

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
LOK SABHA

UNSTARRED QUESTION NO. 2442

TO BE ANSWERED ON MONDAY, 15th DECEMBER, 2025

AGRAHAYANA 24, 1947 (SAKA)

INCREASING DEPENDENCY OF STATES ON CENTRAL GRANTS

2442. Ms. S Jothimani

Will the Minister of **Finance** be pleased to state:

- (a) the reasons for the increasing dependency of States on Central transfers and grants, which have accounted for nearly 23-30 per cent of States' total revenue during the last decade;
- (b) the measures taken/being taken by the Government to enhance the capacity of States to mobilise own tax revenue, including improving efficiency in collection of stamp duty, registration fees, motor vehicle tax, State excise duties, and other revenue sources;
- (c) whether the Government has assessed the declining ratio of States own tax revenue to Gross State Domestic Product (GSDP) in several States such as Tamil Nadu, Kerala and Madhya Pradesh and if so, the details of the factors contributing to this decline;
- (d) the steps taken/being taken by the Government to reverse the said trend and improve long-term revenue sustainability of the States; and
- (e) whether the Government is considering any tax reforms, including adjustments in tax-sharing, GST structure, that enable States to retain a higher share of taxes collected by them and if so, the details thereof?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a) to (b) The Union Government provides resources to States under Tax Devolution from divisible pool of Central taxes and duties and Grants-in-Aid including Finance Commission Grants and grants for Centrally Sponsored Schemes (CSS). In the last decade, there has been a substantial increase in devolution of central taxes & duties from the center to the States, transfers to States under CSS. In addition, States have been provided financial assistance of Rs. 4,24,226.50 crore

since 2020-21 under the Scheme of Special Assistance to States for Capital Expenditure/Investment. Capital expenditure in the economy has a higher multiplication factor and crowds-in private investment. This raises supply side capacity and enhances economic growth leading in enhancement in the capacity of States to mobilise own tax revenue.

(c) to (d) To reverse the declining ratio of own tax revenue to GSDP, States need to improve the tax base, prevent leakages of revenue and improve tax compliance. For this, the power of digitization and information technology should also be leveraged. The Union Government has provided fund to States under the Scheme of Special Assistance to States for Capital Expenditure/Investment for digitization and information technology infrastructure. In addition, a part of the tied grants recommended by the Finance Commission is also linked to efforts of the urban local body to increase the tax collection.

Moreover, States have enacted their Fiscal Responsibility and Budget Management (FRBM) Act, which makes the State Government responsible to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the government. Compliance to the Fiscal Responsibility and Budget Management (FRBM) Act is monitored by the State Legislature. Department of Expenditure, Ministry of Finance generally follows the fiscal limits mandated by the accepted recommendations of the Finance Commission while exercising the powers to approve borrowings by States under Article 293 (3) of the Constitution of India.

(e) A Group of Ministers (GoM) on rate rationalization has been constituted by GST Council to simplify the GST rate structure, reduce classification related disputes, enhance GST revenue and recommend changes to GST rates. Grievances in respect of rate rationalization including those from states are examined by the GoM. Further, the grievances received from states are examined by the Law Committee (in respect of GST Act, rules etc.) and by Fitment Committee (in respect of GST rates, classification etc.) Both the committees are comprised of officers both from the Centre as well as the States. System related grievances from States are examined by GSTN for resolution. In addition, any specific complaints/grievances from States are examined by the GST Council Secretariat, as and when received, for expeditious resolution.
