Appendix 9

14th Finance Commission Constituted

The 14th Finance Commission was appointed by the President of India in January 2013 under the Chairmanship of Dr. Y.V. Reddy, former Governor of Reserve Bank of India.

The Commission shall make its report available by the 31st October, 2014, covering a period of five years commencing on 1st April, 2015.

The Commission shall make recommendations regarding the sharing of Union taxes, principles governing grants-in-aid to states and transfer of resources to local bodies.

The Terms of Reference and the matters that shall be taken into consideration by the Fourteenth Finance Commission in making the recommendations are as under :

1.(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 which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for 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.

2. The Commission shall review the state of the finances, deficit and debt levels of the Union and the states, keeping in view, in particular, the fiscal consolidation roadmap recommended by the Thirteenth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth including suggestions to amend the Fiscal Responsibility Budget Management Acts currently in force and while doing so, the Commission may consider the effect of the receipts and expenditure in the form of grants for creation of capital assets on the deficits; and the Commission shall also consider and recommend incentives and disincentives for states for observing the obligations laid down in the Fiscal Responsibility Budget Management Acts.

3. In making its recommendations, the Commission shall have regard, among other considerations, to –

(i) the resources of the Central Government for five years commencing on 1st April 2015, on the basis of levels of taxation and non-tax revenues likely to be reached during 2014-15;

(ii) the demands on the resources of the Central Government, in particular, on account of the expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;

(iii) the resources of the state governments and the demands on such resources under different heads, including the impact of debt levels on resource availability in debt stressed states, for the five years commencing on 1st April 2015, on the basis of levels of taxation and non-tax revenues likely to be reached during 2014-15;

(iv) the objective of not only balancing the receipts and expenditure on revenue account of all the states and the Union, but also generating surpluses for capital investment;

(v) the taxation efforts of the Central Government and each state government and the potential for additional resource mobilisation to improve the tax–Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the states;

(vi) the level of subsidies that are required, having regard to the need for sustainable and inclusive growth, and equitable sharing of subsidies between the Central Government and state governments;

(vii) the expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2015 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;

(viii) the need for insulating the pricing of public utility services like drinking water, irrigation, power and public transport from policy fluctuations through statutory provisions;

(ix) the need for making the public sector enterprises competitive and market oriented; listing and disinvestment; and relinquishing of non-priority enterprises;

(x) the need to balance management of ecology, environment and climate change consistent with sustainable economic development; and

(xi) the impact of the proposed Goods and Services Tax on the finances of Centre and states and the mechanism for compensation in case of any revenue loss.

4. In making its recommendations on various matters, the Commission shall generally take the base of population figures as of 1971 in all cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid; however, the Commission may also take into account the demographic changes that have taken place subsequent to 1971.

5. The Commission may review the present Public Expenditure Management systems in place including the budgeting and accounting standards and practices; the existing system of classification of receipts and expenditure; linking outlays to outputs and outcomes; best practices within the country and internationally, and make appropriate recommendations thereon.

6. The Commission may review the present arrangements as regards financing of Disaster Management with reference to the funds constituted under the Disaster Management Act, 2005 and make appropriate recommendations thereon.

7. The Commission shall indicate the basis on which it has arrived at its findings and make available the state-wise estimates of receipts and expenditure.