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News: State Finance Commissions (SFCs)

- According to the Ministry of Panchayati Raj, all states, except Arunachal Pradesh have constituted State Finance Commissions (SFCs).

State Finance Commissions (SFCs)

- State Finance Commissions (SFCs) are **constitutional bodies established by states under Article 243-I of the Indian Constitution.**
- As per Article 243-I, the **Governor is required to constitute an SFC within one year from the enactment of the 73rd Constitutional Amendment Act, 1992 and every five years thereafter.**
- Their primary role is to **recommend the distribution of financial resources between the state government and its local bodies i.e., Panchayati Raj Institutions (PRIs) and urban local bodies (ULBs).**
- **Compliance Issues:** The 15th Finance Commission (2021-26) highlighted that **only nine states have constituted their 6th SFC**, even though it was due in 2019-20 for all states.

- Many states remain stuck at the 2nd or 3rd SFC, indicating a lack of timely renewal and updates.
- **15th Finance Commission on SFCs:** The 15th Finance Commission recommended states establish SFCs, implement their recommendations, and submit an action report to the legislature.
- It suggested withholding grants for states that do not comply with these requirements.
- **Role of Ministry of Panchayati Raj:** It is tasked with certifying compliance by states with constitutional provisions for SFCs before the release of grants for 2024-25 and 2025-26.

Finance Commission

- Article 280 of the Constitution of India provides for a non-permanent Finance Commission as a quasi-judicial body. The Finance Commission shall have all powers of civil court under Code of Civil Procedure (1908) in matters of summoning & enforcing attendance and requisitioning any public record from any court of office.
- It is constituted by the President of India every fifth year or at such earlier time as he considers necessary.

- The Finance Commission consists of a **chairman and four other members to be appointed by the president.**
- They **hold office for such period as specified by the president** in his order.
- They are **eligible for reappointment.**
- The **Constitution** authorizes the Parliament to determine the qualifications of **members of the commission and the manner in which they should be selected.**

For this purpose, the Finance Commission (Miscellaneous Provisions) Act, 1951 has been enacted.

- Accordingly, the Parliament has specified the qualifications of the chairman and members of the commission. **The chairman should be a person having experience in public affairs and the four other members should be selected from amongst the following: a judge of the high court or one qualified to be appointed as one member, a person who has specialized knowledge of finance and accounts of the government, a person who has wide experience in financial matters and in administration and a person who has special knowledge of economics.**
- The prominent function of FC is the **distribution of the net proceeds of taxes to be shared between the Centre and the states, and the allocation between the states of the respective shares of such proceeds.**

- Under Article 279 -“net proceeds” of any tax or duty, or of any part of any tax or duty, in or attributable to any area shall be ascertained and **certified by the Comptroller and Auditor-General of India, whose certificate shall be final.**