

Finance Commission of India

[UPSC Notes]

What is the Finance Commission?

The Finance Commission of India is a constitutional body that is established for the purpose of allocating and distributing the tax revenues among the centre and state governments in accordance with contemporary requirements.

- Article 280 of the Indian Constitution provides for the Finance Commission as a quasi-judicial body.
- The Finance Commission is constituted by the president every 5 years or as required in the mid-term.

The last and most recent commission constituted was the 15th Finance Commission in November 2017, which was chaired by NK Singh, who was formerly a member of the Planning Commission of India.

Recently, Ajay Narayan Jha joined the 15th Finance Commission as a member and replaced Shri Shaktikant Das, who resigned as a member of the commission and was appointed as the governor of the Reserve Bank of India.

Finance Commission of India Overview

Below mentioned are a few important highlights of the Finance Commission

Finance Commission of India	Highlights
Finance Commission Article	Article 280
Finance Commission Chairman	N K Singh
15th Finance Commission	Constituted in November 2017 Recommendations to be followed from 2021-22 to 2025-26
14th Finance Commission	Chairman - YV Reddy. The report talked about vertical and horizontal tax devolution.
First Finance Commission	The 1st Finance Commission was constituted on 22 November 1951 under Shri K.C. Neogy.

Who appoints the Finance Commission?	President of India
How Many Members are in the Finance Commission Of India?	1 Chairman + 4 Members

History of Finance Commission

The provision of the Finance Commission of India was drafted in early 1920 to consolidate the dominating businesses of Britishers in India. As part of his efforts to rectify the inequalities, Dr BR Ambedkar, then minister of law, established the first Finance Commission in 1952 under the chairmanship of K.C. Neogy.

The drafts of the acts and rules of the commission served as the basis for its establishment. Many measures were incorporated into the Indian constitution to close the fiscal gap between the centre and the states, including article 268, which allows the central government to impose duties but leaves it up to the states to collect and retain the taxes.

Composition of Finance Commission

The Finance Commission is composed of a chairman accompanied by four other members who are appointed by the President of India. All of these members hold office for a period specified by the president in his order. The President of India has got all rights reserved for the appointment and reappointment of the members of the finance committee.

The constitution of India has given the parliament the authority to determine the process of selection of the members of the Finance Commission and to determine their qualifications accordingly. The parliament of India sets the qualifications for the chairperson and the members of the commission who have enough experience in public affairs.

Members of the Finance Commission of India

The members of the Finance Commission of India consist of a chairman and four members. The chairman takes control over the commission and monitors its activities.

- Currently, the chairperson of the Finance Commission of India is Nand Kishore Singh,

The other four members are

- Ajay Narayan Jha

- Ashok Lahari
- Anup Singh
- Dr. Ramesh Chand.
- The secretary of the Finance Commission is Shri Arvind Mehta.

Eligibility of Members of the Finance Commission

Aside from the chairman, the four other members of the Finance Commission must meet the following requirements:

- A judge of the high court or qualified enough in the field of finance or experience in financial matters is eligible to be appointed.
- A member is eligible to be part of the finance committee if he has specialized knowledge of finances and handling accounts for the government.
- A person having broad knowledge and experience of financial and economic matters along with the administration.

The membership of a member can be disqualified from the finance committee if he or she is found mentally unfit or involved in any kind of ethical activity. Remember, all of the members are appointed by the President of India, hence he can disqualify the candidates or reappoint the members.

Tenure of members of the Finance Commission

The tenure of the members of the Finance Commission is specified by the President of India. Generally, the members are appointed for a duration of 5 years but under certain specific conditions, the members can be reappointed.

Functions of Finance Commission

There are many functions of the Finance Commission of India. The Finance Commission is supposed to recommend the following matters to the President of India:

1. The distribution of the net proceeds of taxes should be shared among the centre and the states.
2. The principles that govern the grant-in-aid by the central government to the state government are out of the consolidated fund.
3. Any matter referred to which is in the interest of sound finances by the President of India.
4. The measures required to extend a state's consolidated fund to supplement the resources of the panchayat and municipalities in the state on the basis of recommendations made by the state Finance Commission.
5. The Finance Commission decides its own procedure and enjoys power in the performance of its function.

6. Every 5 years, the Finance Commission determines the grounds for the distribution of taxes among the centre and states as well as the principles governing the grant-in-aid to the states.
7. The members of parliament received the Finance Commission's recommendation and an explanatory memorandum of the actions taken by the government.

The above mentioned are the major functions of the Finance Commission of India and can be asked in the UPSC Mains Exams.

Role of Finance Commission

The recommendations which are made by the Finance Commission of India are just advisory in nature and are not binding on the government. It is totally up to the central government to either implement its recommendations or grant the money to the states.

- Ideally, it would be right to say that it is not written or laid down in the Constitution that the recommendations put up by the Finance Commission bind the government of India or raise the legal right in favor of the states to receive the fund recommended by the Finance Commission.
- The constitution of India oversees the Finance Commission to be the balancing wheel of fiscal federalism in India. The erstwhile planning commission, which was a non-constitutional and non-statutory body, undermined its role in the state fiscal relations until 2014. It was highlighted by Dr.P.V. Rajamannar, the chairperson of the fourth Finance Commission, that the Finance Commission and the Planning Commission overlapped their functions and responsibilities in federal fiscal transfers.
- The planning commission was replaced by a new body called Niti Aayog in 2015.

Finance Commission Report

The report prepared by the Finance Commission is submitted to the President of India. Each house of the Parliament considered the Finance Commission's report under the president's guidance and leadership. As a result of the recommendations provided by the Finance Commission of India, the following steps are taken-

1. It includes the recommendations regarding the distribution of taxes and duties that must be put into effect by the president's order.
2. The executive orders to be implemented share the profit of petroleum mode of central assistance and debt relief.
3. The government Agencies are not bound by the recommendations given by the Finance Commission, and they are purely advisory. It is totally up to the government as the money will be granted to the states based on the recommendations made by the government of India.

List of Finance Commission of India UPSC

Finance Commissions	Chairman	Appointed in the Year
First	K.C. Neogy	1951
Second	K. Santhanam	1956
Third	A.K. Chanda	1960
Fourth	Dr. P.V. Rajamannar	1964
Fifth	Mahavir Tyagi	1968
Sixth	Brahmandanda Reddy	1972
Seventh	J.M. Shelat	1977
Eighth	Y.B. Chavan	1982
Ninth	N.K.P Salve	1987
Tenth	K.C. Pant	1992
Eleventh	A.M. Khusro	1998
Twelfth	Dr. C. Rangarajan	2002
Thirteenth	Dr. Vijay Kelkar	2007
Fourteenth	Y.V. Reddy	2013
Fifteenth	N.K. Singh	2017