खेरात). It's our Constitutional right. Why you talk about performance?



मैं कहुँ, उस स्वाद  
वाली पानी पुरी  
आपने बनानी है

Ok sir

अच्छा प्रदर्शन करने वाले राज्यों को अतिरिक्त पैसा दिया जाएगा  
लेकिन संविधान में ऐसी कोई बात नहीं है वित्त आयोग से पैसा मिलना  
उनका अधिकार है यह कोई खेरात नहीं



हमें यह स्वाद  
पसंद नहीं है

# Terms of reference...



You give me report  
based on these  
directives, ok?

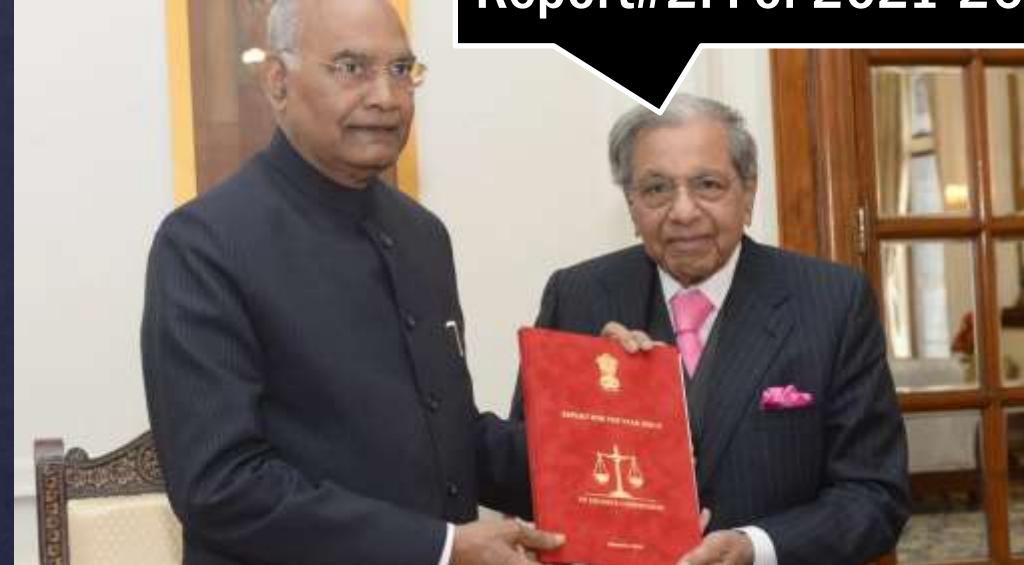
(2017)



These ToR are such that

1. Injustice to south state
2. More ₹₹ for Modi.

Continuously writing 2017,18,19,20...



Here's my  
Report#1: For 2020-21  
Report#2: For 2021-26

- ❖ UPSC has not yet asked any Mains Question from 15<sup>th</sup> FC
- ❖ Even though it has been in news since 2017.
- ❖ So, basic idea required about why states were worried about its ToR.
- ❖ Because grander topic of “Union-State cooperative Federalism” these are the areas of bitterness.
- ❖ Read handout pages peacefully.
- ❖ Beyond that, what did 15<sup>th</sup> FC suggest for each ToR point = PHD USELESS.



# UNACADEMY ALL INDIA PRELIMS MOCK TEST

Now take the Test

March 26, 2023

Online      Offline\*

GS Paper - 9:30 AM  
CSAT - 12:30 PM

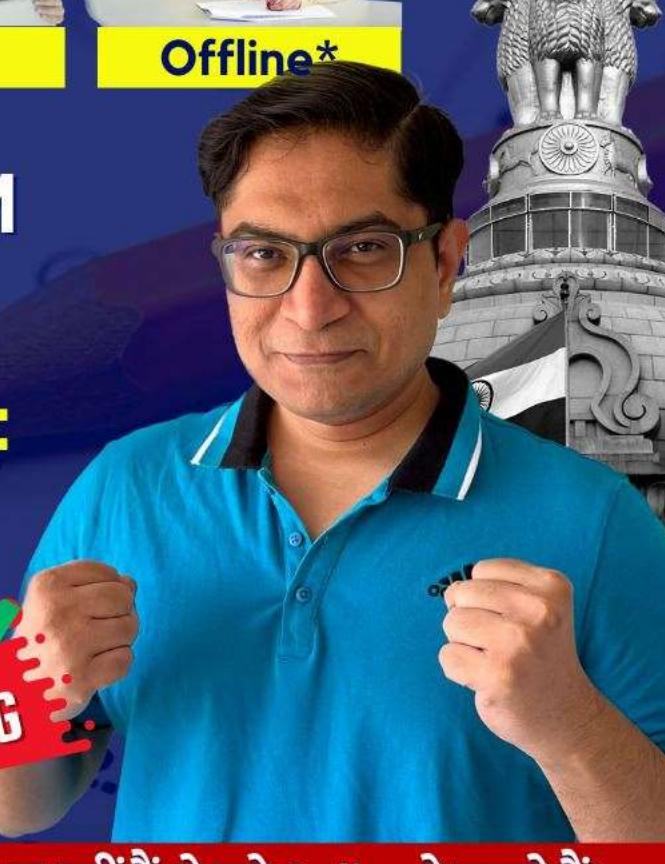
OFFLINE TEST CENTERS:

Delhi | Jaipur | Prayagraj  
Patna | Pune

Enroll For Free

Use code  
**MRUNAL.ORG**

\*Note: जो विद्यार्थी Offline परीक्षा देने में सक्षम नहीं हैं, वे इसे Online दे सकते हैं।



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For those who've  
completed syllabus and  
targeting  
2023 Prelims

Audio/Video  
Problem?



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Edu Doubt?  
Ask through

Google  
Forms



15<sup>th</sup> Finance Commission assigned different weight to the following parameters for distribution of tax proceeds to the States :

- 1) Income distance (%)
- 2) Population (%)
- 3) Demographic Performance(%)
- 4) Forest (%)

Arrange the aforesaid parameters in increasing order of weights

- A) 1-2-3-4
- B) 4-2-3-1
- C) 1-3-2-4
- D) 4-3-2-1
- E) SKIP



बढ़ते वजन के हिसाब  
से क्रम में रखिए

100% Surety

50:50

E) Skip

15<sup>th</sup> Finance Commission assigned different weight to the following parameters for distribution of tax proceeds to the States :

- 1) Income distance (%)
- 2) Population (%)
- 3) Demographic Performance(%)
- 4) Forest (%)

Arrange the aforesaid parameters in increasing order of weights

- A) 1-2-3-4
- B) 4-2-3-1
- C) 1-3-2-4
- D) 4-3-2-1



धिक्कार है!

We know that income distance given highest weight (45%) so right option must have pattern \*-\*-\* -1

So anyone ticking A or C= Dhikkar hai  
की रिवीजन क्यों नहीं किया?

100% Surety

50:50

E) Skip

I  
Atte



15<sup>th</sup> Finance Commission assigned different weight to the following parameters for distribution of tax proceeds to the States :

1) Income distance (45%)

2) Population (15%)

3) Demographic Performance(12.5%)

4) Forest (10%)

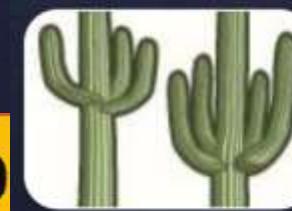
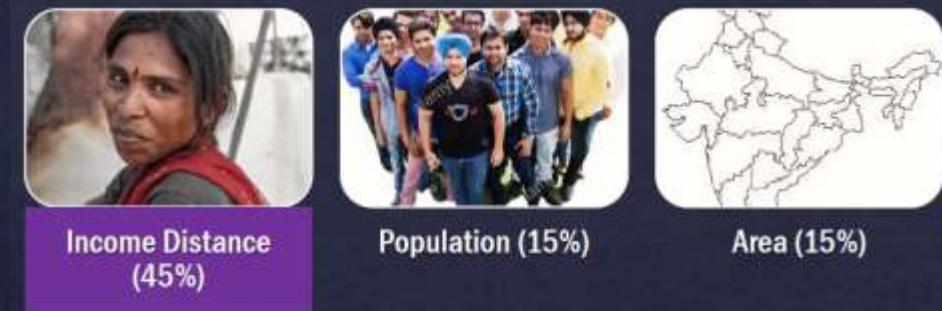
Arrange the aforesaid parameters in **Increasing** order of weights

A) 1-2-3-4

B) 4-2-3-1

C) 1-3-2-4

D) 4-3-2-1



50

Forest & Ecology  
(10)



Demographic  
performance (12.5%)

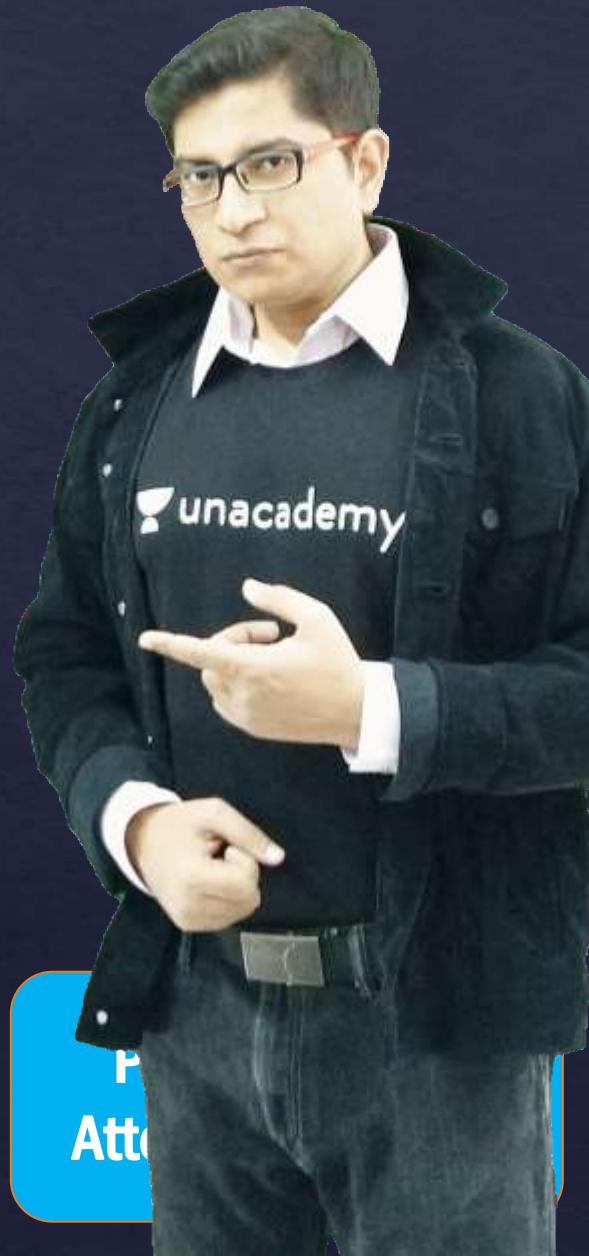


Tax Effort (2.5%)

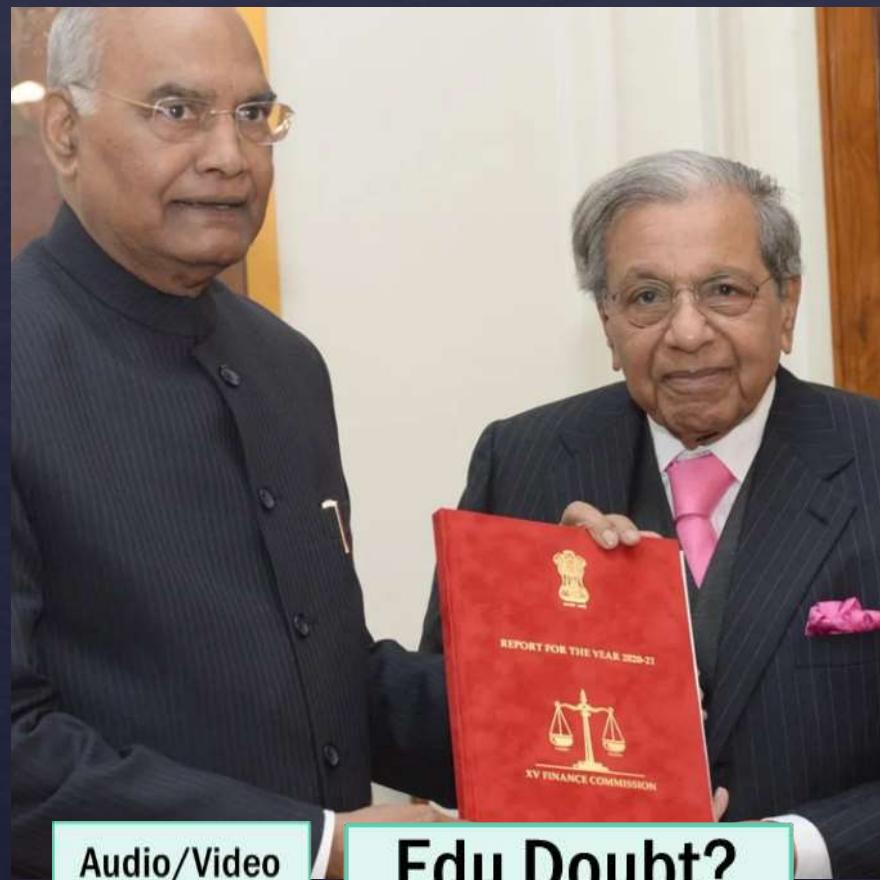
100% Surety



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# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



Audio/Video  
Problem?

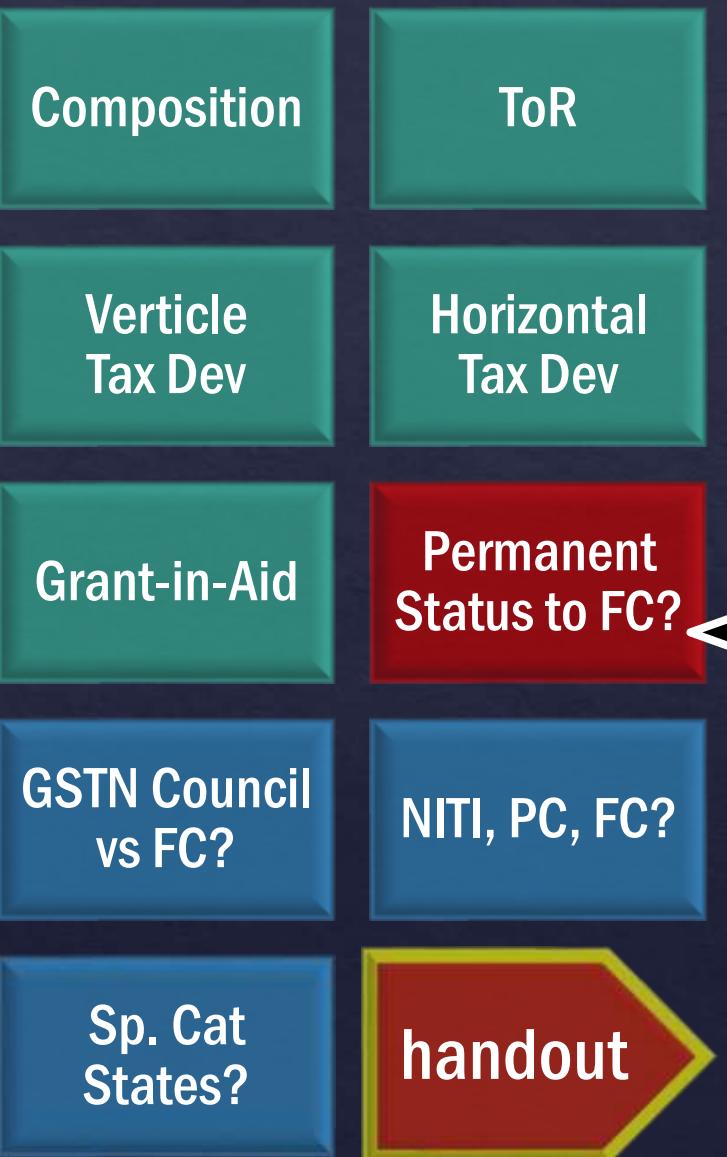


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Edu Doubt?  
Ask through

Google  
Forms



- 23.7.1 Arguments against giving permanent status to FC
- Indian economy and Indian union has functioned successfully for over 70 years with this mechanism, so there is no need for such constitutional amendments and experimentations. वर्तमान जनव्यापा योग्यत्व से चल रही है, नए संवेदनानिक प्रयोगों की कोई ज़रूरत नहीं।
  - We already have a NITI Aayog acting as a permanent think-tank on all the matters related to economy and governance.
  - We already have a GST Council where states & union can deliberate on issues related to indirect taxes. If there is an economic crisis they can finetune the GST formula and GST-distribution to address it.
  - Both NITI Aayog and GST Council provide a platform for cooperative federalism (सहकारी संघरण) to work in favor of the nation.

- 23.7.2 Elaborate on the following:

- to  
✓ If  
be  
th

- ✓ Such permanent body can keep a constant vigil (अविरत संवेदना) on the Union and State finances & revenue collections and hold them accountable for any transgressions or lethargy (उल्लंघन / सुस्पी). [Present approach of the union governments is if they are not getting enough taxes, they will simply borrow more money and changing the FRBM targets/goalposts as per their convenience. More under FRBM handout]
- ✓ Previously, Union and States designed their five-year plans, and so it made sense to have a 'five-year formula for tax distribution'. But now the five-year planning system has been discontinued. पंचवर्षीय योजनाओं का दौर बद्दल हो चुका है।

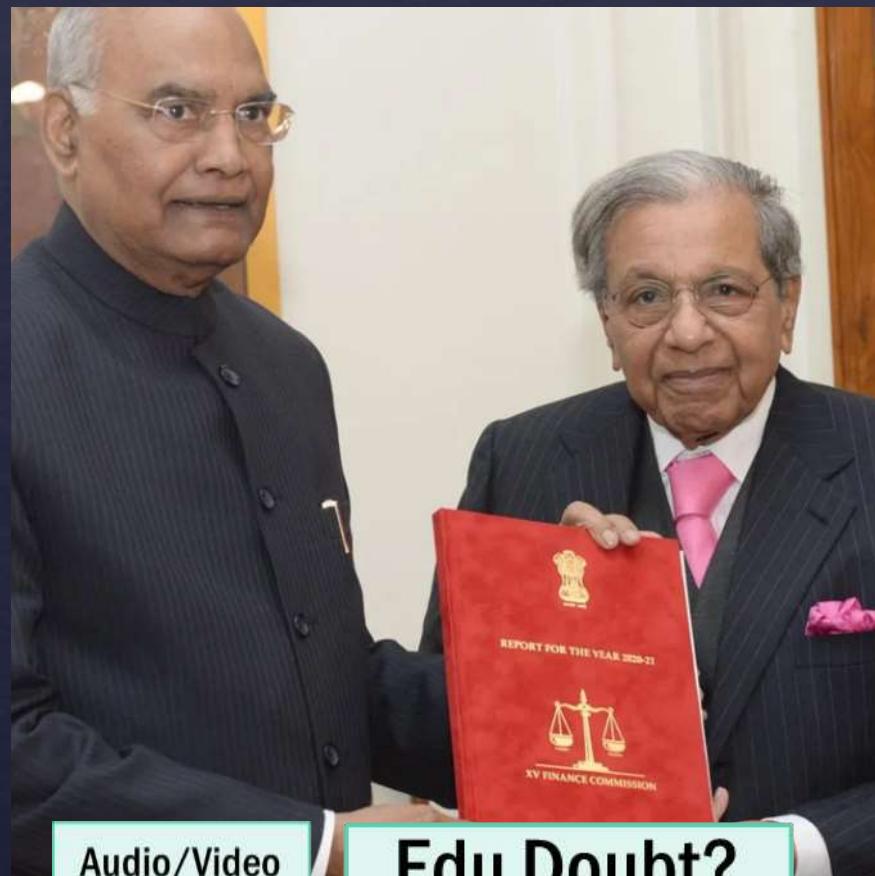
- 23.7.3 Conclusion: give permanent status to FC or not?

- ⇒ (In-favor) Considering the aforementioned benefits, Finance Commission should be given a permanent status for better monitoring, accountability, grievance redressal in the matters related to fiscal federalism. (राजकारीय संघवाद के मामनों में बेहतर नियमानी, जवाबदेही और सिकायत निवारण के लिए विचारान्वय को स्थापी दर्दी देना जापकारक होगा.)

Topic  
shifted to  
Mains



# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



Audio/Video  
Problem?



CTRL

Edu Doubt?  
Ask through

Google  
Forms



R



## 23.8 FC vs PC vs NITI: WHAT'S THE DIFFERENCE?



Finance Commission (FC)	Planning Commission (PC) योजना आयोग	NITI Aayog National Institution for Transforming India
Constitutional body	Created by executive resolution, so neither constitutional nor statutory. Both headed by Prime Minister as the chairman.	1951: PC set up and over the years designed 12 Five Year plans (12th FYP: 2012-2017) 2014: Dissolved by Modi Government.
1951: 1st FC setup under KC Neogy	- Taxes' Vertical Devolution and horizontal distribution among states. + any other matters referred by the President in TOR	- 2015: Formed. Three Year Action Agenda (2017-20). Seven Year Strategy Document. Fifteen Year Vision Document(2017-32).
GSTN Council vs FC?	- Each Finance Commission arrived at its own methodology. E.g. 14th FC: 42% vertical, and 5 factor formula for horizontal distribution.  To answer these Qs, PC would use Gadgil Mulherjee formula (designed in 8TH FYP)- based on population, per capita income, special problems etc. of a state.	1. How much money should union give to each state for implementation of Union's centrally sponsored schemes (CSS)? 2. How much money should union government give to the five year plans of the state governments?  It is not in its scope of work to decide how much money should be given to each state. That component is decided by the Finance Ministry.  - NITI's primary objective is to serve as the think tank of the Government of India, - Helps in policy design. - Helps in monitoring schemes' through its dashboard e.g. 'School Education Quality Index', 'SDG India Index', 'Digital Transformation Index'
Sp. Cat States?	HDT 321+	

< More about Planning Commission and NITI Aayog in Pillar#4>

Q69. In India, which of the following review(s) the independent regulators in sectors like telecommunications, insurance, electricity etc. ?

1. Ad Hoc Committees set up by the Parliament.
2. Parliamentary Department Related Standing Committees
3. Finance Commission
4. Financial Sector Legislative Reforms Commission
5. NITI Aayog

# FC vs PC vs NITI: What's the Difference?

## Finance Commission (FC)

Constitutional body



## Planning Commission (PC)

Created by executive resolution, so neither constitutional nor statutory. Both headed by Prime Minister as the chairman.



## NITI Aayog

NITI AAYOG

NITI VC

Suman Bery

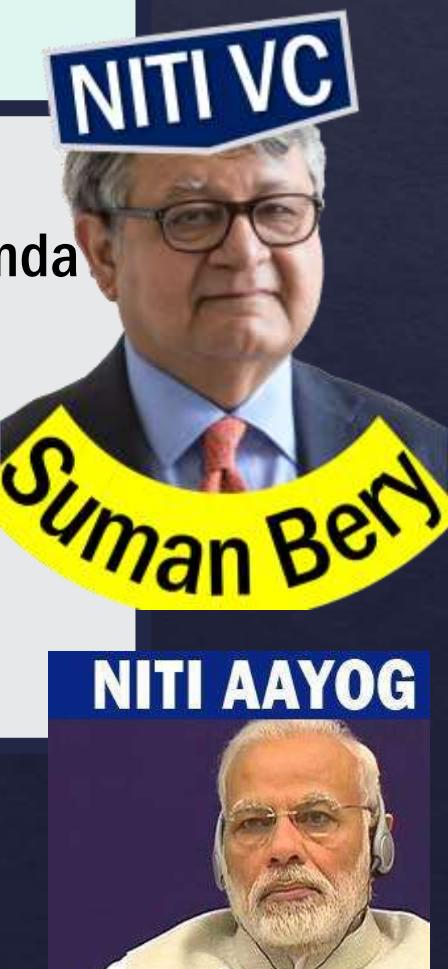
More about them in  
Pillar4 with GDP

# FC vs PC vs NITI: What's the Difference?

Finance Commission (FC)	Planning Commission (PC)	NITI Aayog
Constitutional body	Created by executive resolution, so neither constitutional nor statutory. Both headed by Prime Minister as the chairman.	
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योजना आयोग बनाया था  
पंचवर्षीय योजनाओं के लिए



# 15<sup>th</sup> FC (वर्तमान समय में)



States  
41%

राज्यों को यह तो  
मिलेगा ही मिलेगा  
इसके अतिरिक्त  
भी पैसा मिलेगा



Union  
59%

Tax  
Devolution



Additionally  
union will give ₹ from its ₹59

Grants (अनुदान)  
(means it is not  
loans. State need not  
be return ₹₹ back)  
• as per 15<sup>th</sup> FC



राज्य को  
अनुदान में  
कितना पैसा  
देना है हम  
तय करेंगे

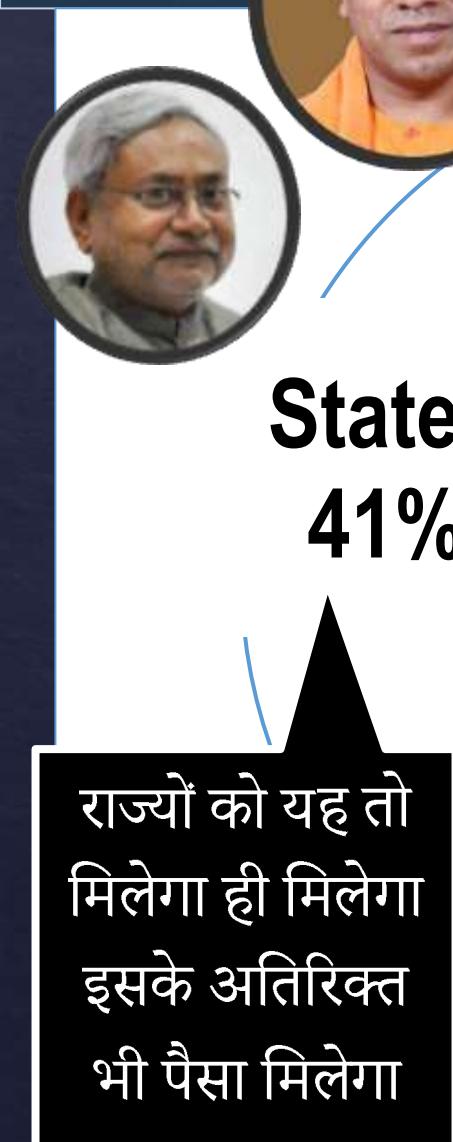
Centrally Sponsored  
Schemes (CSS)

- As per FinMin
- e.g. PM-JAY
- FASAL Bima



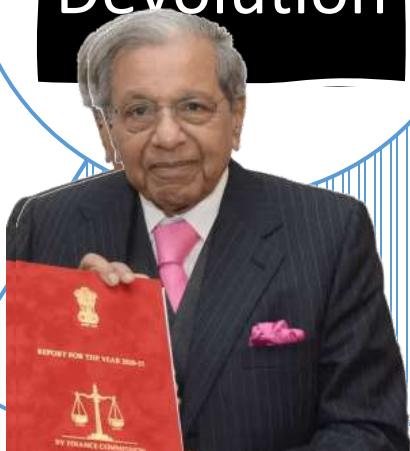
केन्द्र द्वारा प्रयोजित  
योजनाओं के लिए  
कितना पैसा देना है वो  
वित्त मंत्रालय तय करें

# Previously (पहले के / काँग्रेस के जमाने में)



Union  
59%

Tax  
Devolution



States  
41%

Additionally  
union will give ₹ from its ₹59

Grants (अनुदान)  
(means it is not  
loans. State need not  
be return ₹₹ back)  
• as per 15<sup>th</sup> FC



राज्य को  
अनुदान में  
कितना पैसा  
देना है हम  
तय करेंगे

Centrally Sponsored  
Schemes (CSS)

- As per Planning Commission
- e.g. PM-JAY
- FASAL Bima



केन्द्र द्वारा प्रयोजित  
योजनाओं के लिए कितना  
पैसा देना है वो योजना  
आयोग तय करता था

# Planning Commission (PC): योजना आयोग

1. How much ₹ should union give to each state for implementation of centrally sponsored schemes (CSS)?  
केंद्र की द्वारा प्रायोजित योजनाओं में राज्यों को कितना पैसा देना है
2. How much money should union give to the five year plans of the state governments? केंद्र ने राज्य सरकार की खुद की पंचवर्षीय योजनाओं में कितना पैसा देना है?

Planning Commission



Gadgil Mukherjee formula

To answer these Qs, PC would use Gadgil Mukherjee formula (designed in 8TH FYP)- based on population, per capita income, special problems etc. of a state. ये सब योजना आयोग तय करता था जिसके लिए गद्गिल मुखर्जी फॉर्मूला का इस्तेमाल करता था

How much ₹₹ to give  
for schemes & FYP



# National Institution for Transforming India (NITI)

योजना आयोग को बंद कर-> मोदी सरकार ने नीति आयोग बनाया है

◆ Doesn't decide money allocation.(FinMin) decides

◆ NITI's primary objective is to serve as the think tank of the Government of India,

◆ Helps in policy design.

◆ Helps in monitoring schemes' implementation through its dashboard e.g. योजनाओं की निगरानी करता है

◆ 'School Education Quality Index (SEQI)',

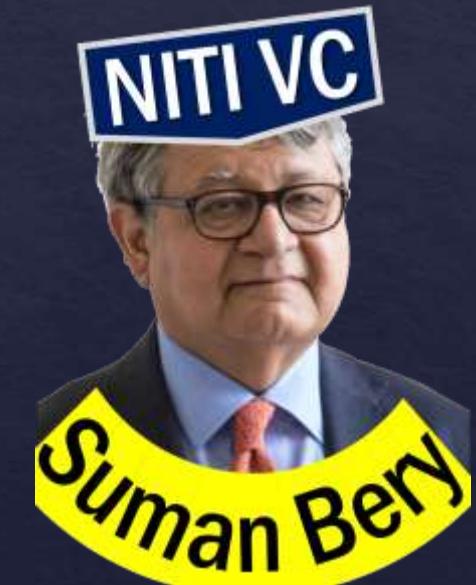
◆ 'SDG India Index'

◆ 'Digital Transformation Index' (DTI) etc

NITI AAYOG MEET



NITI VC



Suman Bery

# Special category states? विशेष श्रेणी के राज्य?

- ◆ 1952: The National Development Council with PM, CMs to approve Five year plans. But obscure after NITI Aayog.
- ◆ 1969: 5<sup>th</sup> FC recommended giving extra funds and tax-relief to certain disadvantaged states.
- ◆ Over the years, NDC added more states into the Special Category List.

योजना आयोग के ऊपर भी एक संस्था थी राष्ट्रीय विकास आयोग जोकि कुछ पिछड़े राज्यों को विशेष श्रेणी के राज्य की सूची में स्थान देती थी

NDC  
राष्ट्रीय विकास आयोग



Planning Commission  
योजना आयोग के ऊपर

Started in '69 (5<sup>th</sup> FC) : Special category states? 8+3=11

आपकी राज्य को “विशेष श्रेणी का राज्य” बनने पर क्या लाभ मिलता है?

1. If Industrialists set factories in these states, they'll be given benefit in Union Taxes.

2. In Centrally Sponsored Schemes, Union will bear higher burden (e.g. 90:10).

3. FC & PC would assign more weightage in their formulas to give'em more ₹₹.

### 8 North East

- Arunachal Pradesh
- Assam
- Manipur
- Meghalaya
- Mizoram
- Nagaland
- Sikkim
- Tripura

### 3 Himalayan States

- Uttarakhand
- Himachal Pradesh
- ~~Jammu and Kashmir~~

Post 370-Removal  
it became Union Territory



# How to become Special Category State?

मुझे अपने राज्य को विशेष श्रेणी का राज्य बनवाना हो तो कौन सी शर्तों का पालन करना होगा?

- ❖ Low population density/sizeable share of tribal population {NE: professional tax, SGST income ▼};
- ❖ Non-viable state finances. (e.g.
  - ❖ J&K because terrorism: tourism ▼,
  - ❖ Manipur “blockade”: factory ▼)
- ❖ Economic and infrastructural backwardness.
- ❖ Hilly and difficult terrain.
- ❖ Strategic location along international borders  
<Arunanchal, J&K etc>

8 North East

- Arunachal Pradesh
- Assam
- Manipur
- Meghalaya
- Mizoram
- Nagaland
- Sikkim
- Tripura

3 Himalayan States

- Uttarakhand
- Himachal Pradesh
- ~~Jammu and Kashmir~~

# Sp.Cat states got truckload of money from previous FCs and PCs

## YET no tangible progress in improving public administration or removing poverty

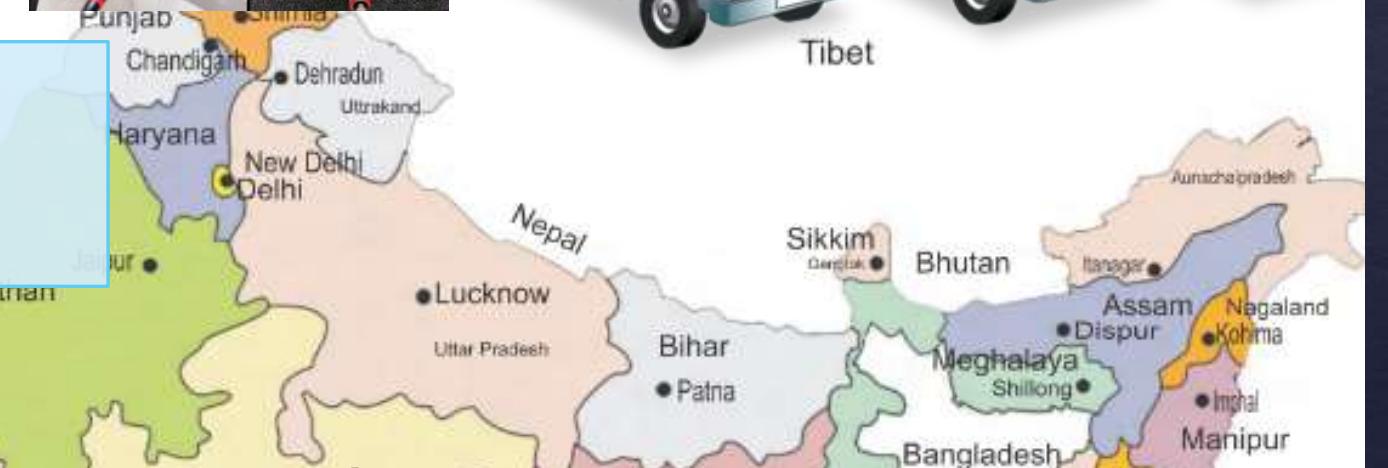
### ㈠ Aid Curse- अनुदान बना अभिशाप

- States getting lot of funding from Union → corruption , mismanagement



### ㈡ Resource Curse- खनीज संपत्ति बनी अभिशाप

- States having abundant mineral resources → Corruption, Mining Mafia, Naxalites



केंद्र सरकार से ट्रक भर भर कर पैसा मिला तो इनकी राज्य सरकारोंने आलसीपन और भ्रष्टाचार में कुछ काम ही नहीं किया.  
㈢ न गरीबी कम हुई. ㈣ न लोक प्रशासन बेहतर हुआ

# Sp.Cat states got truckload of money from previous FCs and PCs

- 14th FC: we've stopped giving any additional weightage to Sp. Cat.

States in our tax distribution formulas. वित्त आयोग ने उन्हें अगल से ज्यादा पैसा देना बंद किया

- 15th FC: no weightage
- Although Union can continue giving them benefits like 90:10 in CSS etc. as per its own discretion.

कितु केंद्र सरकार चाहे तो अपनी योजनाओं में ज्यादा पैसा दे सकती है



- The term “Sp. Cat. State” is not OUTLAWED.
- Usually demands of Sp.Cat status before election to show Modi is anti-Bihar, anti-Bengal...

# Economic Survey 2018: States,PRI/ULB= poor fiscal capacity

राज्य सरकार और स्थानीय इकाइयों की वित्तीय क्षमता कम है

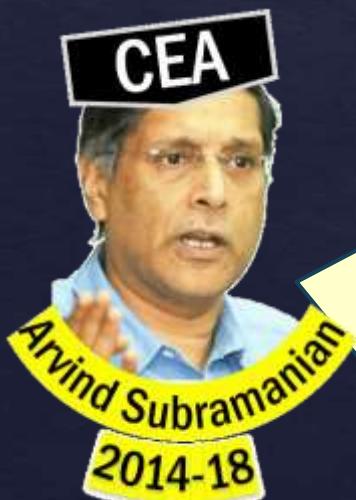
- 1) compared to Brazil, Germany and other countries with federal polity,
- 2) India's state govts and local bodies are collecting less amount of tax...because



- (3) constitution not gave'em sufficient taxation powers संविधान ने ही उनको सत्ता नहीं दी है
- (4) Shy of collecting Agricultural Income Tax, Land Revenue, Property Tax due to vote bank politics.

# Economic Survey 2018: States, PRI/ULB= poor fiscal capacity

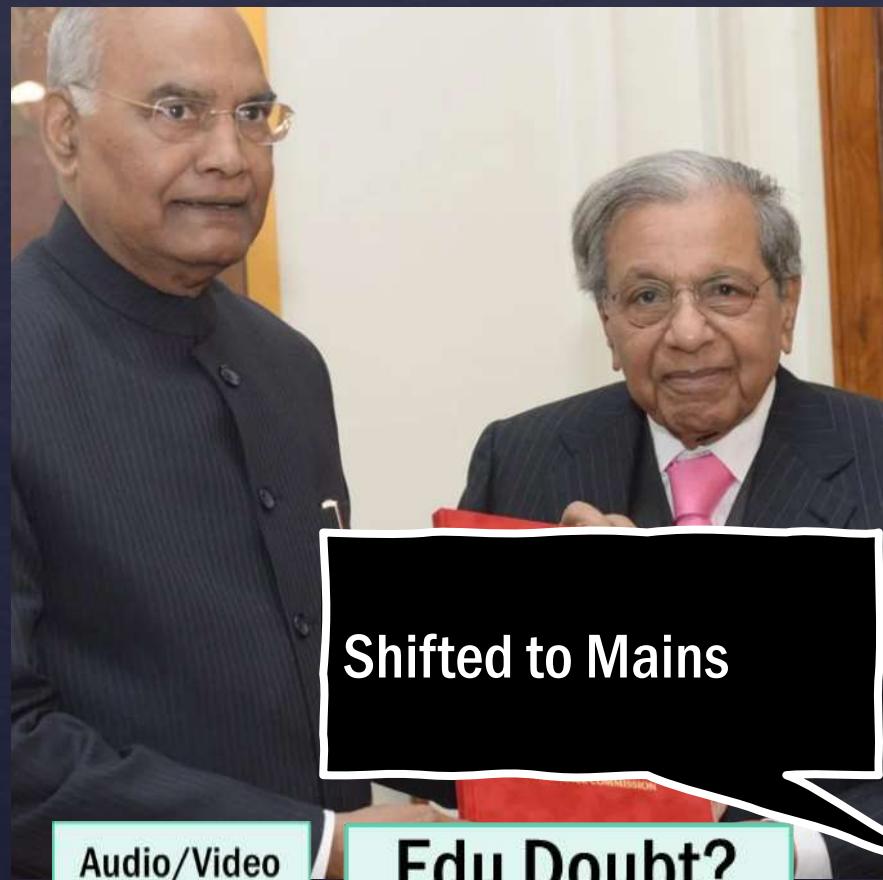
👉 हर सर्वे कौन से वर्ष में लिखा गया वह याद रखना जरूरी नहीं. not necessary to remember exact year of survey



- Poor delivery of public services because
- Not enough fiscal resources against rising population.
- बढ़ती जनसंख्या के सामने वित्तीय संसाधनों की कमी है



# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



Audio/Video  
Problem?



CTRL

Edu Doubt?  
Ask through

Google  
Forms



R



- 23.7.1 Arguments against giving permanent status to FC
- Indian economy and Indian union has functioned successfully for over 70 years with this mechanism, so there is **no need for such constitutional amendments and experimentations**. राजनीति व्यवस्था योगदान से चल रही है, नए संविधानिक प्रयोगों की कोई जरूरत नहीं।
  - We already have a **NITI Aayog** acting as a permanent think-tank on all the matters related to economy and governance.
  - We already have a **GST Council** where states & union can deliberate on issues related to indirect taxes. If there is an economic crisis they can finetune the GST formula and GST-distribution to address it.
  - Both NITI Aayog and GST Council provide a platform for cooperative federalism (महाराष्ट्री संघवाद की चर्चा के लिए मंबूद उपलब्ध).
  - Further, we **already have the CAG** to audit the accounts of the Union and the States.
  - Therefore, Giving permanent status to Finance Commission will result in **overlapping responsibilities and duplication of efforts**. (प्रभागों का जारी शोहराव)
  - Even if the Finance Commission is given a permanent status, the states ruled by **opposition parties will continue to allege injustice & partiality**, just like they allege with the functioning of Election Commission. Then, the Union Finance Ministry's precious time will be wasted in filing counter-responses to the States at FC.

#### 23.7.2 Argument in favour of giving permanent status to FC

- ✓ Election Commission has a permanent status even though elections are to be conducted every 5 years. Previous Lok Sabha's speaker continues to hold position until new Lok Sabha meets for the first time. Following this rationale, Shaktikanta Das's suggestion that "Previous Finance Commission should continue to function & oversee the implementation of its recommendations until new FC is formed" is valid.
- ✓ Finance Commission recommendations are valid for a block of 5 years. Even if there is a war, disaster, famine or an economic crisis which may affect the revenue collection of the union vs. the demands by the States, still, the FC-formula/recommendations cannot be modified/fine-tuned in-between the five years. So, even if Union/states are feeling any injustice in the FC-formula, they have to wait for five years to make pleas to the next Finance Commission. तुनाब आयोग, स्पीकर के कार्यकालको देखते हुए में सही है।
- ✓ If FC has a permanent secretariat/office = staff will keep all the records/ Knowledge bank for future reference, and a few officers will act as 'Resource Persons' to assist the new panel. Then, there will be more consistency in the FC recommendations.
- ✓ Such permanent body can keep a **constant vigil** (अविरत संवेदना) on the Union and State finances & revenue collections and hold them accountable for any transgressions or lethargy (उल्लंघन / सुमती). [Present approach of the union governments is if they are not getting enough taxes, they will simply borrow more money and changing the FRBM targets/goalposts as per their convenience. More under FRBM handout]
- ✓ Previously, Union and States designed their five-year plans, and so it made sense to have a 'five-year formula for tax distribution'. But now the five-year planning system has been discontinued. पंचवर्षीय योजनाओं का दौर बत्त हो चुका है।

#### 23.7.3 Conclusion: give permanent status to FC or not?

- ⇒ **(In-favor)** Considering the aforementioned benefits, Finance Commission should be given a permanent status for better monitoring, accountability, grievance redressal in the matters related to fiscal federalism. (राजनीती संघवाद के मामलों में बेहतर नियमान्वयी, जवाबदेही और सिकायत निवारण के लिए विचारायी को स्थानी दर्दी देना जापानाकर होगा.)

# Economy Pillar#2B: budget → taxation → FC, Black Money

## आगे का मुद्दा- यह काला धन क्या है?



### Tax Evasion



### Tax Avoidance



### Demonetization



### Meaning

### Laws

### Surrender

### Misc.

Audio/Video  
Problem?

Edu Doubt?  
Ask through

Google  
Forms

CTRL

R

# Page : 333 onw

	register firms economy and taxation, Reserve for Basis erosion and profit shifting (BEPS) norms. India is not a member of BEPS yet.
24.2  Tax Evasion (Hiding Income / TRANSACTION)	
24.2.1  Prevention of Money Laundering Act (PMLA-2002)	ED has charged in PMLA case involving Maina Bhartia, turns 35 accused
	register firms economy and taxation, Reserve for Basis erosion and profit shifting (BEPS) norms. India is not a member of BEPS yet.
24.3  Implementation of Foreign Income Tax Act (FITA-1976)	ED requests foreign agencies for details about UK assets linked to Vadra, summons NRI
	register firms economy and taxation, Reserve for Basis erosion and profit shifting (BEPS) norms. India is not a member of BEPS yet.
24.4  Demonetization (Finance Bill, Budget - 2016) → Page 238	<p>→ 1998, UN General Assembly (UNGA) declaration on Money Laundering → 2000, India enacts this law to combat money laundering with 5-year坐牢+ fine penalty. Also known as Enforcement Directorate.</p> <p>→ Cases are filed @FIRs investigating authority (prosecution authority) ... INDIA Appellate Tribunal (Arbitral Tribunal) → High Court.</p> <p>→ to also empower the RBI, SEBI, IRDAI and other regulators to make rules under section 4(1)(k) of PMLA &amp; punish the errant parties.</p> <p>→ E.g., ED vs. Kaveri Kisan Customer (KCC) norms and Anti-Money Laundering (AML) standards. Criminal Magistrate's Court's strong operation process (COC). EDPC and AAT Bank have resulted norms on FIR. imposed a heavy penalties.</p>
24.5  Implementation Foreign Income Tax Act (FITA-1976)	ED requests foreign agencies for details about UK assets linked to Vadra, summons NRI
	register firms economy and taxation, Reserve for Basis erosion and profit shifting (BEPS) norms. India is not a member of BEPS yet.
24.6  Demonetization (Finance Bill, Budget - 2016) → Page 238	<p>→ requires Indian residents to declare their foreign assets (e.g. fungible in India, Bank account in Switzerland) and income owing from foreign sources (e.g. share, property in Cayman Islands) in their income tax returns.</p> <p>Foreign income losses will be subjected to 10% income tax. No deduction, exemption or rebate will be given.</p> <p>→ Standard Penalty = upto 10 times of total loss. It can be found reducing the loss, if the amount is less than 10 times of the loss, the court will be liable for punishment.</p> <p>→ ED also empowers the CBI to enter into agreements with other countries for the exchange of information.</p> <p>(FITA) Budget-2016: If a person was resident in India at the time of acquiring an unfranchised joint later became non-resident, required differently characterize the firm, deposit &amp; margin, until his properties will also be adjudged in this form.</p>
	register firms economy and taxation, Reserve for Basis erosion and profit shifting (BEPS) norms. India is not a member of BEPS yet.
24.7  Demonetization Scheme (DSS) → Page 238	<p>→ 40% of the undischarged amount shall be taken away by govt. after giving notice of 7 days + penalty of 7.5%.</p> <p>Validity? 12PM June 14 Sept. + ₹7,000 or Black money tax declared.</p>
	register firms economy and taxation, Reserve for Basis erosion and profit shifting (BEPS) norms. India is not a member of BEPS yet.
24.8  Demonetization Scheme (DSS) → Page 238	<p>→ 10% of the undischarged amount that it takes away by Govt. as Tax = Penalty = Present Govt. Grant Govt. Capital Gains.</p> <p>Number: 30% of the undischarged amount shall be deposited in RBI's "Reserve Bank Govt. Capital Gains Deposit Scheme" 2016. It is a sum due for 4 years of 2016-17 to 2019-20.</p> <p>Interest: 10% per annum simple interest will be paid for the amount deposited for advances related to irrigation, building infrastructure, education, health care. The scheme is not an automatic, namely, ₹ 7,000 on deposit.</p>
	register firms economy and taxation, Reserve for Basis erosion and profit shifting (BEPS) norms. India is not a member of BEPS yet.
24.9  Demonetization Scheme (DSS) → Page 238	<p>₹ 7,25 lakh crore tax revenue is raised in the service tax and excise duty related cases.</p> <p>(Full) Budget-2019: Launched India's Income Tax (GST) Resolution Scheme, 2019 (first ever tax start).</p> <p>Businessmen accept the fact. Tax officials give a chance to pay off the tax and interest on the tax amount, and the matter is settled instead of litigating in courts for years &amp; years.</p>
	register firms economy and taxation, Reserve for Basis erosion and profit shifting (BEPS) norms. India is not a member of BEPS yet.
24.10  Demonetization Scheme (DSS) → Page 238	<p>Presently, ₹7 lakh + worth demonetized cash are printed before Aadhar Forum (refugee to avoid other country vis. IT Commissioner (Appeals) → Income Tax Appellate Tribunal (ITAT), which writers remittance (i.e., ₹ 10,000 - ₹ 10,000) in demonetized notes.</p> <p>→ Income Tax (Amendment) Act, 2016 (ITA 2016) introduced "Demonetisation Relief Scheme".</p> <p>→ Income Tax (Amendment) Act, 2016 (ITA 2016) introduced "Income Tax (Amendment) Act, 2016".</p> <p>→ Taxpayers can settle with ITT upto 10 years.</p> <ul style="list-style-type: none"> <li>- a) If ITT does not appear → he has to pay 10% of disputed tax amount.</li> <li>- b) If Taxpayer filed appeal → he has to pay 10% of disputed tax amount.</li> </ul> <p>→ In case of ITT, the amount of tax and interest will be paid to the government within 10 years of demonetization. The amount will be paid to the government within 10 years of demonetization.</p> <p>→ Above scheme is valid upto 31 March 2020, afterwards, it must be modified upto 31 March 2020 when the law may have to amend extra amount.</p> <p>→ There are two types of cases:</p> <ul style="list-style-type: none"> <li>- c) person in under prosecution for criminal activities.</li> <li>- d) break money in Indian currency sources.</li> </ul>

# UNACADEMY ALL INDIA PRELIMS MOCK TEST

Now take the Test

March 26, 2023

Online      Offline\*

GS Paper - 9:30 AM  
CSAT - 12:30 PM

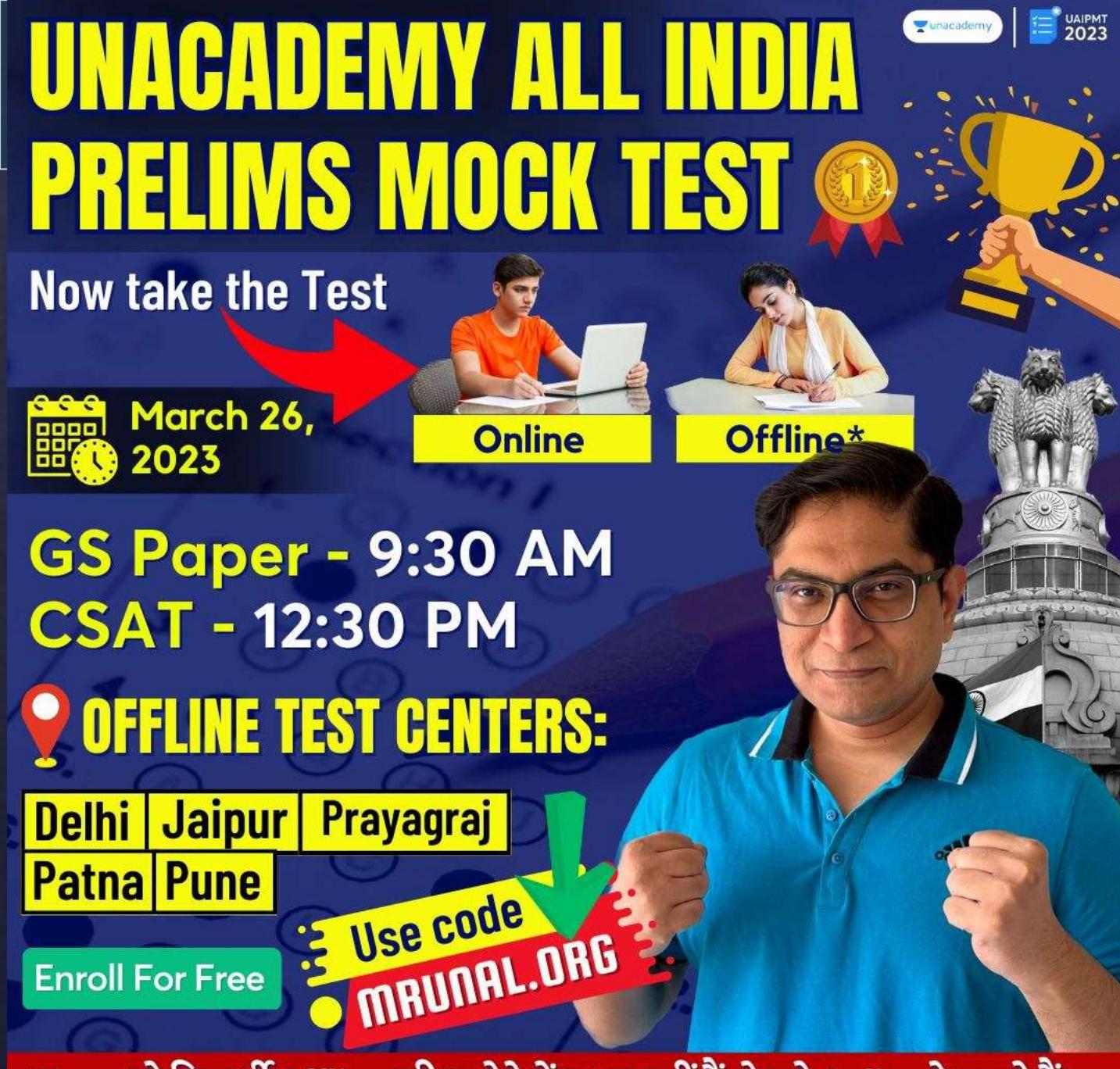
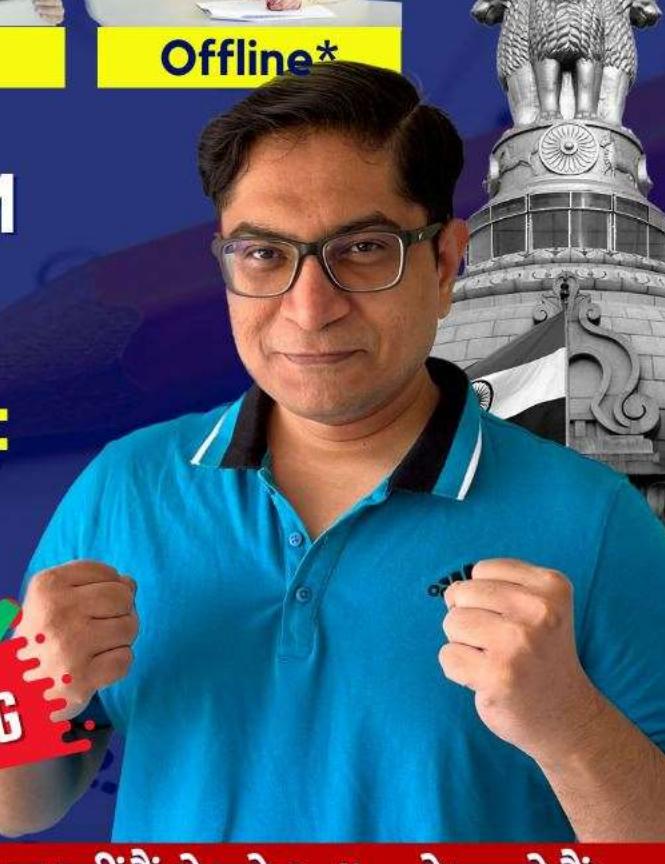
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Delhi | Jaipur | Prayagraj  
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Enroll For Free

Use code  
**MRUNAL.ORG**

\*Note: जो विद्यार्थी Offline परीक्षा देने में सक्षम नहीं हैं, वे इसे Online दे सकते हैं।



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For those who've  
completed syllabus and  
targeting  
2023 Prelims

Audio/Video  
Problem?



CTRL      R

Edu Doubt?  
Ask through

Google  
Forms



15<sup>th</sup> Finance Commission assigned different weight to the following parameters for distribution of tax proceeds to the States :

- 1) Income distance (%)
- 2) Population (%)
- 3) Demographic Performance(%)
- 4) Forest (%)

Arrange the aforesaid parameters in increasing order of weights

- A) 1-2-3-4
- B) 4-2-3-1
- C) 1-3-2-4
- D) 4-3-2-1
- E) SKIP



बढ़ते वजन के हिसाब  
से क्रम में रखिए

100% Surety

50:50

E) Skip

15<sup>th</sup> Finance Commission assigned different weight to the following parameters for distribution of tax proceeds to the States :

- 1) Income distance (%)
- 2) Population (%)
- 3) Demographic Performance(%)
- 4) Forest (%)

Arrange the aforesaid parameters in increasing order of weights

- A) 1-2-3-4
- B) 4-2-3-1
- C) 1-3-2-4
- D) 4-3-2-1



धिक्कार है!

We know that income distance given highest weight (45%) so right option must have pattern \*-\*-\* -1

So anyone ticking A or C= Dhikkar hai  
की रिवीजन क्यों नहीं किया?

100% Surety

50:50

E) Skip

I  
Atte



15<sup>th</sup> Finance Commission assigned different weight to the following parameters for distribution of tax proceeds to the States :

1) Income distance (45%)

2) Population (15%)

3) Demographic Performance(12.5%)

4) Forest (10%)

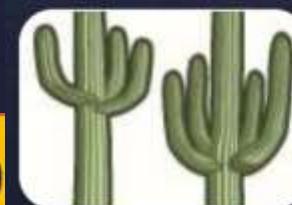
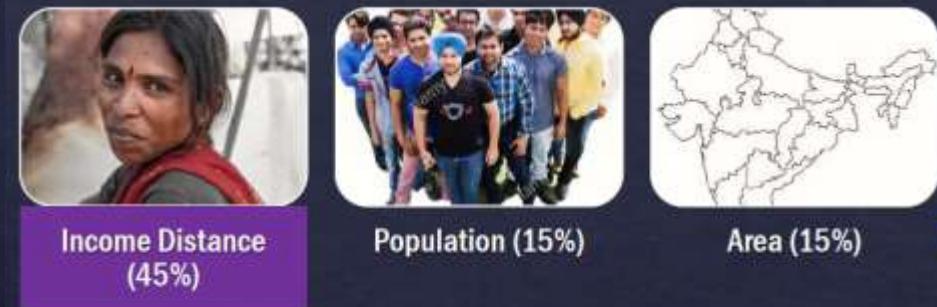
Arrange the aforesaid parameters in **Increasing** order of weights

A) 1-2-3-4

B) 4-2-3-1

C) 1-3-2-4

D) 4-3-2-1



50

Forest & Ecology  
(10)



Demographic  
performance (12.5%)

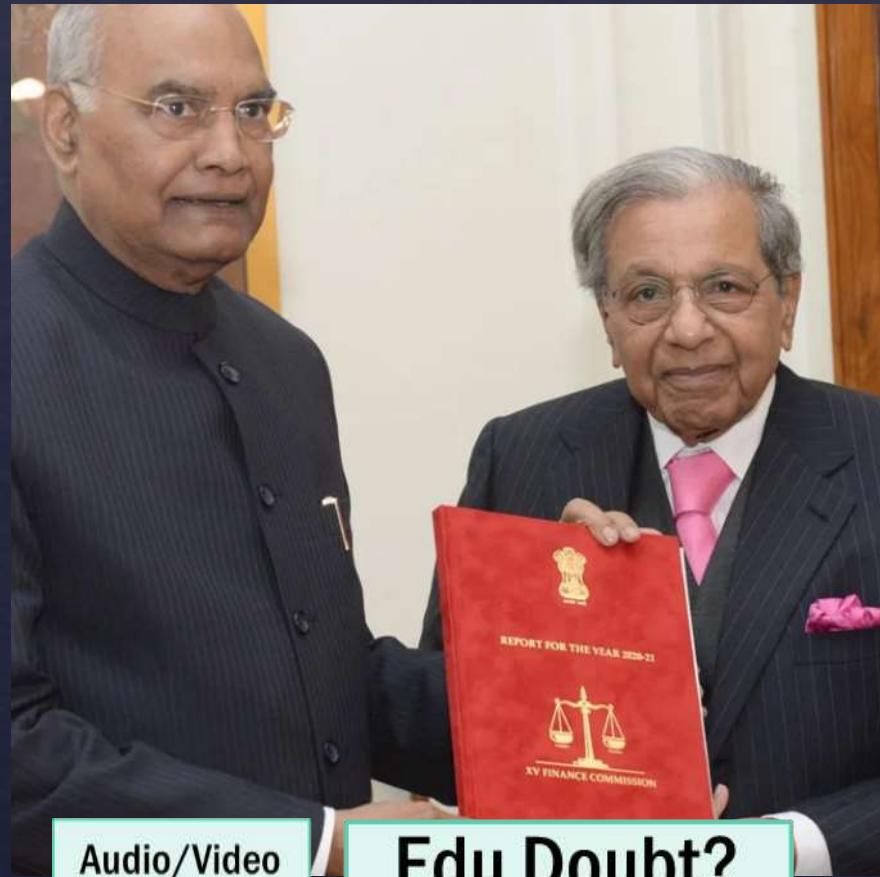


Tax Effort (2.5%)

100% Surety



# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



Audio/Video  
Problem?



CTRL

Edu Doubt?  
Ask through

Google  
Forms



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- 23.7.1 Arguments against giving permanent status to FC
- Indian economy and Indian union has functioned successfully for over 70 years with this mechanism, so there is no need for such constitutional amendments and experimentations. वर्तमान जनव्याप्ति संग्रहण में चल रही है, नए संविधानिक प्रयोगों की कोई ज़रूरत नहीं।
  - We already have a NITI Aayog acting as a permanent think-tank on all the matters related to economy and governance.
  - We already have a GST Council where states & union can deliberate on issues related to indirect taxes. If there is an economic crisis they can finetune the GST formula and GST-distribution to address it.
  - Both NITI Aayog and GST Council provide a platform for cooperative federalism (सहकारी संसदीय दृष्टि से भी इसका लाभ)
  - Etc.

- 23.7.2 Elaborate on the pros and cons of giving permanent status to FC
- ✓ Such permanent body can keep a constant vigil (अविरत संवकेता) on the Union and State finances & revenue collections and hold them accountable for any transgressions or lethargy (उल्लंघन / सुस्पी). [Present approach of the union governments is if they are not getting enough taxes, they will simply borrow more money and changing the FRBM targets/goalposts as per their convenience. More under FRBM handout]
  - ✓ Previously, Union and States designed their five-year plans, and so it made sense to have a 'five-year formula for tax distribution'. But now the five-year planning system has been discontinued. पंचवर्षीय योजनाओं का दौर बदल हो चुका है।

- 23.7.3 Conclusion: give permanent status to FC or not?
- ⇒ (In-favor) Considering the aforementioned benefits, Finance Commission should be given a permanent status for better monitoring, accountability, grievance redressal in the matters related to fiscal federalism. (राजकारीय संधावाद के मामनों में बेहतर नियमान्वयी, जवाबदेही और सिकायत निवारण के लिए विचारान्वय को स्थानीय दर्दी देना साधकारक होगा.)

Topic  
shifted to  
Mains

# FC is not a continuous/permanent body. It stops after submitting report = Topic shifted to Mains

2009

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My report valid for 5 years. (2015-20)

So once report given → our office closed,  
until new Finance Commission is formed.

हर वर्ष हमारी ऑफिस खुली नहीं रहती है

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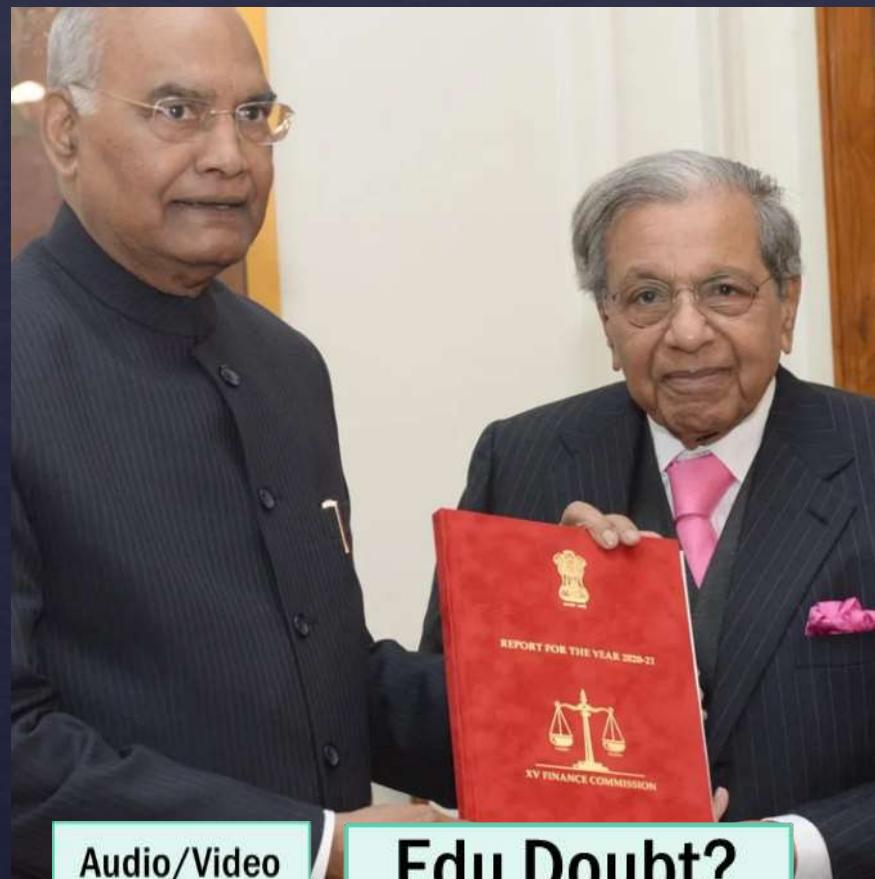
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	January</th

# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



Audio/Video  
Problem?



CTRL

Edu Doubt?  
Ask through

Google  
Forms



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## 23.8 FC vs PC vs NITI: WHAT'S THE DIFFERENCE?



Finance Commission (FC)	Planning Commission (PC) योजना आयोग	NITI Aayog National Institution for Transforming India
Constitutional body	Created by executive resolution, so neither constitutional nor statutory. Both headed by Prime Minister as the chairman.	1951: PC set up and over the years designed 12 Five Year plans (12th FYP: 2012-2017) 2014: Dissolved by Modi Government.
1951: 1st FC setup under KC Neogy	- Taxes' Vertical Devolution and horizontal distribution among states. + any other matters referred by the President in TOR	- 2015: Formed. Three Year Action Agenda (2017-20). Seven Year Strategy Document. Fifteen Year Vision Document(2017-32).
GSTN Council vs FC?	- Each Finance Commission arrived at its own methodology. E.g. 14th FC: 42% vertical, and 5 factor formula for horizontal distribution.  To answer these Qs, PC would use Gadgil Mulherjee formula (designed in 8TH FYP)- based on population, per capita income, special problems etc. of a state.	1. How much money should union give to each state for implementation of Union's centrally sponsored schemes (CSS)? 2. How much money should union government give to the five year plans of the state governments?  It is not in its scope of work to decide how much money should be given to each state. That component is decided by the Finance Ministry.  - NITI's primary objective is to serve as the think tank of the Government of India, - Helps in policy design. - Helps in monitoring schemes' through its dashboard e.g. 'School Education Quality Index', 'SDG India Index', 'Digital Transformation Index'
Sp. Cat States?		
HDT 321+		

< More about Planning Commission and NITI Aayog in Pillar#4>

Q69. In India, which of the following review(s) the independent regulators in sectors like telecommunications, insurance, electricity etc. ?

1. Ad Hoc Committees set up by the Parliament.
2. Parliamentary Department Related Standing Committees
3. Finance Commission
4. Financial Sector Legislative Reforms Commission
5. NITI Aayog

# FC vs PC vs NITI: What's the Difference?

## Finance Commission (FC)

Constitutional body



## Planning Commission (PC)

Created by executive resolution, so neither constitutional nor statutory. Both headed by Prime Minister as the chairman.



## NITI Aayog

NITI AAYOG

NITI VC

Suman Bery

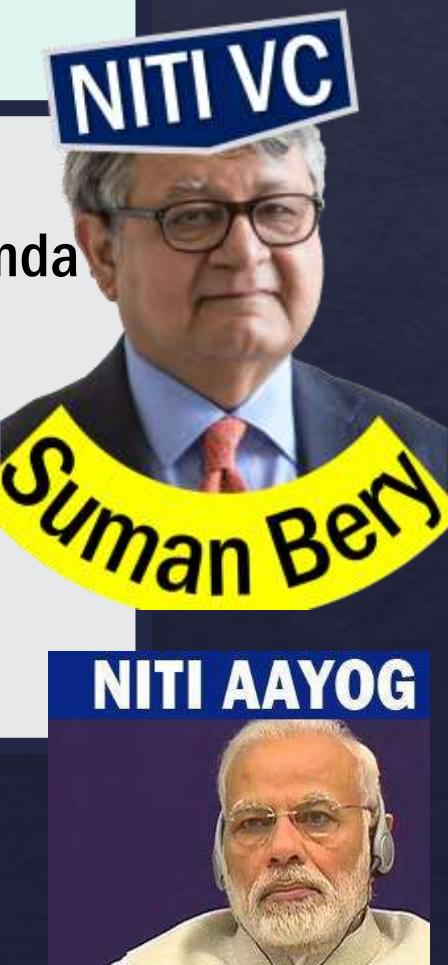
More about them in  
Pillar4 with GDP

# FC vs PC vs NITI: What's the Difference?

Finance Commission (FC)	Planning Commission (PC)	NITI Aayog
Constitutional body	Created by executive resolution, so neither constitutional nor statutory. Both headed by Prime Minister as the chairman.	
1951: 1st FC setup under KC Neogy	<ul style="list-style-type: none"><li>– 1951: PC set up and over the years designed 12 Five Year plans (12th FYP: 2012-2017)</li><li>– 2014: Dissolved by Modi Government.</li></ul>	<ul style="list-style-type: none"><li>– 2015: Formed.</li><li>– Three Year Action Agenda (2017-20).</li><li>– Seven Year Strategy Document.</li><li>– Fifteen Year Vision Document(2017-32).</li></ul>



योजना आयोग बनाया था  
पंचवर्षीय योजनाओं के लिए



# 15<sup>th</sup> FC (वर्तमान समय में)



**States  
41%**

राज्यों को यह तो  
मिलेगा ही मिलेगा  
इसके अतिरिक्त  
भी पैसा मिलेगा

Tax  
Devolution



**Union  
59%**



Additionally  
union will give ₹ from its ₹59

Grants (अनुदान)  
(means it is not  
loans. State need not  
be return ₹₹ back)  
• as per 15<sup>th</sup> FC



राज्य को  
अनुदान में  
कितना पैसा  
देना है हम  
तय करेंगे

Centrally Sponsored  
Schemes (CSS)

- As per FinMin
- e.g. PM-JAY
- FASAL Bima



केन्द्र द्वारा प्रयोजित  
योजनाओं के लिए  
कितना पैसा देना है वो  
वित्त मंत्रालय तय करें

# Previously (पहले के / काँग्रेस के जमाने में)

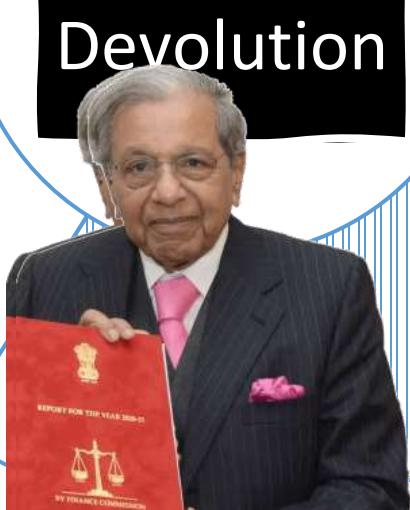


States  
41%

राज्यों को यह तो  
मिलेगा ही मिलेगा  
इसके अतिरिक्त  
भी पैसा मिलेगा



Tax  
Devolution



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union will give ₹ from its ₹59

Grants (अनुदान)  
(means it is not  
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be return ₹₹ back)  
• as per 15<sup>th</sup> FC



राज्य को  
अनुदान में  
कितना पैसा  
देना है हम  
तय करेंगे

Centrally Sponsored  
Schemes (CSS)

- As per Planning  
Commission
- e.g. PM-JAY
- FASAL Bima



केन्द्र द्वारा प्रयोजित  
योजनाओं के लिए कितना  
पैसा देना है वो योजना  
आयोग तय करता था

# Planning Commission (PC): योजना आयोग

1. How much ₹ should union give to each state for implementation of centrally sponsored schemes (CSS)?  
केंद्र की द्वारा प्रायोजित योजनाओं में राज्यों को कितना पैसा देना है
2. How much money should union give to the five year plans of the state governments? केंद्र ने राज्य सरकार की खुद की पंचवर्षीय योजनाओं में कितना पैसा देना है?

Planning Commission



Gadgil Mukherjee formula

To answer these Qs, PC would use Gadgil Mukherjee formula (designed in 8TH FYP)- based on population, per capita income, special problems etc. of a state. ये सब योजना आयोग तय करता था जिसके लिए गद्गिल मुखर्जी फॉर्मूला का इस्तेमाल करता था



How much ₹₹ to give  
for schemes & FYP

# National Institution for Transforming India (NITI)

योजना आयोग को बंद कर-> मोदी सरकार ने नीति आयोग बनाया है

◆ Doesn't decide money allocation.(FinMin) decides

◆ NITI's primary objective is to serve as the think tank of the Government of India,

◆ Helps in policy design.

◆ Helps in monitoring schemes' implementation through its dashboard e.g. योजनाओं की निगरानी करता है

◆ 'School Education Quality Index (SEQI)',

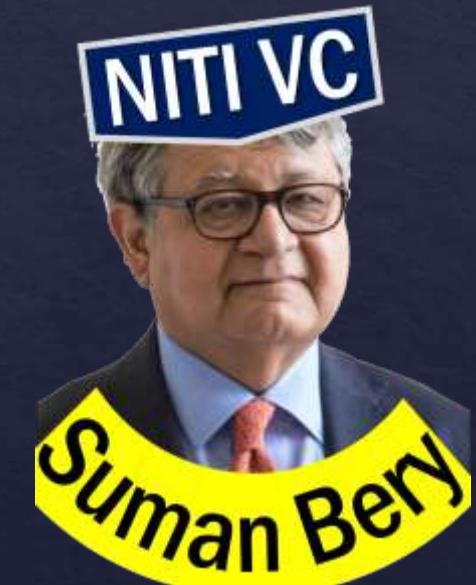
◆ 'SDG India Index'

◆ 'Digital Transformation Index' (DTI) etc

NITI AAYOG MEET



NITI VC



Suman Bery

# Special category states? विशेष श्रेणी के राज्य?

- ◆ 1952: The National Development Council with PM, CMs to approve Five year plans. But obscure after NITI Aayog.
- ◆ 1969: 5<sup>th</sup> FC recommended giving extra funds and tax-relief to certain disadvantaged states.
- ◆ Over the years, NDC added more states into the Special Category List.

योजना आयोग के ऊपर भी एक संस्था थी राष्ट्रीय विकास आयोग जोकि कुछ पिछड़े राज्यों को विशेष श्रेणी के राज्य की सूची में स्थान देती थी



Started in '69 (5<sup>th</sup> FC) : Special category states? 8+3=11

आपकी राज्य को “विशेष श्रेणी का राज्य” बनने पर क्या लाभ मिलता है?

1. If Industrialists set factories in these states, they'll be given benefit in Union Taxes.

2. In Centrally Sponsored Schemes, Union will bear higher burden (e.g. 90:10).

3. FC & PC would assign more weightage in their formulas to give'em more ₹₹.

### 8 North East

- Arunachal Pradesh
- Assam
- Manipur
- Meghalaya
- Mizoram
- Nagaland
- Sikkim
- Tripura

### 3 Himalayan States

- Uttarakhand
- Himachal Pradesh
- ~~Jammu and Kashmir~~

Post 370-Removal  
it became Union Territory



# How to become Special Category State?

मुझे अपने राज्य को विशेष श्रेणी का राज्य बनवाना हो तो कौन सी शर्तों का पालन करना होगा?

- ❖ Low population density/sizeable share of tribal population {NE: professional tax, SGST income ▼};
- ❖ Non-viable state finances. (e.g.
  - ❖ J&K because terrorism: tourism ▼,
  - ❖ Manipur “blockade”: factory ▼)
- ❖ Economic and infrastructural backwardness.
- ❖ Hilly and difficult terrain.
- ❖ Strategic location along international borders  
<Arunanchal, J&K etc>

8 North East

- Arunachal Pradesh
- Assam
- Manipur
- Meghalaya
- Mizoram
- Nagaland
- Sikkim
- Tripura

3 Himalayan States

- Uttarakhand
- Himachal Pradesh
- ~~Jammu and Kashmir~~

# Sp.Cat states got truckload of money from previous FCs and PCs

## YET no tangible progress in improving public administration or removing poverty

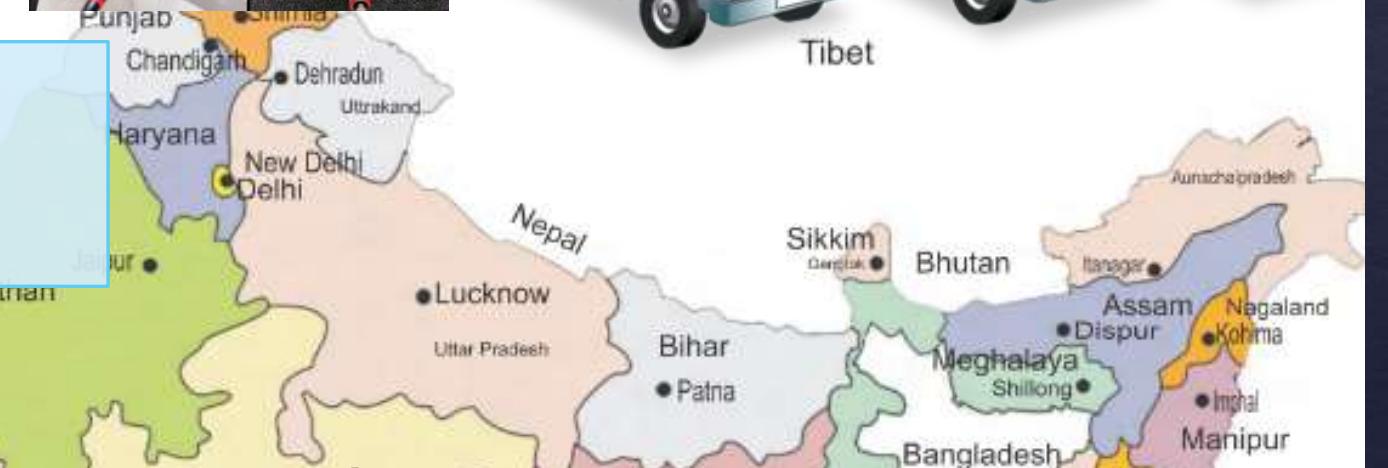
### ㈠ Aid Curse- अनुदान बना अभिशाप

- States getting lot of funding from Union → corruption , mismanagement



### ㈡ Resource Curse- खनीज संपत्ति बनी अभिशाप

- States having abundant mineral resources → Corruption, Mining Mafia, Naxalites



केंद्र सरकार से ट्रक भर भर कर पैसा मिला तो इनकी राज्य सरकारोंने आलसीपन और भ्रष्टाचार में कुछ काम ही नहीं किया.  
㈢ न गरीबी कम हुई. ㈣ न लोक प्रशासन बेहतर हुआ

# Sp.Cat states got truckload of money from previous FCs and PCs

- 14th FC: we've stopped giving any additional weightage to Sp. Cat.

States in our tax distribution formulas. वित्त आयोग ने उन्हें अगल से ज्यादा पैसा देना बंद किया

- 15th FC: no weightage
- Although Union can continue giving them benefits like 90:10 in CSS etc. as per its own discretion.

कितु केंद्र सरकार चाहे तो अपनी योजनाओं में ज्यादा पैसा दे सकती है



- The term “Sp. Cat. State” is not OUTLAWED.
- Usually demands of Sp.Cat status before election to show Modi is anti-Bihar, anti-Bengal...

# Economic Survey 2018: States, PRI/ULB= poor fiscal capacity

राज्य सरकार और स्थानीय इकाइयों की वित्तीय क्षमता कम है

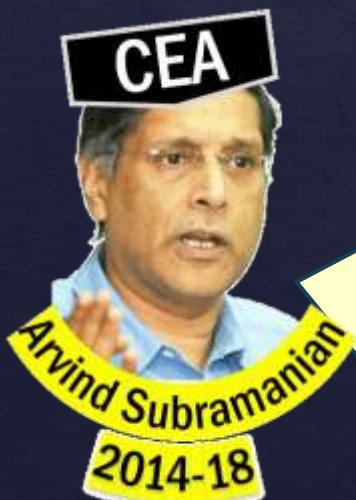
- 1) compared to Brazil, Germany and other countries with federal polity,
- 2) India's state govts and local bodies are collecting less amount of tax...because



- (3) constitution not gave'em sufficient taxation powers संविधान ने ही उनको सत्ता नहीं दी है
- (4) Shy of collecting Agricultural Income Tax, Land Revenue, Property Tax due to vote bank politics.

# Economic Survey 2018: States, PRI/ULB= poor fiscal capacity

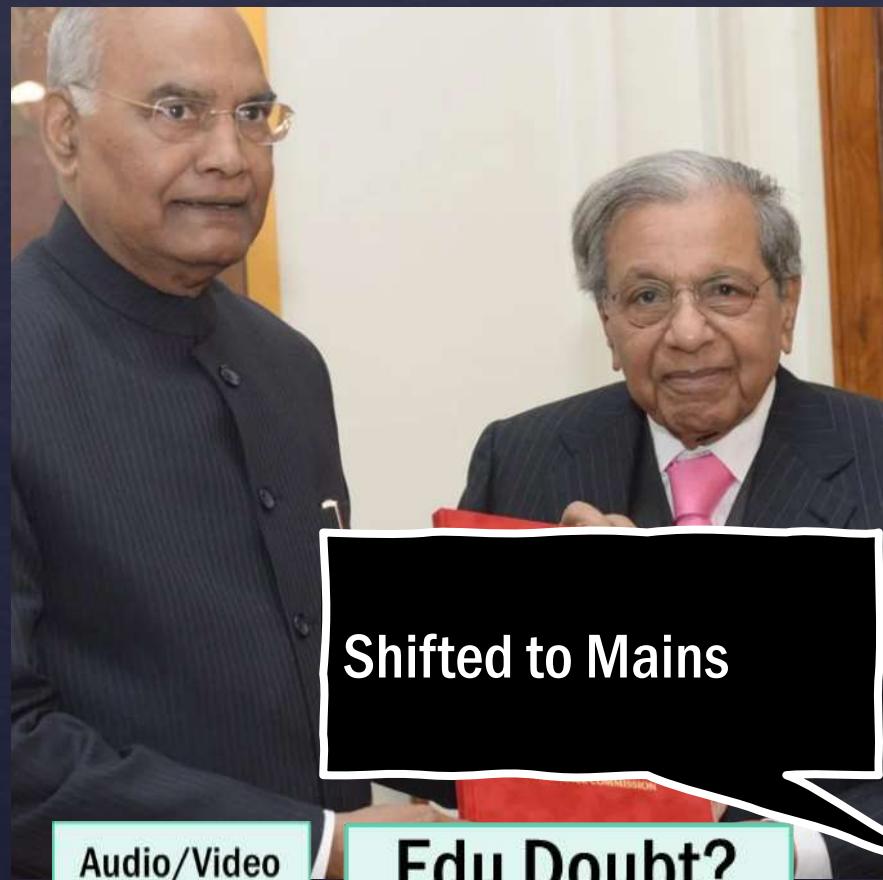
👉 हर सर्वे कौन से वर्ष में लिखा गया वह याद रखना जरूरी नहीं. not necessary to remember exact year of survey



- Poor delivery of public services because
- Not enough fiscal resources against rising population.
- बढ़ती जनसंख्या के सामने वित्तीय संसाधनों की कमी है



# Pillar2B: Budget → Taxation → 15<sup>th</sup> Finance Commission



Audio/Video  
Problem?



CTRL

Edu Doubt?  
Ask through

Google  
Forms



R



- 23.7.1 Arguments against giving permanent status to FC
- Indian economy and Indian union has functioned successfully for over 70 years with this mechanism, so there is **no need for such constitutional amendments and experimentations**. वर्तमान जनव्यापीय संग्रहण में चल रही है, नए संविधानिक प्रयोगों की कोई ज़रूरत नहीं।
  - We already have a **NITI Aayog** acting as a permanent think-tank on all the matters related to economy and governance.
  - We already have a **GST Council** where states & union can deliberate on issues related to indirect taxes. If there is an economic crisis they can finetune the GST formula and GST-distribution to address it.
  - Both NITI Aayog and GST Council provide a platform for cooperative federalism (महाराष्ट्रीय संघवाद की चर्चा के लिए मंबद्ध उपलब्ध).
  - Further, we **already have the CAG** to audit the accounts of the Union and the States.
  - Therefore, Giving permanent status to Finance Commission will result in **overlapping responsibilities and duplication of efforts**. (प्रभागों का ज़रूरी शोहराव)
  - Even if the Finance Commission is given a permanent status, the states ruled by **opposition parties will continue to allege injustice & partiality**, just like they allege with the functioning of Election Commission. Then, the Union Finance Ministry's precious time will be wasted in filing counter-responses to the States at FC.

- 23.7.2 Argument in favour of giving permanent status to FC
- ✓ Election Commission has a permanent status even though elections are to be conducted every 5 years. Previous Lok Sabha's speaker continues to hold position until new Lok Sabha meets for the first time. Following this rationale, Shaktikanta Das's suggestion that "Previous Finance Commission should continue to function & oversee the implementation of its recommendations until new FC is formed" is valid.
  - ✓ Finance Commission recommendations are valid for a block of 5 years. Even if there is a war, disaster, famine or an economic crisis which may affect the revenue collection of the union vs. the demands by the States, still, the FC-formula/recommendations cannot be modified/fine-tuned in-between the five years. So, even if Union/states are feeling any injustice in the FC-formula, they have to wait for five years to make pleas to the next Finance Commission. नुनाव आयोग, स्पीकर के कार्यकालको देखते हुए में सही है।
  - ✓ If FC has a permanent secretariat/office = staff will keep all the records/ Knowledge bank for future reference, and a few officers will act as 'Resource Persons' to assist the new panel. Then, there will be more consistency in the FC recommendations.
  - ✓ Such permanent body can keep a **constant vigil** (अविरत संवकेत) on the Union and State finances & revenue collections and hold them accountable for any transgressions or lethargy (उल्लंघन / सुस्पी). [Present approach of the union governments is if they are not getting enough taxes, they will simply borrow more money and changing the FRBM targets/goalposts as per their convenience. More under FRBM handout]
  - ✓ Previously, Union and States designed their five-year plans, and so it made sense to have a 'five-year formula for tax distribution'. But now the five-year planning system has been discontinued. पंचवर्षीय योजनाओं का दौर बद्द हो चुका है।

- 23.7.3 Conclusion: give permanent status to FC or not?
- ⇒ (**In-favor**) Considering the aforementioned benefits, Finance Commission should be given a permanent status for better monitoring, accountability, grievance redressal in the matters related to fiscal federalism. (राजकारीय संघवाद के मामलों में बेहतर नियमान्वयी, जवाबदेही और सिकायत निवारण के लिए विचारायी को स्थानीय दर्दी देना नाभारात्र होगा.)

