Finance Commission

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Finance Commission Latest News

Bihar Reiterates Demand for Special Category Status Before the 16th Finance Commission

What is the Finance Commission?

- The **Finance Commission (FC)** is a **constitutional body** established under **Article 280** of the Indian Constitution.
- It is constituted **every five years** by the **President of India**, it consists of:
  - **One Chairman** (Expert in public affairs).
  - **Four Members** (Experts in finance, economics, and administration).
- It ensures **fiscal federalism** and advises on **public expenditure and economic policies**.
- **16th Finance Commission: Established in 2023**, the **16th Finance Commission** is responsible for recommending the **distribution of finances** between the **Centre and States** for the period **April 1, 2026 – March 31, 2031**.

Finance Commission Functions

- **Vertical devolution**: Determines the **share of states in the central divisible pool of taxes** (e.g., GST, income tax).
- **Horizontal distribution**: **Allocates funds among states** based on fiscal needs, revenue-generating capacity, and developmental performance.
- **Grants-in-Aid**: Recommends **grants to revenue-deficient states** and specific sectors in need of financial support.

What is Special Category Status (SCS)?

- **Special Category Status (SCS)** is a classification given to states to provide them with **additional central assistance** due to economic and geographic disadvantages.
- Introduced in **1969** based on the **Gadgil Formula**, recommended by the **5th Finance Commission (Mahavir Tyagi)**.
- Initially granted to **Assam, Jammu & Kashmir, and Nagaland**.

Criteria for Special Category Status (Based on Gadgil Formula)

A state must have:

- Hilly and difficult terrain.
- Low population density and/or a significant tribal population.
- Strategic location along international borders.
- Economic and infrastructural backwardness.
- Non-viable state finances.

Evolution and States with SCS

- Initially given to **three states (1969)** and later expanded.
- Currently, **11 states** have SCS:
  - **Northeast states**: Assam, Nagaland, Manipur, Meghalaya, Tripura, Arunachal Pradesh, Mizoram, and Sikkim.
  - **Hilly states**: Himachal Pradesh and Uttarakhand.
  - **Telangana** (Granted due to bifurcation from Andhra Pradesh).
- **States demanding SCS**: Andhra Pradesh, Bihar, Odisha.

Benefits of Special Category Status (SCS)

- **Higher Central Assistance**:
  - **90% of funds as grants** and **10% as loans** for **Centrally Sponsored Schemes (CSS)**.
  - Non-SCS states get only **30% grants and 70% loans**.
- **Special plan assistance**: Funding for projects of special importance.

- **Non-lapsable funds**: Unspent funds **do not lapse** at the end of the financial year.
- **Tax concessions**: Special tax incentives (though many have been subsumed under **GST**).

Finance Commission FAQs

Q1. What is the Finance Commission (FC)?

Ans. The Finance Commission is a constitutional body established under Article 280 of the Indian Constitution to recommend the distribution of financial resources between the Centre and States.

Q2. How often is the Finance Commission constituted?

Ans. The Finance Commission is constituted every five years or at an earlier time as deemed necessary by the President of India.

Q3. Who appoints the Finance Commission?

Ans. The President of India appoints the Finance Commission.

Q4. What is the composition of the Finance Commission?

Ans. The Commission consists of a Chairman and four other members appointed by the President. The qualifications and selection criteria are set by Parliament.

Q5. What is the latest Finance Commission?

Ans. The 15th Finance Commission (2021-26), chaired by N.K. Singh, submitted its report in 2020.

Source: PTI
