Fourteenth Finance Commission

The 14th Finance Commission is headed by former governor Reserve Bank of India (RBI) Sh. Y V Reddy. Following are some of the frequently asked questions regarding Finance Commission:

Q: What is the Finance Commission?
A: The Finance Commission is a body set up under Article 280 of the Constitution, primarily to recommend measures and methods on how revenues, which the government earns through various taxes, need to be distributed between the Centre and states.

Q: What are the functions of the Finance Commission?
A: Two distinctive features of the commission's work involve redressing the imbalances between the taxation powers and expenditure responsibilities of the Centre and states respectively and equalisation of all public services across the states.

Q: For the states, how important is the role of the Commission for the management of their finance?
A: It is the duty of the commission to make recommendations to the government on the distribution of net tax revenues between the Centre and states and also the allocation of the respective shares of such proceeds to the states. The finance commission is also mandated to recommend measures to govern the grants-in-aid of the revenues of the states out of the Consolidated Fund of India (CFI). Besides, it recommends measures needed to augment the Consolidated Fund of a state to supplement the resources of Panchayati in the state on the basis of the recommendations made by the respective state finance commissions. In addition, it is the mandate of the Finance Commission to recommend measures needed to boost the Consolidated Fund of a state to supplement the resources of municipalities in the state.

Q: Who appoints the Finance Commission and what are the qualifications for members?
A: The Finance Commission, which is headed by a chairman and has four other members, is appointed by the President under Article 280 of the Constitution. As per the provisions contained i n the Finance Commission [Miscellaneous Provisions] Act, 1951 and The Finance Commission (Salaries & Allowances) Rules, 1951, the chairman of the commission is selected from among persons who have had experience in public affairs.

Q: How are the four other members selected?
A: The four other members are selected from among persons who are, or have been, or are qualified to be appointed as judges of a high court; have special knowledge of the finances and accounts of the government; have had wide experience in financial matters and in administration; have special knowledge of economics.

Q: How are the recommendations of Finance Commission implemented?
A: The recommendations on distribution of central taxes and grants-in-aid are implemented by an order of the President. Other recommendations such as those relating to sharing of profit of petroleum, debt relief and other central assistances are implemented by an executive order.

Q: When was the first commission appointed and how many commissions had been appointed so far?
A: The first Finance Commission was constituted in 1951 headed by KC Neogy. Thirteen finance commissions have been appointed so far at intervals of every five years.

Q: Is the Finance Commission unique to India?
A: Most federal systems resolve the fiscal imbalances through mechanisms similar to the Finance Commission. For example, Australia and Canada, have systems similar to India's Finance Commission.

Q: What is the mandate of the 14th Finance Commission?
A: Besides sharing of tax revenues, the commission is also charged with laying down the principles for giving out grantin-aid to states and other local bodies for a five-year period beginning April 1, 2015. The commission will consider potential resources of the Centre and the state for period, taxation efforts and the potential of additional revenue mobilisation, demands on the resources of the Centre and various requirements of states before finalising its revenue sharing formula.