Polity & Governance · GS - II

How is the Finance Commission of India constituted? What do you know about the terms of reference of the recently constituted Finance Commission? Discuss.

EXAM YEAR	PAPER	SUBJECT
2018	GS - II	Polity & Governance

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Article 280; presidential constitution; fiscal federalism; tax devolution; grants-in-aid; local bodies; fiscal equalisation; intergovernmental transfers

Model Answer

Introduction

The Finance Commission is a constitutional body established under Article 280 to recommend how financial resources should be shared between the Union and states and to strengthen fiscal federalism.

Constitution and Composition

1. **Constitution:** The President constitutes the Finance Commission ordinarily every five years or earlier if necessary.
2. **Composition:** It consists of a Chairperson and four other members appointed by the President.
3. **Qualifications:** Parliament determines the required qualifications through legislation.
4. **Purpose:** The Commission recommends principles governing intergovernmental fiscal transfers.

Terms of Reference of the Fifteenth Finance Commission

The Fifteenth Finance Commission, constituted in 2017, was chaired by N. K. Singh. Its principal responsibilities included:

1. Recommending the distribution of the divisible pool of Union taxes between the Union and states and the allocation among states.
2. Recommending principles governing grants-in-aid to states.
3. Suggesting measures to augment state funds for Panchayats and municipalities, based on State Finance Commission recommendations.
4. Reviewing disaster-management financing arrangements.
5. Considering fiscal sustainability, expenditure needs and other matters referred by the President.

The Commission’s final recommendations covered the period 2021–26.

Conclusion

The Finance Commission promotes equitable resource distribution while balancing national priorities with state-level needs. Its recommendations are important for fiscal stability, decentralisation and balanced regional development.

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