



Cabinet

Azadi Ka
Amrit Mahotsav

Cabinet approves Terms of Reference for the Sixteenth Finance Commission

Posted On: 29 NOV 2023 2:27PM by PIB Delhi

The Union Cabinet chaired by the Prime Minister, Shri Narendra Modi has approved the Terms of Reference for the Sixteenth Finance Commission.

The Terms of Reference for the Sixteenth Finance Commission will be notified in due course of time. The 16th Finance Commission's recommendations, upon the acceptance by the government, would cover the period of five (5) years commencing April 1, 2026.

Article 280(1) of the Constitution lays down that the modalities for setting up of a Finance Commission to make recommendation on the distribution of net proceeds of taxes between the Union and the States, allocation between the States of respective shares of such proceeds; grants-in-aid and the revenues of the States and measures needed to supplement the resources of the Panchayats during the award period.

The Fifteenth Finance Commission was constituted on November 27, 2017. It made recommendations covering the period of six years commencing on 1st April, 2020 through its Interim and Final Reports. The recommendations of the Fifteenth Finance Commission are valid upto the financial year 2025-26.

Terms of Reference for the Sixteenth Finance Commission:



The Finance Commission shall make recommendations as to the following matters, namely:




- i. The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
- ii. The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of grants-in-aid of their revenues under article 275 of the Constitution for the purposes other than those specified in the provisos to clause (1) of that article; and
- iii. The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

The Commission may review the present arrangements on financing Disaster Management initiatives, with reference to the funds constituted under the Disaster Management Act, 2005 (53 of 2005), and make appropriate recommendations thereon.

The Commission shall make its report available by 31st day of October, 2025 covering a period of five years commencing on the 1st day of April, 2026.

Background:

 The Fifteenth Finance Commission (the 15th FC) was constituted on 27.11.2017 for making recommendations for a five-year period of 2020-21 to 2024-25. On 29.11.2019, the ToR of the 15th FC  was amended requiring the Commission to submit two reports, namely a first report for financial year 2020-21 and a final report for an extended period of 2021-22 to 2025-26. As a result, the 15th FC made its recommendations for a six-year period from 2020-21 to 2025-26.

 The Finance Commission normally takes about two years to make their recommendations. As per the clause (1) of article 280 of the Constitution, the Finance Commission is to be constituted every fifth year or earlier.  However, as the recommendations of the 15th FC cover the six-year period up to 31st March 2026, the 16th FC is proposed to be constituted now. This will enable the Finance Commission to consider and  praise the finances of the Union and the States for the period immediately, preceding the period of its recommendations. In this context, it is pertinent to mention that there are precedents where the Eleventh Finance Commission was constituted six years after the Tenth Finance Commission. Similarly, the Fourteenth Finance Commission was constituted five years and two months after the Thirteenth Finance Commission.

The Advance Cell of the 16th FC was formed in Ministry of Finance on 21.11.2022, to oversee preliminary work, pending formal constitution of the Commission.

Thereafter, a Working Group headed by Finance Secretary and Secretary (Expenditure) and comprising of Secretary (Economic Affairs), Secretary (Revenue), Secretary (Financial Services), Chief Economic Adviser, Adviser, NITI Aayog and Additional Secretary (Budget) was set up to assist in formulation of the Terms of Reference (ToRs). As part of the consultative process, views and suggestions were sought from the State Governments and the Union Territories (with legislature) on the ToRs, and were duly deliberated by the Group.

DS

(Release ID: 1980688) Visitor Counter : 13981

Read this release in: Urdu , Hindi , Marathi , Manipuri , Assamese , Bengali , Punjabi , Gujarati , Odia , Tamil , Telugu , Kannada , Malayalam