Financial Relations Between Centre and State

Indian government follows a quasi-federal system wherein the financial, legislative and administrative powers are divided between the centre and state. However, the centre has more control leading to great decision-making power. The financial relations between centre and state is such that the latter is often dependent on the former. As the constitution has not made any specific distinctions, the country's financial resources are mostly under the control of the centre. The state governments often have to do with scant resources due to which they often have to ask the centre for grants and subsidies.

To enhance the grasp of this relationship, we have provided aspirants with the financial relations between centre and state UPSC notes. These notes are carefully curated to ensure that the basic concepts and important points of centre state financial relations are easily graspable for the aspirants.

There are a number of articles in the Indian Constitution that have provisions stating the guidelines for the centre regarding the allocation of financial resources among different states. There are also tax distributions which define the financial relations between centre and state in the country.

Centre State Financial Relations: Constitutional Provisions

Various constitutional provisions define the scope of the financial relations between centre and state. Below, we have discussed these various provisions and the corresponding articles, as stated in the Indian Constitution.

1. **Article 268:** This article refers to the stamp duty levied by the Centre but collected and distributed by the States. The taxes derived from it are excluded from the Consolidation Fund of India and are allocated by the state, which levies them.
2. **Article 269:** It refers to the tax charged on all purchases, sales and transportation of goods that are interstate, except a few. These taxes are distributed by the state governments but are collected by the central government. These taxes also do not add anything to the Consolidation Fund. In the 101st Amendment, a new provision, 269A, was introduced. It deals with the GST and applies taxes on inter-state commerce that are distributed between the states and the centre.
3. **Article 270:** It states that the taxes collected and levied by the Centre are to be allocated between the Centre and the states. This applies to all taxes except for the taxes referred to in Articles 268, 269, 269 A, 270 and 271.
4. **Article 271:** This article gives parliament the power to increase taxes on all goods (except for those mentioned in section 246A) at any time. It states that the surcharges contribute to the country's consolidated fund and will not be shared with the states.

Tax Distribution between State and Centre UPSC

The tax is distributed between centre and state in various ways. To understand the financial relations between centre and state, knowing how the taxes are divided and distributed is crucial.

Below, we have provided important tax distribution between state and centre UPSC information which will help in exam preparation.

- **Taxes Exclusively Assigned to the Centre:** This includes income the centre receives from the corporation and income tax, customs duties, export duties, corporation tax, taxes charged on assets' capital value, succession duty in respect of the property, excise duty on jute, tobacco, etc. The income from postal and railways also goes to the centre.
- **Taxes Exclusively Assigned to States:** The state governments receive their incomes from, stamp duty (except Union List documents), land revenue, succession and estate duty from agricultural land and also income tax from the same. Taxes on goods and passengers carried by road or inland water, toll taxes, animals, boats, electricity bills, building/land taxes, taxes on employment, duties on alcoholic drinks, hemp, opium, narcotic drugs, luxury items, entertainments, amusements, gambling, etc. also make up for the income of the state.
- **Taxes Levied by Union but Collected and Appropriated by the State:** These include stamp duties on bills of exchange, cheques, transfer of shares, policies of insurance and excise duties on medicines/cosmetics prepared by alcohol, narcotics, hemp, etc. It forms another link for the financial relations between centre and state.
- **Taxes Levied and Collected by the Union but assigned to States:** These are the duties on succession to property, taxes on railways, airways, seaways carrying goods or passengers, taxes on freights and fares of railways, taxes for stamp duties for stock exchanges and futures markets, sale or purchase of advertisement space in newspapers and the same for inter-state transactions.
- **Taxes Levied and Collected by the Union but Shared:** This component of the financial relations between centre and state are the equally shared resources determined by the parliament which include income tax (excluding agricultural income) and excise duties except for those on medicinal and toilet preparations.

Financial Relations Between Centre and State: Grants

Apart from the distribution of taxes, the constitution also has several provisions for grants-in-aid to assist states in times of financial need. Articles 275 and 282 states that Parliament may provide grants from the Consolidation Fund of India to the states that need assistance, especially if there is a need for funds for the development of tribal areas. There is a special provision for the state of Assam as well. The different types of grants that define financial relations between centre and state are listed below.

- **Statutory Grants:** Article 275 talks about these grants that parliament is in charge of providing to the states that are in need. There are different provisions for each state mentioned in this article.
- **Discretionary Grants:** This grant is mentioned in Article 282. According to it, the Center can assist states with its own description. These types of grants are not compulsory and are issued only to certain states.
- **Other Grants:** These include grants for a temporary period, grants that are charged in the consolidated fund, grants recommended by the Financial Committee and grants issued instead of export duties on jute & jute products to Odisha, Bihar, Assam, Bihar and West Bengal.

Centre State Financial Relations after GST

GST (Goods and Services Tax) was introduced in India on July 1, 2017. It is an indirect tax applied throughout the country, replacing the multi-tier taxes levied by central and state governments. It was added to the constitution in its 101st amendment.

It refers to the taxes that are levied on various goods and services at rates of 0%, 5%, 12%, 18% and 28%. GST has been classified into CGST, SGST, or IGST, depending on the type of transaction and whether it is interstate or within the state.