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Financial relations of centre and states

#1 Why need arises for centre and state relations in India?

1) Art [1] of the constitution → India shall be union of states; Centre and States → Independent and autonomous elements; Encroaching in others domain → detrimental to constitution; hence → Independent judiciary, & clear cut provisions in constitution are required.

#2 What are the Constitutional provisions on financial relations?

1) Part XII of constitution [Art 268 to Art 289],
2) Duties levied by the Union but collected and appropriated by the States [Art 268].
3) Taxes levied and collected by the Union but assigned to the States [Art 269]. Levy and collection of goods and services tax in course of inter-State trade or commerce [Art 269(A)].
4) Taxes levied and distributed between the Union and States [Art 270]
5) Surcharge on certain duties and taxes for purposes of the Union [Art 271]
6) GST council [Art 279A]
7) National emergency [Art 352] → President can modify the distribution of revenues between centre and state; → financial emergency [Art 360] → centre can give directions to state.

#3 What are the issue surrounding financial relations?

1) Vertical Imbalance → centre has more space to levy &collect taxes [of the total revenue centre alone collects 60%, while, states and local bodies together collect only 40%] → leads to excessive dependence of states on centre
2) Horizontal Imbalance: each state differs from other state in terms of Area, population, resources, social indictor's etc → difficult for finance commission to arrive suitable formula for performance-based incentives and grants.
3) Surcharge & cess → arbitrary imposition of centre → not shared with states
4) GST → States lost individual taxation power.
5) Taxes on Income & residuary subjects → States cannot collect [exclusive for centre]
6) Borrowings → states can borrow only up to the limits imposed by centre [WMA]
7) GST compensation issue in 2020
8) 15th Finance commission used 2011 census on population component for horizontal devolution [south Indian states have seen reduced allocation]

#4 What kind of reform's proposed?

1) Rajamannar Commission [1969]; make Finance commission permanent body; do away with planning commission [implemented in 2014]
2) Sarkaria Commission [1983]; Corporate tax should be permissibly shared with states
3) Punchi commission [2007]; States to involve in deciding Terms of Reference for finance commission;