

**GOVERNMENT OF INDIA  
MINISTRY OF FINANCE**

DEPARTMENT OF ECONOMIC AFFAIRS

**LOK SABHA**

**STARRED QUESTION NO. 54**

**TO BE ANSWERED ON FRIDAY 20<sup>th</sup> JULY, 2018**

[29 Ashadha, 1940 (SAKA)]

**‘15<sup>th</sup> Finance Commission’**

**No. \*54, Shri C. N. Jayadevan, Shri Muthamsetti Srinivasa Rao (Avanthi)**

Will the MINISTER OF FINANCE be pleased to state:

- (a) whether some states/UTs have jointly written to the Union Government seeking amendments to some of the contentious Terms of Reference (ToR) of the Fifteenth Finance Commission (15<sup>th</sup> FC) and if so, the details thereof along with the Union Government’s reaction thereon;
- (b) whether a meeting of States’ Finance Ministers has been held recently to assess the ToR of the 15<sup>th</sup> FC and if so, the details thereof;
- (c) whether ToR of 15<sup>th</sup> FC are against the interests of the State Governments and tend to take the States into Central Government’s control and if so, the details thereof;
- (d) whether the Centre is moving to cut the Central share of taxes and tweak the tax devolution formula and if so, the details thereof; and
- (e) whether the States are having apprehension that they would be penalized for the achievements in population control, health and education secToR and if so, the concrete steps taken by the Government to allay their fears?

**ANSWER**

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**FINANCE MINISTER**

**(SHRI PIYUSH GOYAL)**

A statement is placed on the Table of the House.

**Statement referred to in reply to part (a) to (e) of Lok Sabha Starred Question No. \*54 for answer on July, 20 2018 raised by SHRI C.N. JAYADEVAN, SHRI MUTHAMSETTI SRINIVASA RAO:**

(a) Chief Minister of Puducherry, Deputy Chief Minister of NCT of Delhi and Finance Ministers of four states namely West Bengal, Kerala, Punjab and Andhra Pradesh submitted a joint Memorandum dated 17<sup>th</sup> May, 2018 to the Hon'ble President of India. In the Memorandum, the following issues have been raised: -

- (i) The Terms of Reference (ToR) of the Fifteenth Finance Commission (XV-FC) violate the federal principle as enshrined in the Constitution, erode autonomy of all States, and bring significant financial hardship to all States and need to be amended as suggested therein.
- (ii) The Terms of Reference are qualitatively different from the Terms of Reference of previous Finance Commissions. Some of the changes infringe on the provisions of the Constitution, some others are disruptive of well-settled federal fiscal arrangements in India and other changes constitute technical errors.
- (iii) The changes in Terms of References will restrict the States from fulfilling their Constitutional obligations as listed in the Seventh Schedule and weaken cooperative federalism in India.
- (iv) The award of the Fifteenth Finance Commission must apply to Union Territories with legislature, namely, the National Capital Territory (NCT) of Delhi and Union Territory of Puducherry.
- (v) The Commission may be directed to use the population data of 1971 in all cases where population is a factor for determination of the devolution of taxes and duties and grants-in-aid.
- (vi) The reference to the award of the 14<sup>th</sup> Finance Commission and imperative of the national development programme, including New India-2022, on the Central Government's finances may be deleted.

The government has examined the changes proposed to the ToR through the Memorandum. The apprehensions raised by State Governments regarding violation of the federal principles enshrined in the Constitution are misplaced, because the setting up of FC is itself for facilitating smoother federal fiscal relations. The amendment that has been suggested to the ToR for inclusion of UTs with legislature is not as per the Constitution of India. The ToR were finalized after inter-ministerial consultations.

(b) No meeting has been held with State Finance Ministers to assess the ToR of XV-FC.

(c) The ToR of XV-FC are not against the interest of the State Governments and do not tend to take the States into Central Government's control.

(d) All the issues dealing with central share of taxes and devolution formula are being examined by the XV-FC as per its ToR. The Central Government will examine the recommendations after they are received and the decision made therein will be informed to the Parliament through an "Explanatory Memorandum as to action taken on the recommendations of the Finance Commission" submitted to the August House.

(e) The memorandum has sought use of 1971 population data by the XV-FC while making its recommendations. To incentivise performance, the ToR provides for the Commission to consider proposing measurable performance based incentives for States, in the areas, among others, of efforts and progress made in moving towards replacement rate of population growth.

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~~The Government has examined the changes proposed in the memorandum and does not find any constitutional violation in the Terms of References of the Fifteenth Finance Commission since the Terms of References had been finalized with due inter-ministerial deliberation including Ministry of Law and Justice. Moreover, the proposed amendment with regard to inclusion of Union Territory with legislature requires constitutional amendment which is not possible to amend at this stage as it involves huge time-consuming legislative process. However, during the course of its deliberations the 15<sup>th</sup> FC will take the feed-back / opinion of all the States which are main Stakeholders. Hence, the states may discuss the issues while interacting with the Fifteenth Finance Commission.~~

~~Further, Government has not held any meeting with State Governments to assess the ToR of 15<sup>th</sup> FC. Further, the ToR of the 15<sup>th</sup> FC are neither against the interests of the State Governments nor to take the States into Central Government's control. Central Government is also not moving to cut the Central Share of taxes and tweak the tax devolution formula. None of the states in the memorandum has indicated any apprehension that they would be penalized for the achievements in population control, health and education secToR.~~

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~~The tax devolution formula to be followed during a 5-year period is determined by the XV-FC on the basis of ToR and getting feedback from all the Stakeholders. The role of the Central government is limited to examine the report submitted by XV-FC and decide, by informing Parliament through an "Explanatory Memorandum as to action taken on the recommendations of the Finance Commission" submitted to the august House.~~

~~The XV Finance Commission has started functioning. The XV-FC has started the process of having extensive deliberations with all stakeholders before finalizing their report by 30<sup>th</sup> October 2019. It is the views of the Government that this opportunity provided to stakeholder will ensure that nothing is inimical to the interest of the state will included in the report. The apprehension regarding being penalized for population control, health and education secToR will be allayed by the XV-FC during the visits that the XV-FC will be undertaking during the course of its tenure.~~

~~Therefore, following amendments were proposed to the Terms of Reference to the XV-FC which are summarized below according to Para number of the Notification:-~~

~~**Para 4(iii):** The words "which are in need of assistance" mentioned in Article 275 of the Constitution may be restored in the appropriate place in the paragraph.~~

~~**Para 5:** The last sentence relating to revenue deficit grants may be deleted.~~

~~**Para 6(i):** Delete "likely to be reached by 2024-25." Insert the word "current" after the words "on the basis of."~~

~~**Para 6 (iv):** The paragraph containing the reference to the award of the 14<sup>th</sup> Finance Commission and the reference to the imperative of the national development programme, including New India-2022, on the Central Government's finances may be deleted.~~

~~**Para 6(v):** This sub-paragraph may read as follows: "The impact of the Goods and Service Tax (GST) on the finances of the Centre and States;"~~

~~**Para 6(vi):** This sub-Paragraph, which refers to conditions that the Government of India may impose on the States while providing consent under Article 293(3) of the Constitution, may be deleted.~~

~~**Para 7(i):** The reference to the efforts made by the States in the expansion and deepening of tax net under the Goods and Service Tax (GST) may be deleted.~~

~~**Para 7(ii):** The reference to providing incentives to States reaching replacement rate of population growth may be deleted. [The position on the population criterion is in Term of Reference 8.]~~

~~**Para 7(iii):** Delete reference to flagship schemes of Government of India.~~

~~**Para 7(iv):** Delete this sub-paragraph.~~

~~**Para 7(vi):** Delete reference here to direct Benefit Transfers.~~

~~**Para 7(viii):** The reference to control of expenditure on populist measures may be deleted.~~

~~**Para 8:** This paragraph may be amended to read "The Commission while making its recommendations, is directed to use the population data of 1971 in all cases where population is a factor for determination of the devolution of taxes and duties and grants-in-aid."~~