**FIFTEENTH FINANCE COMMISSION (FC-XV)**

The Fifteenth Finance Commission (FC-XV) was constituted on 27th November, 2017 with Mr. N.K. Singh IAS as chairman. The other four members of the Commission are Mr. Shaktikanta Das, Mr. Anoop Singh, Mr. Ashok Lahiri and Prof. Ramesh Chand. The Commission was set up to give recommendation for five years commencing from 1st April 2020 to March 31, 2025.After passing through a serious crisis of time due to COVID-19 pandemic, the Chairman of 15th Finance Commission submitted its report for 2021-22 to 2025-26 to the President of India on 9th November, 2020. The Commission required to submit two reports, the first report consisting recommendations for the financial year 2020-21was tabled in Parliament in February 2020. The final report with recommendations for the 2021-2026 period was tabled in Parliament on February 1, 2021.

**Recommendations of Fifteenth Finance Commission (FC-XV)**

Following are some of the key recommendations of Fifteenth Finance Commission:

**1) Vertical Devolution (Devolution of taxes of the Union to States):**

The share of states in the central taxes for the 2021-26 period is recommended to be 41%, same as that for 2020-21. This is less than the 42% share recommended by 14th Finance Commission. The adjustment of 1% is to provide for the newly formed union territories of Jammu and Kashmir and Ladakh from the resources of the centre.

**2) Horizontal Devolution ( Allocation between the States):**

For horizontal devolution, the Commission has suggested 12.5% weightage to demographic performance, 45% to income, 15% each to population and area, 10% to forest and ecology and 2.5% to tax and fiscal efforts.

**Criteria for Devolution:**

**a) Income Distance:** income distance is the distance of a State’s income from the State with the highest income. Income of a State has been computed as average per capita State GDP during the three-year period from 2016-17 to 2018-19. A State with lower per capita income will have a higher share to maintain equity among States.

**b) Demographic Performance:** the Commission used 2011 population data for its recommendations. The demographic preference criterion has been used to reward efforts made by States in controlling their population. State with a lower fertility ratio will be scored higher on this criterion.

**c) Forest and Ecology:** This criterion has been arrived at by calculating the share of dense forest of each State in the total dense forest of all the States.

**d) Tax and Fiscal Efforts:** This criterion has been used to reward States with higher tax collection efficiency. It is measured as the ratio of the average per capita own tax revenue and the average per capita State GDP during the three years between 2016-17 and 2018-19.

**3) Grants:**

Over the 2021-26 period, the following grants will be provided from the Centre’s resources.

**a) Revenue Deficit Grants:** 17 States will receive grants worth ₹ 2.9 lakh crore to eliminate revenue deficit.

**b) Sector-specific Grants:** Sector specific grants of ₹ 1.3 lakh crore will be given to States for eight sectors: i) health, ii) school education iii) higher education, iv) implementation of agricultural reforms, v) maintenance of PMGSY roads, vi) judiciary, vii) statistics and viii) aspirational districts and blocks. A portion of these grants will be performance linked.

**c) State-specific Grants:** The Commission recommended State-specific grants of ₹ 49,599 crore. These will be given in the areas of i) social needs, ii) administrative governance and infrastructure, iii) water and sanitation, iv) preservation of culture and historical monuments, v) high-cost physical infrastructure and vi) tourism.

**d) Grants to Local Bodies:** The total grants to local bodies will be ₹ 4.36 lakh crore out of which i) ₹ 2.4 lakh crore for rural local bodies, ii) ₹ 1.2 lakh crore for urban local bodies , iii) ₹ 70,051 crore for health grants through local grants and iv) ₹ 8,450 core for other than health grants . Health grants to local bodies will be made available to all three tiers of Panchayat- village, block and district. Grants other than health will be distributed among States based on population and area, with 90% and 10% weightage respectively.

**e) Disaster risk Management:** The Commission recommended for retaining the existing cost-sharing patterns between the Centre and States for disaster management funds. The cost-sharing pattern between Centre and States is : i) 90:10 for North-eastern and Himalayan States and ii) 75:25 for all other States. State disaster management funds will have a corpus of ₹ 1.6 lakh crore ( Centre’s share is ₹ 1.2 lakh crore).

**4) Fiscal Roadmap:**

**a) Fiscal Deficit and Debt Levels:** The Commission suggested that the Centre bring down fiscal deficit to 4% of GDP BY 2025-26. For States, it recommended the fiscal deficit limit (as% of GSDP) of : i) 4% in 2021-22, ii) 3.5% in 2022-23 and iii) 3% during 2023-26. If a State is unable to fully utilise the sanctioned borrowing limit during the first four years (2021-25), it can avail the unutilized borrowing amount in subsequent years within the 2021-2026 period.

**b) Revenue Mobolisation:** Income and asset based taxation should be strengthened. Coverage of provisions related to tax deduction and collection at source should be expanded. Stamp duty and registration fees at the state level have large untapped potential. State government should streamline the methodology of property valuation.

**c) GST:** Renenue neutrality of GST should be restored which has been compromised by multiple rate structure and several downward adjustments. Rate structure should be rationalized by merging the rates of 12% and 18%.

**5) Other Recommendation:**

**a) Health:** State should increase spending on health to more than 8% of their budget by 2022. Primary healthcare expenditure should be two-third of the total health expenditure by 2022. Centrally sponsored schemes (CSS) in health should be flexible enough to allow states to adapt and innovate.

**b) Funding of Defence and Internal Security:** A non-lapsable fund called the Modernisation Fund for Defence and Internal Security (MFDIS) will be constituted to primarily bridge the gap between budgetary requirements and allocation for capital outlay in defence and internal security. The fund will have an estimated corpus of ₹ 2.4 lakh crore over the five years (2021-26).

**c) Centrally Sponsored Schemes (CSS):** the Commission has recommended to fix a threshold amount for annual allocation to CSS below which the funding for a CSS should be stopped. Below the stipulated threshold, the administrating department should justify the need for the continuity of the scheme. Third-party evaluation of all CSS should be completed within a stipulated time.

Thus, the 15th Finance Commission made recommendations for far reaching changes in tax devolution that will move the country towards greater fiscal federalism, granting more fiscal autonomy to the states. The report of the Commission emphasizes statutory transfers from the centre to states with an objective of strengthening ‘cooperative federalism’ rather than grants-in-aid, which are discretionary in nature.