

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION No. 4798
TO BE ANSWERED ON MONDAY 23RD MARCH, 2020
[3 CHAITRA, 1941 (SAKA)]

‘SEPARATE FUNDING MECHANISM’

No. 4798. SHRI M. K. RAGHAVAN:

Will the MINISTER OF FINANCE be pleased to state:

- (a) whether the Government is considering to have a separate funding mechanism for defence and internal security by widening the scope of the Finance Commission;
- (b) if so, the details thereof and the manner in which the vertical and horizontal imbalances will be addressed;
- (c) whether there has been any apprehension especially among the Southern States that there is reduction in their shares of tax revenues as recommended by the Finance Commission;
- (d) if so, the details thereof and the manner in which these are being addressed;
- (e) whether the proposed Terms of Reference will reduce the overall tax pool that is shared with States at a time when the States are demanding at least 50 per cent of the revenue collection from the current 42 per cent and if so, the details thereof; and
- (f) whether the steps will be taken to share the revenue generated through cess and additional excise duty with the State Government and if so, the details thereof and if not, the reasons therefor?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

- (a) In respect of the terms of reference related to a separate funding mechanism (para 9A of the ToR), the Commission has not made any specific recommendation. The Commission has however, indicated, in para 2.34 of its first report pertaining to Financial Year 2020-21, that. “The Commission...intends to constitute an expert group comprising representatives of the Ministries of Defence, Home Affairs and Finance to consider the detailed modalities and implementation plan for accretion to, and utilisation of, the proposed non-lapsable fund or an alternative mechanism.”
- (b) In respect of para 9A of the ToR, the Commission has made no recommendation having an impact on horizontal or vertical imbalances.
- (c) The Chief Minister of Karnataka vide his Letter No CM/HM/RES/215/2020 dated 6thFebruary 2020 has written about the reduction in Central Devolution to the State of Karnataka
- (d) The letter mentions inter-alia that mainly on account of the income distance criteria Karnataka’s inter se share in the central pool of taxes has declined by 23% from 4.71 under the XIV FC to 3.65 under the Fifteenth Finance Commission. It indicates that the States Revenues have been over-estimated and the expenditure under-stated due to which no revenue deficit grants have been awarded to Karnataka for the year 2020-21. The letter mentions that the Government of India may kindly accept the recommendation of the

Commission to award Special Grants to Karnataka. The issues raised in the above letter relate to the recommendations of the Commission contained in its first report pertaining to Financial Year 2020-21 for which the Government has already taken the requisite constitutional step. As per the provisions of Art 281 of the Constitution, “An Explanatory Memorandum as to the Action Taken on the recommendations of the Fifteenth Finance Commission” has been placed in Parliament on 1st February 2020.

- (e) No recommendation of the Fifteenth Finance Commission in respect of para 9A of its ToR relating to setting up of a separate funding mechanism for defence and internal security is available. Hence, the impact on the overall tax pool that is to be shared with the States cannot be estimated.
- (f) The determination of the pool of taxes to be shared with State Government is the prerogative of Finance Commission. The Commission while making its recommendations takes into consideration its Terms of Reference and the various provisions of the Constitution. Art 281 of the Constitution mandates that every recommendation made by the Commission together with an explanatory memorandum as to the action taken thereon is to be laid before each House of Parliament. The Commission in its first report pertaining to FY 2020-21 has not indicated inclusion of cesses and additional duty of excise in the shareable pool.
