

15th Finance Commission

The Finance Commission is a constitutional body tasked with determining the method and formula for distributing the tax proceeds between the Centre and states and among the states as per the constitutional arrangement and present requirements. Under Article 280 of the Constitution, the President of India must constitute a Finance Commission five years or earlier.

- The 15th Finance Commission recommendations will cover a period of five years from 2021-22 to 2025-26 and is headed by NK Singh, a senior member of the BJP.
- The commission was set up to recommend the devolution of taxes and other fiscal matters for five fiscal years commencing 1 April 2020.
- The commission's main tasks were to "strengthen cooperative federalism, improve the quality of public spending and help protect fiscal stability".
- The 15th Finance Commission was constituted against the backdrop of the abolition of the Planning Commission (as also the distinction between Plan and non-Plan expenditure) and the introduction of the goods and services tax (GST), which has fundamentally redefined federal fiscal relations.

Recommendations of the 15th Finance Commission

The Recommendations of the 15th Finance Commission are mentioned below.

These recommendations would apply for 6 years, i.e., 2021 to 2026.

- The distribution of tax proceeds between states and the central government is one of the recommendations of the 15th Finance Commission.
- Study the impact of GST (Goods and Services Tax) on the Economy.
- Provide performance-based incentives for the State Government. The incentives should be based on efforts to control the growing population and promote ease of the business and the rest of it.
- Revenue deficit grants, grants to local bodies, and disaster management grants will be provided to the States. The Commission has

also proposed a framework for sector-specific and performance-based grants.

15th Finance Commission Members

The 15th Finance Commission's chairman is Nand Kishore Singh, a senior member of the Bharatiya Janata Party (BJP) since March 2014, with its full-time members being Ajay Narayan Jha, Ashok Lahiri, and Anoop Singh. In addition, the commission also has a part-time member, Ramesh Chand. Shaktikanta Das served as a commission member from November 2017 to December 2018.

Difference Between Vertical and Horizontal Devolution

According to Article 280 of the Indian Constitution, each Finance Commission must make suggestions and recommendations about sharing the net proceeds of the taxes between the Union and the states and also among various states of the country. The process of devolution of taxes of the union to various states is known as vertical devolution. In contrast, the process of devolution of taxes among various states is known as horizontal devolution.

Vertical Devolution in the 15th Finance Commission

Key highlights of the vertical devolution include:

- 15th Finance Commission recommended maintaining vertical devolution at 41%.
- Similar to that of the Fourteenth Finance Commission, it is at the level of 42% of the divisible pool.
- The change of a per cent in the 15th Finance Commission is due to the adjustment required because of the changed status of Jammu and Kashmir, which has now become the Union Territories of Jammu and Kashmir and Ladakh.

Horizontal Devolution in the 15th Finance Commission

For the horizontal devolution, the commission has suggested the following weights:

- Income distance - 45%
- Area - 15%
- Population - 15%

- Demographic Performance - 12.5%
- Forest and Ecology - 10%
- Tax and Fiscal Efforts - 2.5%

15th Finance Commission: Importance

The 15th Finance Commission came out when gigantic reforms were being taken to strengthen cooperative federalism. The importance of the 15th Finance Commission is discussed below:

- **Braces the Concept the Cooperative Federalism:** The Finance Commission has worked extensively with all levels of government to bring out this report. This has helped in the development of the principle of cooperative federalism.
- **Promotes Fiscal Stability:** The Finance Commission has set out a report promoting policies to improve public spending quality. Weights at various levels have been suggested in such a way that promotes fiscal stability in the country.
- **Implementation of Good and Services Tax Reforms:** The Finance Commission brought many performance-based incentives which helped in the expansion and deepening of the indirect tax. Over the years, revenue from GST has been growing tremendously.

15th Finance Commission: Concerns

The points mentioned below analyze the concerns of the 15th Finance Commission.

- The terms referred to for the 15th Finance Commission have raised doubts over the spirit of the cooperative centre. The use of the 2011 census for allocating resources between states is the most serious issue. Currently, the census of 1971 is used.
- The aim and idea of using the most recent census data available is a reasonable point. The proposal for it unleashes immense dispute on the social-political front. The main reason is that it would create disadvantages for the states that have controlled the population for decades.
- Lower Population Growth is interlinked directly with lower fertility rates. This results from better healthcare facilities, education, and development. Thus, it seems apparent that the States that have

developed faster are penalized for their success in development initiatives.

