

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 3901
TO BE ANSWERED ON MONDAY, THE 16TH MARCH, 2026
PHALGUNA 25, 1947 (SAKA)

FISCAL FEDERALISM AND SHARE OF STATES IN DIVISIBLE TAX POOL

3901. SHRI. RAJMOHAN UNNITHAN :

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has examined the recommendations of the 16th Finance Commission and the repeated demand from States like Kerala to increase the States' share in the divisible pool of Central taxes from the present 41 per cent to at least 50 per cent in order to strengthen cooperative federalism;
- (b) whether it is a fact that continued dependence on cesses and surcharges retained by the Centre has significantly reduced fiscal space for States, if so, the details thereof;
- (c) whether the Government has held any consultation with the State Governments on revising fiscal devolution norms, if so, the details thereof; and
- (d) the steps taken or proposed to be taken by the Government to ensure equitable revenue sharing and financial stability of States?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PANKAJ CHAUDHARY)

- (a) The Government of India has examined the report of the Sixteenth Finance Commission and the Explanatory Memorandum as to the action taken by the Government of India on the Recommendations made by 16th FC is presented in the Parliament and also available at <https://www.indiabudget.gov.in/doc/16fc.pdf>. The 16th FC report mentions that due consultations have been held with various stakeholders, including State Governments. Based on examination of views of all stakeholders and its own analysis, the 16th FC has recommended to retain the States' share in the divisible pool at its current level of 41 per cent.
- (b) Does not arise. Fiscal space of States has increased from ₹8.98 lakh crore in FY2021-22 to ₹13.93 lakh crore in FY2025-26(RE) just on account of tax devolution to the States.
- (c) As per Article 280 (3) (a) of the Constitution, it is the duty of the Finance Commission to make recommendations on the distribution between the Union and the States of the net proceeds of taxes known as tax devolution. The Finance Commission holds consultations with State Governments

before finalising and presentation of its report. Views of State Governments on vertical devolution have been covered under Para 7.36 to 7.41 of Chapter 7 of Volume I of the 16th FC Report and the details of consultations with the States may be seen at Annexure 1.7 of Volume II of the 16th FC Report.

(d) In line with the recommendations of the 16th FC, the share of States in the divisible pool of Central taxes has been kept at 41 per cent for the award period FY 2026–27 to FY 2030-31. In addition to tax devolution, States are supported through Finance Commission grants, Centrally Sponsored Schemes, and Other Transfers.
