



Fiscal incentives in the recommendations of the thirteenth finance commission

Dr. BN Harisha

Post Doctoral Fellow, Department of PG Studies in Economics, Kuvempu University, Jnana Sahyadri, Shankaraghatta, Karnataka, India

Abstract

The Thirteenth Finance Commission (THFC) has attempted to ensure both equity and efficiency. It has also tried to ensure that incentives do better work for the States so that they are able to generate more revenue and thus depend less on the Centre. The focus of the revenue potential gap is an indication in the same direction. The poorer States will gain more in tax devolution and also the Thirteenth Finance Commission has given more grants to the backward States for various purposes.

Keywords: equity, efficiency, revenue, tax devolution

1. Introduction

The Thirteenth Finance Commission (THFC) has attempted to ensure both equity and efficiency. It has also tried to ensure that incentives do better work for the States so that they are able to generate more revenue and thus depend less on the Centre. The focus of the revenue potential gap is an indication in the same direction. The poorer States will gain more in tax devolution and also the Thirteenth Finance Commission has given more grants to the backward States for various purposes.

In an important clarification concerning the terms of reference (vide for details Rao et al: 2008) [10] of the Thirteenth Finance Commission, it has been pointed out that the finance commission is an independent constitutional authority vested with the task of dividing the fiscal resources as an important arbiter and therefore, has to take into consideration the revenue potential of the Centre and the States on the one hand and genuine expenditure needs of the Centre and the States on the other.

Accordingly, the Thirteenth Finance Commission was constituted in 2007 to make recommendations relating to tax devolution between the Centre and states; grants-in aid to states; and measures needed to augment to consolidated Fund of the state to supplement the resources of the Panchayats and Municipalities. The Thirteenth Finance commission has also been mandated to review the state of finances of the [Union and States Government, keeping in view, in particular, the operation of the States Debt Consolidation and Relief Facility 2005-2010 introducing by the Central Government on the basis of the recommendations of the Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment Consisted with equitable growth [Economic Survey - (2009-2010)] [4].

The Twelfth Finance Commission considered that the scheme of transfers should be designed to serve the objectives both equity and efficiency. Fiscal transfers should also be predictable and stable. These transfers should correct both the vertical and horizontal imbalances. The vertical imbalance system exists in the system by design where revenues are

more centralized and responsibilities more decentralized. Twelfth Finance Commission noted that fiscal transfers to states, through all channels, as percentage of the gross revenue receipts of the centre has increased from an average of 31.4 percent in the period of the Six Finance Commission to 38.0 percent for the Seventh Finance Commission. It increased further to 39.3 percent for the period covered by the Ninth Finance commission before coming down to 35.2 percent during the period of the Tenth Finance.

This study has been divided into two parts: of fiscal transfers (tax devolution), and grants-in-aid, which have contained distinguishing features. The tax devolution has a built in flexibility as it can increase allocation to states automatically if the central taxes are more buoyant. Conversely, there is risk if their buoyancy falls short of expectations. Grants-in –aid are ensured as these are fixed in nominal terms.

2. Objectives of the study

The prime objectives of the present study are as follows: -

- To highlights the levels and trends of the tax devolution of Central taxes to states for the period of 1990-91 to 2001-02.
- To focus the sharing of Union Tax Revenues from Ninth Finance Commission to the Thirteenth Finance Commission.
- To examine the criteria-wise weightage of horizontal sharing of Union taxes from Ninth Finance Commission to Thirteenth Finance Commission.
- To find out the share in central taxes; which are recommended by the Eleventh to Thirteenth Finance Commission.
- To focus the various provisions of Grants-in-Aid to the states for Thirteenth Finance Commission.

3. Research Methodology

1. Data Sources

For the present study, the data has been collected from the Reports of various Finance Commission., Government of India, New Delhi.

2. Method of analysis

The time series analysis technique has been used to analyse the levels and trends of the tax devolution of Central tax to states for the period of 1990-91 to 2001-02.

4. Reforms in tax sharing

India is a federal country where governments operate at three levels; Centre, States and Local. The Central or Union Government is more powerful in revenue collection and financial resources. Therefore, there is a provision in the constitution of India to share the central resources by the states. This sharing takes normally three forms:

1. Tax sharing;
2. Grants-in-aid;
3. Provision of loan

The constitution of India provides under article 280(1), the appointment of a Finance Commission by the President of India. Until now twelve Finance Commissions have been constituted and they have given their recommendation. The successive Finance Commissions have adopted reform measures to make the tax sharing more equitable and efficient. The provision of grants has been made more accountable with a view to check financial wastage.

5. Restructuring of public finance in India

1. Sharing of union tax revenues;
2. Grants-in-aid; and,
3. Provision of loan.

Restructuring of public finances aimed at macroeconomic stabilization and achieving revenue account balance requires a broad analytical framework. The raising of the tax-GDP ratio for the center and tax-GSDP ratio for the states are the need of restructuring public finances. The main elements of this restructuring programme increases in the tax revenues and capital expenditures relative to GDP while attaining targeted reductions in revenue and fiscal deficits both for the central and states governments.

6. Restructuring of Public Finances in the Twelfth Finance Commission, (2005-2010)

Recommendations of the restructuring of the public finances in Twelfth Finance Commission are given below: -

1. The Combined tax-GDP ratio of the centre and states should be increased from 15.6 percent in 2004-05 to 17.6 percent in 2009-10, while primary expenditure should be increased from 22.0 percent in 2004-05 to 23.1 percent in 2009-10, and the capital expenditure should be increased from 5.6 percent in 2004-05 to 6.6 percent in 2009-10.
2. The combined debt-GDP ratio with external debt measured at historical exchange rates should at a minimum, be brought down to 75.0 percent by the end of 2009-10.
3. The system of on lending should be brought to an end over time and the long-term goal for the centre and states for the debt-GDP ratio should be 28.0 percent each.
4. The fiscal debt to GDP-ratio targets for the centre and the states may be fixed at 3.0 percent of GDP each.
5. The centre's interest payment relative to revenue receipt

should reach about 28.0 percent by 2009-10. In the case of the states, the level of interest payments relative to revenue receipts should down to about 15 percent by 2009-10.

6. The revenue deficit relative to GDP for the Central and State's Governments, for their combined as well as individual accounts should be brought down to zero by 2008-09.
7. States should follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35.0 percent.
8. Each state should enact a fiscal responsibility legislation, which should providing for elimination of revenues deficit by 2008-09 and reducing fiscal deficit to 3.0 percent of GSDP or its equivalent.
9. Each state should enact a fiscal responsibility legislation which provide for bringing out annual reduction targets of revenue and fiscal deficits, bringing out annual statement giving prospects for the state economy and related fiscal strategy, and bringing out special statements along with the budget giving in the detail the number of employees in government, public sector and aided institutions and related salaries.

We are giving below the recommendations of the last four Finance Commissions (Ninth to Twelfth) with a view to have a comparative picture of the successive reforms as recommended by the above mentioned Finance Commissions.

7. Sharing of union tax revenues in second report of ninth finance commission

There are various provision of tax sharing in Second Report of Ninth Finance Commission that are given below: -

1. Income Tax

1. Out of net distributable proceeds, a sum equal to 1.437 percent is deemed to represent the proceeds attributable to the Union Territories;
2. Eighty-five percent of the divisible pool of Income Tax should be assigned to the States.

2. Union Excise Duties

1. The divisible pool of Union Excise Duties include the net proceeds of all Excise Duties including special Excise Duties but excluding duties collected the Additional Excise Duties (Textiles and Textile Article) Act 1978 and the earmarked cesses;
2. The State's share in the net proceeds of shareable Union Excise Duties is 45.0 percent.

8. Sharing of union tax revenues in tenth finance commission

There are various provision of tax sharing in Tenth Finance Commission that are given below: -

1. Income Tax

1. Out of the net distributable proceeds of income tax, a sum equal to 0.927 percent shall be deemed to represent the proceeds attributable to Union Territories;

2. The share of the net proceeds to income tax assigned to the States shall be 77.5 percent.

2. Union excise duties

1. We recommended that 40 percent of the net proceeds of Union Excise Duties each financial year in the period of 1995-2000, should be distributed as per the shares;
2. We also recommend that the remaining 7.5 percent of the net proceeds of Union Excise Duties be distributed among the States accordance with the shares specified by us for each financial year in period of time from 1995-96 to 1999-2000.

9. Sharing of Union Tax Revenues in Eleventh Finance Commission

There are various provision of tax sharing in the Eleventh Finance Commission that are given below: -

1. For the period of five years commencing from April 1, 2000, total share of the States in the net proceeds of Union Taxes and Duties are 29.5 percent.
2. Inter se distribution of this additional 1.5 percent was done in the same manner as the distribution of 28.0 percent.

10. Sharing of union tax revenues in twelfth finance commission

There are various provision of tax sharing in Twelfth Finance Commission that are given below: -

1. The share of States in the net proceeds of shareable central taxes fixed at 3.5 percent, treating additional excise duties in lieu of sales tax as part of the general pool of the Central taxes. Share of States to come down to 29.5 percent, when States are allowed to levy sales tax on sugar, textiles and tobacco;
2. In case of any legislation enacted in respected of service tax, after the notification of the eighty-eighth amendment to the Constitutions revenue accruing to a State should not be loess than the share that would accrue to it, had the entire service tax, proceeds been part of the shareable pool; and
3. The indicative amount of overall transfers to States to be fixes at 38.0 percent of the Centre's gross revenue receipts.

11. Sharing of union tax revenues in thirteenth finance commission

There is various provision of tax sharing in Thirteenth Finance Commission that is given below: -

1. The share of states in net proceeds of shareable central taxes fixed at 32 percent in each of the financial year from 2010-11 to 2014-15. Under the Additional Duties of Excise (Goods of Special Importance) Act 1957, all goods were exempted from payment of duty 1 March 2006. The Central Government has adjusted the basic duties of excise on sugar and tobacco products. The state's share in the net proceeds of shareable central taxes remain unchanged at 32 percent, even in the event of tates, even in the event of states levying sales tax (or

Value Added Tax (VAT) on these commodities;

2. In the event of notification of the 88th Amendment to the Constitution and enactment of any legislation following such notification, it should be ensured that the revenue accruing to a state under the legislation should not be less than the share that would accrue to it, had the entire service tax been part of the shareable pool of central taxes;
3. The Central Government should review the levy of classes and surcharges with a view to reducing their share in its gross tax revenue;
4. the indicative ceiling on overall transfers to states on the revenue account may be set at 39.5 percent of gross revenue receipts of the centre; and,
5. The share of each state in the net proceeds of all shareable central taxes in each of the financial years from 2010-11 to 2014-2015.

Thirteenth Finance Commission was used equity and efficiency which are the main guiding principles in designing a system of fiscal transfers, which are: -

1. The principle of equity addresses the problem of differences in revenue raising capacity and cost disabilities across states. When capacity is assessed on the basis of observed revenue collected there is the risk of moral hazard in making the states tax in terms of improving their revenue effort and managing their finances prudently;
2. The principle of efficiency is intended to address this issue and to motivate the states to exploit their resources base and their fiscal operations in a cost effective manner.

A combination of these two principles has found wide acceptability and addressed that concern of reforming states. An efficient fiscal transfer system should also be characterized by predictability and stability. Predictability of resource flows enables the sub national governments to plan ahead, and stability ensures that there will not be sudden shocks in the transfer arrangements. In the consideration of the issue of equity reference is often made to its vertical and horizontal dimensions. The main conceptual issues relate to the interdependence of the vertical and horizontal dimensions of equity and trade-off. This study is also taking into account of the implications of vertical and horizontal fiscal externalities.

12. Devolution of Taxes

The Sharing of Central tax revenues, individually or globally, can be potent means of redistribution among states because of its large weight in the complete scheme of transfers and redistribution. The extent of redistribution of Central tax revenues, depends on the vertical shares of the centre and the states, and the horizontal shares pertaining to individual states. The horizontal shares is bring about redistribution depending on the weights attached to such criteria which will give higher shares to low revenue capacity states, and the total amount (vertical share) that is redistributed among states of India. The devolution of Central taxes is given in Table-1.

Table 1: Tax Devolution of Central Taxes to States: 1990-91 to 2001-02

Year	Tax Devolution (In Rs. Crore)	Gross Tax Revenue Receipts (GTR) (In Rs. Crore)	Net Shareable Tax Revenue Receipts (In Rs. Crore)	Tax Devolution As Percent to Net Shareable Tax Revenue Receipts
1990-91	14,534	57,575	52,585	27.64
1991-92	17,197	67,361	61,687	27.88
1992-93	20,524	74,639	68,517	29.95
1993-94	22,240	75,742	69,956	31.79
1994-95	24,843	92,297	86,683	28.66
1995-96	29,285	111,224	104,615	27.99
1996-97	35,061	128,762	121,227	28.92
1997-98	35,954	139,220	132,515	27.13
1998-99	39,145	143,797	136,855	28.60
1999-00	43,481	171,732	163,369	26.62
2000-01	51,688	188,603	179,762	28.75
2001-02	52,842	187,060	179,167	29.40

Source: Report of Twelfth Finance Commission (2005-2010): Government of India, New Delhi.

Table-2 and Graph-1 have shown the state-wise share in total transfers (Tax Devolution + Grants) as recommended from Ninth Finance Commission to Twelfth Finance Commission. Uttar Pradesh, Bihar, Madhya Pradesh, Punjab, Karnataka have increasing trends for the share of total transfers for Ninth

Finance Commission to Twelfth Finance Commission. The North-Eastern states have declining trends for the share of total transfers for Ninth Finance Commission to Twelfth Finance Commission.

Table 2: State-wise Share in Total Transfers (Tax Devolution + Grants) as Recommended by Finance Commission after Reform Period: 1990 to 2010 (In Percent)

States	Finance Commission			
	Ninth	Tenth	Eleventh	Twelfth
Andhra Pradesh	6.83	7.08	7.13	6.66
Arunachal Pradesh	0.79	0.78	0.53	0.47
Assam	3.73	3.67	3.05	3.22
Bihar	10.54	10.88	13.04	13.14
Chhattisgarh	----	----	----	2.42
Goa	0.48	0.27	0.29	0.23
Gujarat	3.50	3.92	2.76	3.39
Haryana	1.13	1.23	0.97	1.06
Himachal Pradesh	1.75	2.10	1.72	1.91
Jammu & Kashmir	3.17	3.23	3.78	2.76
Jharkhand	----	----	----	3.13
Karnataka	3.83	4.54	4.53	4.16
Kerala	3.25	3.41	2.83	2.59
Madhya Pradesh	7.40	7.10	8.05	8.55
Maharashtra	5.85	6.05	4.46	4.79
Manipur	1.02	0.94	0.74	0.91
Meghalaya	0.78	0.83	0.68	0.58
Mizoram	0.96	0.80	0.58	0.62
Nagaland	1.17	1.23	1.02	0.99
Orissa	5.21	4.28	4.77	4.89
Punjab	1.58	1.58	1.25	1.70
Rajasthan	6.15	5.03	5.42	5.47
Sikkim	0.24	0.31	0.38	0.24
Tamil Nadu	5.85	5.89	4.97	4.85
Tripura	1.35	1.27	1.00	1.11
Uttar Pradesh	16.46	15.95	18.05	19.27
Uttarakhand	----	----	----	1.61
West Bengal	6.99	6.61	8.10	6.73

Source: Report of Thirteenth Finance Commission (2010-2015): Government of India, New Delhi.

13. Criteria-Wise Weightage of Central Taxes Sharing in India

A combination of these two principles has found wide acceptability and addressed that concern of reforming states. An efficient fiscal transfer system should also be characterized

by predictability and stability. Predictability of resource flows enables the sub national governments to plan ahead, and stability ensures that there will not be sudden shocks in the transfer arrangements. In the consideration of the issue of equity reference is often made to its vertical and horizontal

dimensions. The main conceptual issues relate to the interdependence of the vertical and horizontal dimensions of equity and trade-off. This study is also taking into account of the implications of vertical and horizontal fiscal externalities. It is important to observe that since the Tenth Finance Commission (TFC) 1995-2000), has been a distinct change or paradigm shift in the choice of criteria. The downright discarding of the “Index of Backwardness”, “Inverse Per capita income” and the Poverty Ratio” and bringing in new criteria of fiscal performance (Tax Efforts and Fiscal Discipline) have to be viewed with concern. Such a move

emphasizing fiscal performance defeats the very basic objective of the equity. The following criteria and weightage were adopted for horizontal sharing of taxes by different Finance Commissions which is : - (i). Population; (ii). Per capita income distance; (iii). Index of infrastructure; (iv). Inverse per capita income; (v). Index of backwardness; (vi). Area; (vii). Tax effort; (viii). Fiscal discipline; and (ix). Fiscal capacity distance

The Criteria-wise weightage of horizontal sharing of Central taxes by different Finance Commission is given in Table-3, and Table-4.

Table 3: Criteria-wise Weightage in Second Report of Ninth Finance Commission (1990-95)

S. No.	Indicator	Weightage (in Percent)	
		Income Tax Sharing	Union Excise Duties Sharing
1.	Population	25.0	29.94
2.	Per capita Income Distance	50.0	40.12
3.	Inverse Per capita Income	12.5	14.97
4.	Index of Backwardness	12.5	14.97

Source: Report of Ninth Finance Commission (1990-1995): Government of India, New Delhi.

Table 4: Criteria-wise Weightage in Tenth Finance Commission (1995-2000), Eleventh Finance Commission (2000-2005), Twelfth Finance commission (2005-2010) and Thirteenth Finance Commission (2010-2015)

S. No.	Indicator	Weightage (in Percent)			
		Tenth Finance Commission	Eleventh Finance Commission	Twelfth Finance Commission	Thirteenth Finance Commission
1.	Population	20.0	10.0	25.0	25.0
2.	Per capita Income Distance	60.0	62.5	50.0	----
3.	Area	5.0	7.5	10.0	10.0
4.	Index of Infrastructure	5.0	7.5		----
5.	Tax Effort	10.0	5.0	7.5	
6.	Fiscal Discipline	----	7.5	7.5	17.5
7.	Fiscal Capacity Distance	---	----	----	47.5

Source: Various Report of Finance Commission.

The horizontal aspect of fiscal transfers of central government relates to their inter se distribution among states. It has given in

Table 5: Share in Central Taxes: Recommended by the Eleventh, Twelfth and Thirteenth Finance Commission

States	Shares of States			Percentage Points	
	EFC	TFC	THFC	TFC-EFC	THFC-TFC
Andhra Pradesh	7.701	7.356	6.937	-0.345	-0.419
Arunachal Pradesh	0.244	0.288	0.328	0.44	0.040
Assam	3.285	3.235	3.628	-0.050	0.393
Bihar	11.589	11.028	10.917	-0.561	-0.111
Chhattisgarh	2.385	2.654	2.470	0.269	-0.184
Goa	0.206	0.259	0.266	0.053	0.007
Gujarat	2.821	3.569	3.041	0.748	-0.528
Haryana	0.944	1.075	1.048	0.131	-0.027
Himachal Pradesh	0.683	0.522	0.781	-0.161	0.259
Jammu & Kashmir	1.290	1.297	1.551	0.067	0.254
Jharkhand	3.008	3.361	2.802	0.353	-0.559
Karnataka	4.930	4.459	4.328	-0.471	-0.131
Kerala	3.057	2.665	2.341	-0.392	-0.324
Madhya Pradesh	8.838	6.711	7.120	0.258	0.409
Maharashtra	4.632	4.997	5.199	0.365	0.202
Manipur	0.366	0.362	0.451	-0.004	0.089
Meghalaya	0.342	0.371	0.408	0.029	0.047
Mizoram	0.198	0.239	0.269	0.041	0.30
Nagaland	0.220	0.263	0.314	0.043	0.051
Orissa	5.056	5.161	4.779	0.105	-0.382
Punjab	1.147	1.299	1.389	0.152	0.090

Rajasthan	5.473	5.609	5.853	0.136	0.244
Sikkim	0.184	0.227	0.239	0.043	0.012
Tamil Nadu	5.385	5.305	4.969	-0.080	-0.336
Tripura	0.487	0.428	0.511	-0.059	0.083
Uttar Pradesh	19.137	19.264	19.677	0.127	0.413
Uttrakhand	0.661	0.939	1.120	0.278	0.181
West Bengal	8.116	7.057	7.264	-1.059	-0.207
All States	100.00	100.00	100.00		

Source: Various Report of Finance Commission.

14. Grants-in-aid of central government to states

Kesab Das (1993 and 1997) has shown for four decades since the First-Five Year Plan, with draconian policies like freight equalization, non-revision of royalties on minerals exploited, and a gave siphoning off of the central investment subsidy by the relatively advanced states, poorer states like Orissa, Bihar, Assam, Madhya Pradesh, Jharkhand and Chhattisgarh have emerged net losers in the spheres of infrastructure and productive activities. According to the Thirteenth Finance Commission, there are various provisions of the grants-in-aid to the States, which are given below: -

- Total non-plan revenue grant of Rs. 51,800 crore is recommended over the award period for eight states.
- A performance grant of Rs. 1500 crore is recommended for three special category states who have graduated from a Non-plan Revenue Deficit (NPRD) situation.
- A grant of Rs. 24,068 crore is recommended for elementary education over the award period.
- The education grant will be an additionality to the normal expenditure of the states for elementary education. The expenditure (plan + non-plan) under elementary education, exclusive of grants recommended, should grow by at least 8 per cent annually during 2010-15.
- An amount of Rs. 5000 crore is recommended as forest grant for the award period.
- Grants for the first two years are untied but priority should be given to the preparation of working plans. Release of grants for the last three years is linked to progress in the number of approved working plans.
- Twenty five per cent of the grants in the last three years are for preservation of forest wealth. These grants are over and above the non-plan revenue expenditure on forestry and wildlife and shall be subject to the conditionalities given in the Thirteenth Finance Commission. Seventy five per cent of the grants in the last three years can be used by states for development purposes.
- An incentive grant of Rs. 5000 crore is recommended for grid-connected renewable energy based on the states' achievement in renewable energy capacity addition from 1 April 2010 to 31 March 2014. The performance of states in this regard needs to be reviewed on the basis of data published by Government of India on capacity addition by states.
- An amount of Rs. 5000 crore is recommended as water sector management grant for four years, i.e., 2011-12 to 2014-15 of the award period.
- Release of water sector grants would be subject to setting up of a Water Regulatory Authority and achieving the normatively assessed state-specific recovery of water charges.
- Water sector grants should be an additionality to the normal maintenance expenditure to be undertaken by the states and shall be released and monitored in accordance with the conditionalities in the Thirteenth Finance Commission.
- States should be incentivised to enroll such of their residents who participate in welfare schemes within the Unique Identification (UID) programme. A grant of Rs. 2989 crore is proposed to be given to State Governments in this regard.
- States should be incentivised to reduce their Infant Mortality Rates (IMR) based upon their performance beyond 31 December 2009. A grant of Rs 5000 crore is recommended for this purpose.
- A grant of Rs. 5000 crore is proposed to support improvement in a number of facets in the administration of justice. These include operation of morning/evening courts, promotion of Alternate Dispute Resolution (ADR) mechanisms, enhancing support to Lok Adalats, as well as legal aid and training.
- A grant of Rs 20 crore is recommended for promotion of innovation by setting up a Centre for Innovation in Public Systems (CIPS) to identify, document and promote innovations in public services across states. The second grant of Rs. 1 crore per district is for the creation of a District Innovation Fund (DIF) aimed at increasing the efficiency of the capital assets already created.
- To enhance the quality of statistical systems, Thirteenth Finance Commission recommended a grant of Rs. 616 crore for State Governments at the rate of Rs. 1 crore for every district to fill in statistical infrastructure gaps in areas not addressed by the India Statistical Project (ISP).
- A grant of Rs. 10 crore will be provided to each general category state and Rs. 5 crore to each special category state to set up an employees' and pensioners' data base. Thirteenth Finance Commission also urges Government of India to initiate a parallel effort for preparing a data base for its own employees and pensioners.
- An amount of Rs. 19,930 crore has been recommended as grant for maintenance of roads and bridges for four years (2011-12 to 2014-15) of our award period.
- The maintenance grants for roads and bridges will be an additionality to the normal maintenance expenditure to be incurred by the states. Release of this grant and expenditure will be subject to the conditionalities.
- A total grant of Rs. 27,945 crore is recommended for state-specific needs.
- State-specific grants are subject to the following conditionalities: - (i). No funds from any of the state-

specific grants may be used for land acquisition by the states. Wherever land is required for a project/construction, such land may be made available by the State Government; (ii). The phasing of the state-specific grants is only indicative; states may communicate their required phasing to the Central Government. The grant may be released in a maximum of two instalments per year; (iii). Accounts shall be maintained and Utilization Certificates (UCs)/ Statements of Expenditure

(SOEs) provided as per General Finance Rules (GFR) 2005.

22. The High Level Monitoring Committee headed by the Chief Secretary to review the utilization of grants and to take corrective measures, set up as per the recommendation of FC-XII, should continue.
23. The total grants-in-aid recommended for the states over the award period are given in the Thirteenth Finance Commission. It has given in Table-6.

Table 6: Grants-in-Aid of Central Government to States

S. No.	Items/Commodities	Amount of Grants-in Aid (Rs. Crore)
1.	Local Bodies	87,519
2.	Disaster Relief (including for capacity building)	26,373
3.	Post-devolution Non-plan Revenue Deficit	51,800
4.	Performance Incentive	1,500
5.	Elementary Education	24,068
6.	Environment	15,000
7.	Improving Outcomes	14,446
8.	Maintenance of Roads and Bridges	19,930
9.	State-specific	27,945
10.	Implementation of model GST	50,000
11.	Total Grants-in-Aid	318,581

Source: Report of Thirteenth Finance Commission (2010-2015): Government of India, New Delhi.

15. Conclusion

The Thirteenth Finance Commission has reported recently at a crucial juncture of the Indian economy when equity has become more important due to the inclusive growth target of the Eleventh Plan. Its recommendations were tabled in Parliament and accepted by the Government of India. It faces challenging times. The Thirteenth Finance Commission has considered the ability and flexibility of the central government in formulating its recommendations on tax devolution and grants-in-aid. It has also considered building in appropriate incentive structure with a view to ensure better fiscal outcomes both at the national and state levels.

With a view to promote equity while maintaining fiscal efficiency, the Thirteenth Finance Commission has changed the shares of the states drastically in its recommendations. However, it is making a paradigm shift to change the structure of equity and fiscal incentives as an inherent part of the fiscal transfer system of the Government of India. The Thirteenth Finance Commission has designed the fiscal transfer system with the aim of promoting equity and providing fiscal incentives even to the states which have a better record of providing education and infrastructure development to improve their services further from quantity to quality. This study also highlighted the tax devolution and sharing of union taxes with state government in the light of the awards of various Finance Commissions.

16. References

1. Das, Keshab, Aswini Kumar Mishra Ensuring Horizontal Equity: Challenge before the Thirteenth Finance Commission, Economic and Political Weekly, Mumbai. 2009; 44(5).
2. Das Kesab. Planning and regional Differentiations in India: Strategies and practices, Journal of Indian School of Political Economy. 1993; 5(4).
3. Das Kesab Politics of Industrial Location: Indian Federalism and development Decisions” Economic and Political Weekly, 1997; 32(51).
4. Govt. of India Economic Survey, Ministry of Finance, New Delhi. (2009-10).
5. Report of Ninth Finance Commission Government of India, New Delhi. (1990-1995).
6. Report of Tenth Finance Commission Government of India, New Delhi. (1995-2000).
7. Report of Eleventh Finance Commission Government of India, New Delhi. (2000-05).
8. Report of Twelfth Finance Commission Government of India, New Delhi. (2005-2010).
9. Report of Thirteenth Finance Commission Government of India, New Delhi. (2010-2015).
10. Rao, Govind M, Tapas Kumar Sen, Pratap R. Jena Issues before the Thirteenth Finance Commission, Working Paper 55, National Institute of Public Finance and Policy (NIPFP), New Delhi, August. 2008.
11. Simone, Alejandro Sergio, Petia Topalova India’s Experience with Fiscal Rules: an Evaluation and The Way Forward, Working Paper – WP/09/175, Asia and Pacific Department, IMF, August. 2009.