

Cabinet clears terms of reference for 16th Finance Commission

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Union Minister Anurag Thakur briefing the media on Cabinet Decisions at National Media Centre in New Delhi on Wednesday, November 29, 2023. | Photo Credit: SHIV KUMAR PUSHPAKAR

The panel's recommendations would cover a five-year period commencing April 1, 2026,

The Union Cabinet on Wednesday approved the terms of reference (ToR) for the Sixteenth Finance Commission, which will recommend the formula for sharing revenues between the Centre and the States for the five-year period beginning on April 1, 2026.



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The government has set a deadline of October 31, 2025, for the panel to submit its recommendations, the government said in a statement.

The critical fiscal panel that is also tasked with recommending the distribution ratio of revenues between States, along with other terms of reference that the Centre proposes, is to be formed every five years as per Article 280 of the Constitution. However, the Fifteenth Finance Commission, which was headed by N.K. Singh, had been given an extended mandate to make recommendations for six years up, till 2025-26.

Apart from the key recommendation on distribution of net proceeds of taxes between the Centre and the States and allocation among States of the respective share of such proceeds, the Commission will also prescribe measures needed to augment the Consolidated Fund of a State to supplement resources of the panchayats and local bodies on the basis of recommendations made by the respective State Finance Commissions.

Under the ToR, which according to the Centre will be notified in the course of time, the panel will recommend principles that 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. Also, it may review the existing arrangements on financing Disaster Management initiatives and make appropriate recommendations, the government said.

The government had established an Advance Cell in the Finance Ministry on November 21 to oversee the preliminary work pending formal constitution of the Commission. Subsequently, a Working Group headed by Finance Secretary and Secretary (Expenditure) and comprising several senior officials was set up to assist in the formulation of the ToRs. As part of the consultative process, views and suggestions were sought from the State governments and Union Territories (with legislature) on the ToRs and duly deliberated by the group, the government said.

Budget of the five-year period – which will be the Budget for 2020-21.

The 15th Finance Commission, which was handed some contentious tasks such as determining whether a separate mechanism was warranted for funding defence and internal security spends, had through two reports made its recommendations for a six-year period from 2020-21 to 2025-26. It was also asked to rely on Census 2011 data for its recommendations, which had caused concern among some States that had done better on health and population management vis-à-vis their peers.



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