UNIT - II

State finance

1. Types of Budget

i) Revenue Budget:

It consists of revenue receipts and revenue expenditure. Moreover, the revenue receipts can be categorised into tax revenue and non-tax revenue. Revenue expenditure can also be categorised into plan revenue expenditure and non-plan revenue expenditure.

ii) Capital Budget:

It consists of capital receipts and capital expenditure. In this case, the main sources of capital receipts are loans, advances etc. On the other side capital expenditure can be categorised into plan capital expenditure and nonplan capital expenditure.

iii) Supplementary Budget:

During the time of war emergencies and natural calamities like tsunami, flood etc, the expenditures allotted in the budget provisions are not always enough. Under these circumstances, a supplementary budget can be presented by the Government to tackle these unforeseen events.

iv) Vote - on - Account:

Under Article 116 of the Indian Constitution, the budget can be presented in the middle of the year. The reason may be political in nature. The existing Government may or may not continue for the year, on account of the fact that elections are due, then the Government places a 'lame duck budget'. This is also called 'Vote-on-account Budget'.

The vote on account budget is a special provision by which the Government gets permission from the parliament to incur expenditures on necessary items till the budget is finally passed in the parliament. The legal permission of both the Houses of the parliament for the withdrawal of money from the Consolidated Fund of India to meet the requisite expenses till the budget is finally approved is known as vote-on - account budget. This type of budget is generally sanctioned for not more than two months.

v) Zero Base Budget:

The Government of India presented Zero-Base-Budgeting (ZBB first) in 1987-88. It involves fresh evaluation of expenditure in the Government budget, assuming it as a new item. The review has been made to provide justification or otherwise for the project as a whole in the light of the socio-economic objectives which have

been already set up for this project and as well as in view of the priorities of the society.

vi) Performance Budget:

When the outcome of any activity is taken as the base of any budget, such budget is known as 'Performance Budget'. For the first time in the world, the performance budget was made in USA. The Administrative Reforms Commission was set up in 1949 in America under Sir Hooper. This commission recommended making of a 'Performance Budget' in USA. In the Performance Budget, it is the compulsion of the government to tell 'what is done', 'how much done' for the betterment of the people. In India, the Performance Budget is also known as 'Outcome Budget'.

vii) Balanced Budget Vs Unbalanced Budget

A. Balanced Budget

Balanced budget is a situation, in which estimated revenue of the government during the year is equal to its anticipated expenditure.

Government's estimated Revenue = Government's proposed Expenditure.

B. Unbalanced Budget

The budget in which Revenue & Expenditure are not equal to each other is known as Unbalanced Budget.

Unbalanced budget is of two types:

1. Surplus Budget
2. Deficit Budget

1. Surplus Budget

The budget is a surplus budget when the estimated revenues of the year are greater than anticipated expenditures.

Government Estimated revenue > Estimated Government Expenditure

2. Deficit Budget

Deficit budget is one where the estimated government expenditure is more than expected revenue.

Government's estimated Revenue < Government's proposed Expenditure.

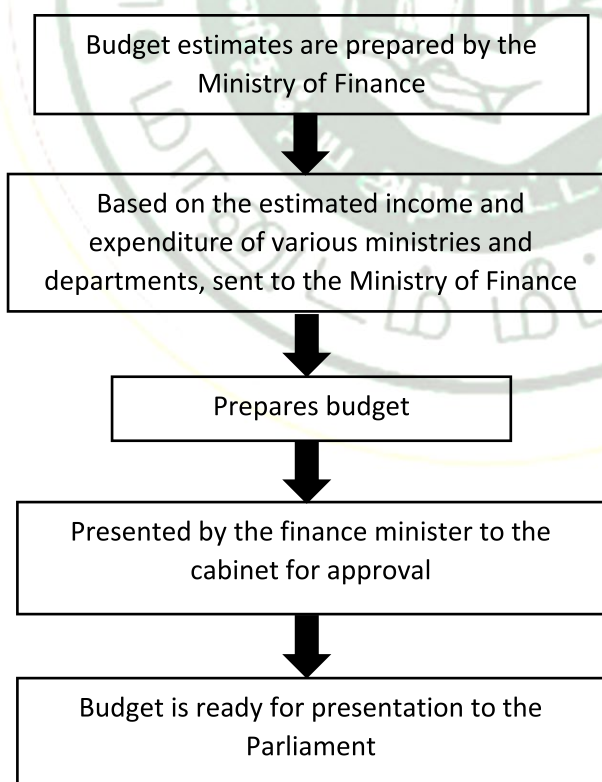
2. Budgetary Procedure

Budgetary procedure refers to the system through which the budget is prepared, enacted and executed.

(A) Preparation of the Budget

The Ministry of Finance prepares the Central Budget every year. At the state level the finance department is responsible for the Annual State Budget. While preparing the budget, the following factors are taken into account:

1. The macro economic targets to be achieved within a plan period;
2. The basic strategy of the budget;
3. The financial requirements of different projects;
4. Estimates of the revenue expenditures (includes defence expenditure, subsidy, interest payment on debt etc.);
5. Estimates of the capital expenditures (includes development of railways, roadways, irrigations etc.);
6. Estimates of revenue receipts from tax and non-tax revenues;
7. Estimates of capital receipts from the recovery of loans, disinvestment of public sector units, market borrowings etc.
8. Estimates of the gap between revenue receipts and revenue expenditure; and
9. Estimates of fiscal deficit, primary deficit, and revenue deficit.



(B) Presentation of the Budget

The hon'ble Minister of Finance, on behalf of the Central Government, places the Union Budget before Parliament on the eve of a new financial year. Similarly at state levels, the Hon'ble Finance Minister of the respective State Government places the State Budget before the State Legislature.

According to the Indian Constitution, all money bills must be initiated in the Lower House. All the money bills are first placed before the LokSabha at the Centre, and before the VidhanSabha at the State level. The demands of various tax proposals are included in the budget. After the finance bill is passed, an appropriation bill is presented to give legal effect to the voted demands, and to authorise the expenditure as per the budget. In this way, the budgets are enacted in India.

(c) Execution of the Budget

The budget is mainly executed by different departments of the Government. Proper execution of the budgetary provisions are important for the efficient utilisation of the allocated funds.

Parliamentary Control over the Budget

In India, the Government Accounts are maintained in three parts:

(i) Consolidated Fund
(ii) Contingency Fund
(iii) Public Accounts

There are also two committees of parliament, viz,

(i) The Public Accounts Committee, and
(ii) The Estimates Committee.

These committees keep a constant vigil on the expenditure so that no Ministry or Department exceeds the amount sanctioned to it.

3. Budgetary Deficits

Budget deficit is a situation where budget receipts are less than budget expenditures. This situation is also known as government deficit.

In reference to the Indian Government budget, budget deficit is of four major types.

(A) Revenue Deficit

It refers to the excess of the government revenue expenditure over revenue receipts. It does not consider capital receipts and capital expenditure. Revenue deficit implies that the government is living beyond its means to conduct day-to-day operations.

Revenue Deficit (RD) = Total Revenue Expenditure (RE) - Total Revenue Receipts (RR),

When RE - RR > 0

(B) Budget Deficit

Budget deficit is the difference between total receipts and total expenditure (both revenue and capital)

Budget Deficit = Total Expenditure – Total Revenue

(C) Fiscal Deficit

Fiscal deficit (FD) = Budget deficit + Government's market borrowings and liabilities

(D) Primary Deficit

Primary deficit is equal to fiscal deficit minus interest payments. It shows the real burden of the government and it does not include the interest burden on loans taken in the past. Thus, primary deficit reflects borrowing requirement of the government exclusive of interest payments.

Primary Deficit (PD) = Fiscal deficit (PD) - Interest Payment (IP)

4. Federal Finance

Federal finance refers to the system of assigning the source of revenue to the Central as well as State Governments for the efficient discharge of their respective functions i.e. clear-cut division is made regarding the allocation of resources of revenue between the central and state authorities.

1. Division of Powers: In our Constitution, there is a clear division of powers so that none violates its limits and tries to encroach upon the functions of the other and functions within own sphere of responsibilities. There are three lists enumerated in the Seventh Schedule of constitution. They are: the Union list, the State list and the Concurrent List.
2. TheUnion List consists of 100 subjects of national importance such as Defence, Railways, Post and Telegraph, etc.
3. The State List consists of 61 subjects of local interest such as Public Health, Police etc.
4. The Concurrent List has 52 subjects important to both the Union and the State, such as Electricity, Trade Union, Economic and Social Planning, etc.

5. Central State Financial Relationship

(I) Union Sources

1. Corporation tax

2. Currency, coinage and legal tender, foreign exchange.
3. Duties of customs including export duties.
4. Duties of excise on tobacco and certain goods manufactured or produced in India.
5. Estate duty in respect of property other than agricultural land.
6. Fees in respect of any of the matters in the Union List, but not including any fees taken in any Court.
7. Foreign Loans.
8. Lotteries organized by the Government of India or the Government of a State.
9. Post Office Savings Bank.
10. Posts and Telegraphs, telephones, wireless, Broadcasting and other forms of communication.
11. Property of the Union.
12. Public Debt of the Union.
13. Railways.
14. Rates of stamp duty in respect of Bills of Exchange, Cheques, Promissory Notes, etc.
15. Reserve Bank of India.
16. Taxes on income other than agricultural income.
17. Taxes on the capital value of the assets, exclusive of agricultural land of individuals and companies.
18. Taxes other than stamp duties on transactions in stock exchanges and future markets.
19. Taxes on the sale or purchase of newspapers and on advertisements published therein.
20. Terminal taxes on goods or passengers, carried by railways, sea or air.

(II) State Sources

1. Capitation tax
2. Duties in respect of succession to agricultural land.
3. Duties of excise on certain goods produced or manufactured in the State, such as alcoholic liquids, opium, etc.
4. Estate duty in respect of agricultural land.
5. Fees in respect of any of the matters in the State List, but not including fees taken in any Court.
6. Land Revenue.

7. Rates of stamp duty in respect of documents other than those specified in the Union List.
8. Taxes on agricultural income.
9. Taxes on land and buildings.
10. Taxes on mineral rights, subject to limitations impose by Parliament relating to mineral development.
11. Taxes on the consumption or sale of electricity.
12. Taxes on the entry of goods into a local area for consumption, use or sale therein.
13. Taxes on the sale and purchase of goods other than newspapers.
14. Taxes on the advertisements other than those published in newspapers.
15. Taxes on goods and passengers carried by road or on inland waterways.
16. Taxes on vehicles.
17. Taxes on animals and boats.
18. Taxes on professions, trades, callings and employments.
19. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.
20. Tolls.

(III) Taxes Levied and Collected by the union but Assigned to the States (Art.269)

1. Duties in respet of succession to property other than agricultural land.
2. Estate duty in respect of property other than agricultural land.
3. Taxes on railway fares and freights.
4. Taxes other than stamp duties on transactions in stock exchanges and future markets.
5. Taxes on the sale or purchase of newspapers and on advertisements published therein
6. Terminal taxes on goods or passengers carried by railways, sea or air.
7. Taxes on the sale or purchase of goods other than newspapers where such sale or purchase taxes place in the course of inter-State trade or commerce.

(IV) Duties levied by the Union but collected and Appropriated by the states (Art.268)

Stamp duties and duties of excise on medicinal and toilet preparation (those mentioned in the Union List) shall be levied by the Government of India but shall be collected.

(i) In the case where such duties are leviable within any Union territory, by the Government of India.

(ii) In other cases, by the States within which such duties are respectively leviable.

(iii) Taxes which are Levied and Collected by the Union but which may be Distributed between the Union and the States (Arts.270 and 272)

1. Taxes on income other than agricultural income.
2. Union duties of excise other than such duties of excise on medicinal and toilet preparations as are mentioned in the Union List and collected by the Government of India.

"Taxes on income" does not include corporation tax. The distribution of income-tax proceeds between the Union and the States is made on the recommendations of the Finance Commission.

6. History of Finance Commission

- Finance commission is a quasijudicial body set up under Article 280 of the Indian Constitution. It was established in the year 1951, to define the fiscal relationship framework between the Centre and the state.
- Finance Commission aims to reduce the fiscal imbalances between the centre and the states (Vertical imbalance) and also between the states (horizontal imbalance). It promotes inclusiveness. → A Finance Commission is set up once in every 5 years. It is normally constituted two years before the period. It is a temporary Body.
- The 14th Finance Commission was set up in 2013. Its recommendations were valid for the period from 1st April 2015 to 31st March 2020.
- The 15th Finance Commission has been set up in November 2017. Its recommendations will be implemented starting 1 April 2020.

Functions of Finance Commission of India

Article 280 (3) speaks about the functions of the Finance Commission. The Article states that it shall be the duty of the Commission to make the recommendations to the President as to:

1. The distribution between the Union and the States of the net proceeds of taxes, which may be divided between them and the allocation among the states of the respective shares of such proceeds;
2. To determine the quantum of grantsin-aid to be given by the Centre to states [Article 275 (1)] and to evolve the principles governing the eligibility of the state for such grant-in-aid;
3. Any other matter referred to the Commission by the President of India in the interest of sound finance. Several issues like debt relief, financing of calamity relief of states, additional excise duties, etc. have been referred to the Commission invoking this clause.

7. Local Finance

Local finance refers to the finance of local bodies in India. There is a large variety of local bodies in India. We have the following main four local bodies which are functioning today in our country:

Types of Local Bodies

1. Village Panchayats:

Establishment: The jurisdiction of a panchayat is usually confined to one revenue village. In some cases, though not very frequently, two or more small villages are grouped under one panchayat. The establishment of panchayat raj is the avowed policy of most states in India.

Functions

a) The functions of panchayats range over a wide area including civil, economic and so on. Thus small disputes may be disposed of by panchayats on the spot.
b) Roads, primary schools, village dispensaries etc. are to be managed by panchayats.
c) The supply of water, both for drinking and irrigation, falls within their field of responsibility, and in some cases farming, marketing, storage, etc. are entrusted to them.

Sources of revenue of Village Panchayats

The following are the sources of revenue of village panchayats.
(i) General property tax, (ii) taxes on land, (iii) profession tax, and (iv) tax on animals and vehicles.
Other taxes include service tax, octroi, theatre tax, pilgrim tax, tax on marriage, tax on birth and deaths, and labour tax. As a matter of fact, taxes are levied by the

panchayats only with the sanction of the state government, and there are certain limits in respect of tax rates which have to be observed.

2. District Boards or ZilaParishads:

Establishment: In rural areas, district boards or Zila Parishads are established at district level. The territorial jurisdiction of a district board is generally a revenue district.

Functions

In Tamil Nadu, the Zila Parishad is a co-ordinating body which exercises general supervision over the working of Panchayat Samitis and advises them on implementation of Development Schemes.

Sources of revenue of District Boards

(i) Grants-in-aid from the state government.
(ii) Land Cesses.
(iii) Toll, fees etc.
(iv) Income from the property and loans from the state governments.
(v) Grants for the centrally sponsored schemes relating to development work.
(vi) Income from fairs and exhibitions.
(vii) Property tax and other taxes which the state governments may authorise the district boards.

3. Municipalities

Establishment and Functions: The municipalities are bodies or institutions which are established in urban areas for looking after local affairs, such as, sanitation, public health, local roads, lighting, water supply, cleaning of streets, maintenance of parks and gardens, maintenance of hospitals, dispensaries and veterinary hospitals, provision of drainage, provision of primary education, organising of fairs and exhibitions etc. However, all these functions are performed subject to the control of the state government.

Sources of revenue of municipalities

(i) Taxes on property
(ii) Taxes on goods, particularly octroi and terminal tax
(iii) Personal taxes, taxes on profession, trades and employment
(iv) Taxes on vehicles and animals
(v) Theatre or show tax, and
(vi) Grants-in-aid from state government.

4. Municipal Corporations

Establishment and Functions:

The municipal corporations have wide powers and enjoy greater freedom as compared to municipalities. The municipal corporations are usually entrusted with the functions, such as, water supply and drainage, lighting, roads, slum clearance, housing and town planning etc. The rapid increase in the population of cities has definitely added to the functions of municipal corporations.

Sources of revenue of Corporations

(i) Tax on property,
(ii) Tax on vehicles and animals,
(iii) Tax on trades, calling and employment,
(iv) Theatre and show tax,
(v) Taxes on goods brought into the cities for sale,
(vi) Taxes on advertisements,
(vii) Octroi and terminal tax etc.

The corporations have a fair degree of freedom in respect of their choice and modification of these taxes, subject to the maximum and minimum rates laid down by the law.

8. Fiscal policy

Definitions

“The term fiscal policy refers to a policy under which the Government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment” – Arthur Smithies

Fiscal Instruments

Fiscal Policy is implemented through fiscal instruments also called ‘fiscal tools’ or **fiscal levers:** Government expenditure, taxation and borrowing are the fiscal tools.

i) Taxation: Taxes transfer income from the people to the Government. Taxes are either direct or indirect. An increase in tax reduces disposable income. So taxation should be raised to control inflation. During depression, taxes are to be reduced.

ii) Public Expenditure: Public expenditure raises wages and salaries of the employees and thereby the aggregate demand for goods and services. Hence public expenditure is raised to fight recession and reduced to control inflation.

iii) Public debt: When Government borrows by floating a loan, there is transfer of funds from the public to the Government. At the time of interest payment and repayment of public debt, funds are transferred from Government to public.

Objectives of Fiscal Policy:

1. Full Employment

Full Employment is the common objective of fiscal policy in both developed and developing countries. Public expenditure on social overheads help to create employment opportunities. In India, public expenditure on rural employment programmes like MGNREGS is aimed at employment generation.

2. Price Stability

Price instability is caused by mismatch between aggregate demand and aggregate supply. Inflation is due to excess demand for goods. If excess demand is caused by Government expenditure in excess of real output, the most effective measure is to cut down public expenditure. Taxation of income is the best measure if excess demand is due to private spending. Taxation reduces disposable income and so aggregate demand. To fight depression, the Government needs to increase its spending and reduce taxation.

3. Economic Growth

Fiscal Policy is used to increase the productive capacity of the economy. Tax is to be used as an instrument for encouraging investment. Tax holidays and tax rebates for new industries stimulate investment. Public sector investments are to be increased to fill the gap left by private investment. When resource mobilization through tax measures is inadequate, the Government resorts to borrowing both from internal and external sources to finance growth projects.

4. Equitable distribution

Progressive rates in taxation help to reduce the gap between rich and poor. Similarly progressive rates in public expenditure through welfare schemes such as free education, noon meal for school children and subsidies promote the living standard of poor people.

5. Exchange Stability

Fluctuations in international trade cause movements in exchange rate. Tax concessions and subsidy to export oriented units help to boost exports. Customs duties on import of non-essential items help to cut import bill. The reduction in import duty on import of raw material and machinery enables reduction in cost and make the exports competitive.

6. Capital formation

Capital formation is essential for rapid economic development. Tax relief helps to increase disposable income, savings and thereby capital formation. Government expenditure on infrastructure development like power and transport encourages private investment.

7. Regional balance

Fiscal incentives for industries in the backward regions help to narrow down regional imbalances. Public expenditure may be used to start industrial estates so that industrial activity is stimulated in backward regions.

9. Financial Administration

Financial Administration: Objectives

Financial administration which is characterised by deficit budgets, massive public debt and deficit financing.

These are as follows:

1) Management of the finances of public household
2) Implementation of projects and programmes
3) Provision for public goods and social services
4) Growth, Employment and Price Stability
5) Capital formation
6) Productive deployment of national funds
7) Facilitating smooth flow of parliamentary processes
8) Achieving equity and equality.

Principles of Financial Administration

The following may be listed as some of the important principles of financial administration

1) The principle of primacy of public interest, public choice and public policy
2) The principle of political direction and control
3) The principle of correspondence
4) The principle of unity of organisation and management
5) The principle of stability and balance
6) The principle of simplicity and flexibility
7) The principle of conduct, discipline and regularity
8) The principle of public trust and accountability.

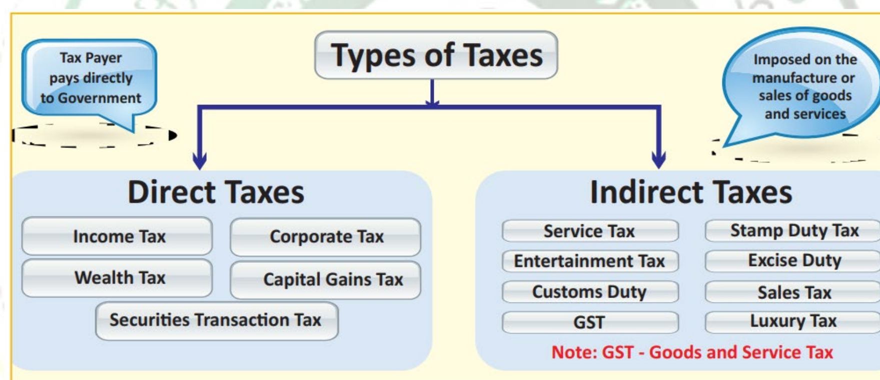
Four Distinct Phases- Financial Administrative History of India

1) Period I (1765-1858) - Creation of structure and concretisation.
2) Period II (1860-1919) - Development of systems and Procedures.
3) Period III (1919-1947) - Democratisation and Decentralisation
4) Period IV (1950-till date) - Development orientation.

New Emerging Trends - Financial Administration in India

1) Regulation and control of fiscal deficit
2) Cutback on non-development expenditure
3) Development of zero base perspective
4) De-emphasised public sector
5) Non-bureaucratic delivery of public goods and services
6) Focus on decentralized responsibility for financing development plans
7) Towards deregulation and liberalization

10. Tax Structure in India

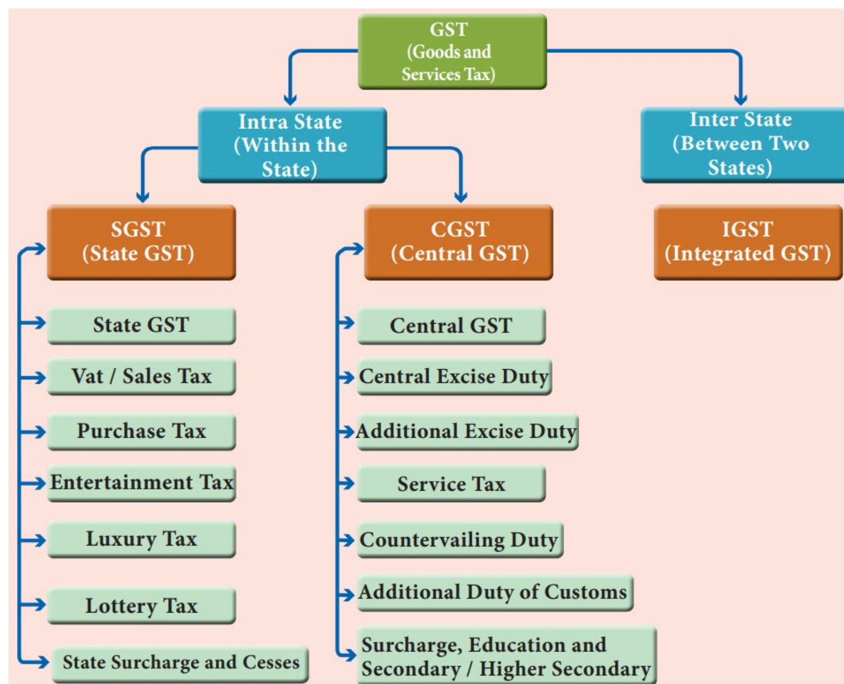


GST Slab:

1. GST Tax slab of 5% - Skimmer, milk powder, fish fertilizers, Tea etc.
2. GST Tax slab of 12% - Butter, Cheese, Pickles, Fruit Juices, Tooth Powder, Medicine.
3. GST Tax slab of 18% - Icecreatm - Sauces, Mineral Water, Suit Case, Brief Case, Wrist Watches, Door
4. GST Tax slab of 28% - Pan Masala, Washing Machine, Vacuum Cleaner, Auto Mobiles, Motor Cycles

Commodities which will not cover under the ambit of GST.

Cooking Gas, Petrol, Diesel, Air Fuel, Natural Gas, Liquor except this all other goods comes under GST



11. GST Goods and Services Tax (101Constitutional Amendment Act 2016).

GST is the indirect tax levied on goods and services across the country. It is a comprehensive, multi-stage, destination based tax that is levied on every value addition.

There are 3 taxes applicable under this system.

1. **CGST:** Collected by the Central Government on an intra-state sale (Eg: transaction happening in TamilNadu)
2. **SGST:** Collected by the State Government on an intra-state sale (Eg: transaction happening within TamilNadu)
3. **IGST:** Collected by the Central Government for inter-state sale (Eg: Punjab to Tamil Nadu)

Goods & Services Tax Council (Art.279A) is a constitutional body for making recommendations to the Union and State Government on issues related to Goods and Service Tax. The GST Council is chaired by the Union Finance Minister and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.

The Goods and Services Tax Council shall make recommendations to the Union and the States on

- The taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax

- The goods and services that may be subjected to, or exempted from the goods and services tax
- Model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply
- The threshold limit of turnover below which goods and services may be exempted from goods and services tax
- The rates including floor rates with bands of goods and services tax
- Any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster
- Special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand and
- Any other matter relating to the goods and services tax, as the Council may decide.

Purpose

At the Tata group we are committed to improving the quality of life of the communities we serve. We do this by striving for leadership and global competitiveness in the business sectors in which we operate.

Our practice of returning to society what we earn evokes trust among consumers, employees, shareholders and the community. We are committed to protecting this heritage of leadership with trust through the manner in which we conduct our business.

12. Non Tax Revenue

While taxation is a primary source of income for the government, it also earns some recurring income other than tax, which is called non-tax revenue. While sources of tax revenue consist of few but bulk direct and indirect taxes, the number of sources of non-tax revenue are very large with wide variance in the quantum of collections per source. Although there are large sources of non-tax revenue, the quantum of collection per source is much less than that of tax collections. For instance, when people avail services offered by the government, like electricity, telecommunication, DTH, broadband etc, they pay bills, which include the share of non-tax revenue as the government provides infrastructure support to facilitate the services. The government also collects interest as non-tax

revenue on the loans and funds advanced to states for various purposes. So, the government collects non-tax revenue in return for providing/facilitating any goods or services.

Components of Non Tax Revenue

1. **Interest:** It comprises of interest of loans given to states and union territories for reasons like non-plan schemes (e.g. flood control) and planned schemes with maturity period of 20 years such as modernisation of police forces and also interest on loans advanced to Public Sector Enterprises (PSEs), Port Trusts and other statutory bodies etc.
2. **Dividends and profits:** This includes dividends and profits from PSEs as well as the transfer of surplus from Reserve Bank of India (RBI).
3. **Petroleum license:** This includes fees to get the exclusive right for exploration in a particular region. Such fees may be in the form of royalty, share of the profit earned from contact areas during a specific period, Petroleum Exploration License (PEL) fee or Production Level Payment (PLP).
4. **Power supply fees:** This includes fees received by Central Electricity Authority from the supply of power under the Electricity (Supply) Act.
5. **Fees for Communication Services:** This mainly includes the license fees from telecom operators on account of spectrum usage charges that licensed Telecom Service Providers pay to the Department of Telecom (DoT).
6. **Broadcasting fees:** It includes license fee paid by DTH operators, commercial TV services, commercial FM radio services etc.
7. **Road, Bridges usage fees:** This includes receipts through toll plazas on account of the usage of national highways, permanent bridges etc.
8. **Examination fees:** This includes fees paid by applicants of competitive examinations conducted by the Union Public Service Commission (UPSC) and Staff Selection Commission (SSC) to fill up vacancies in government offices.
9. **Fee for police services:** This includes fee received for supplying central police forces to state governments and other parties like Central Industrial Police Force (CISF) to industries etc.
10. **Sale of stationery, gazettes etc:** This includes receipts under 'Stationery and Printing' relating to the sale of stationery, gazettes, government publications, etc.

11. **Fee for Administrative Services:** This includes fees received for providing services like audit services, issuance of passport, visa etc.

Receipts relating to Defence Services: This relates to services provided through Canteen Stores Department (CSD).

13. Recommendations of 15th finance commission

1. **Maintaining vertical devolution at 41 per cent:**
    - The commission has suggested that while maintaining the vertical devolution at the same rate suggested in the report 2020-21; it would help in maintaining predictability and stabilizing the resources, especially during COVID times.
2. **On GST:**
    - GSTaccounts for 35 per cent of the gross tax revenue of the Union.
    - GSTaccounts for around 44 per cent of own tax revenue of the States.
3. **On Gross Tax Revenue:**
    - There is a drop of 1.7 percentage points in the gross tax revenue after excluding GST cess collection in comparison to 2016-17 figures. The impact of this drop could be seen in the tax devolution to states.
    - Gross Tax Revenue Assessment 2021-26: It is expected to be 135.2 lakh crore, out of which the divisible pool is estimated to be 103 lakh crore.
4. **On Horizontal Devolution**: The criteria and the weights assigned for horizontal devolution are:
    - Population – 15%
    - Area – 15%
    - Forest & Ecology – 10%
    - Income Distance – 45%
    - Tax and Fiscal Efforts – 2.5%
    - Demographic Performace – 12.5%
5. The commission has assigned a 12.5 per cent weight to the demographic performance criterion in the horizontal devolution. The commission has also re-introduced tax effort criterion to reward fiscal performance.
6. **On Revenue Deficit Grants (RDG):**
    - It has recommended total revenue deficit grants of around Rs 2.94 crore over the award period for seventeen States.

7. **On Local Governments**: Rs. 4,36,361 crore is the total grant given to the local governments for the period of 2021-26. Out of the total grant; Rs.450 crore is dedicated to the shared municipal services.
    - Grants to Rural Local Bodies – Total sum of Rs. 2,36,805 crore is a grant for the rural local bodies.
    - Grants to Urban Local Bodies – Rs.1,21,055 crore is the total grant for the urban local bodies.
    - Grants for Health to be channelised through Local Governments – Rs. 70,051 crore stands for the Health grant to the local governments.
8. **On Health:**
    - The commission has suggested increasing the state expenditure on health by 8 percent by 2022.
    - The commission suggested prioritizing the creation of All India Health Services/All India Medical Services on the pattern of the UPSC Civil Services.
    - National Medical Council is suggested to develop small courses on wellness clinic, basic surgical procedures, anaesthesia, obstetrics and gynaecology, eye, ENT etc. for MBBS doctors.
    - AYUSH to be encouraged as an elective subject for medicine undergraduates.
    - The Allied and Healthcare Professions Bill should be passed at the earliest.
9. **On Higher Education:**
    - The XV finance commission has recommended two subtypes of higher education grants:
    - Promotion of online education – Rs. 5,078 crore is a total sum of grant for the promotion of online education.
    - Development of professional courses in regional languages: The commission's recommendation is in line with the New Education Policy 2020. Rs. 1,065 crore has been allocated for the development of these courses from 2021-26.
    - Two colleges in each state should convert their learning material and pedagogy into the recognized regional language.

10.On Defence:

- Recommendation to create a non-lapsable pool for the defence and internal security sector under the Public Accounts of India. (Read about the funds of the central government in the linked article.)

11.On Disaster Risk Management:

- The fifteenth finance commission recommended maintaining the contribution of states to the State Disaster Risk Fund (SDRF) to be 25 per cent except by the NE States (10 per cent.) It has seen no changes since 13th Finance Commission recommended the same arrangement.
- Creation of Mitigation Funds both at central and state levels.

14. CONSOLIDATED FUND OF INDIA

The financial management of any organization must have a prudent financial system backed by sound and effective accounting procedures and internal controls. A well-designed and well managed accounting system helps ensure proper control over funds.

Accounting policies and procedures are designed to compile accounts fulfilling legal/procedural requirements that govern financial control. Accounts are an integral part of financial management of activities. On the basis of accounts, the Government determines the shape of its monetary and fiscal policies.

STRUCTURE OF ACCOUNTS AND FLOW OF FUNDS

The accounts of Government are kept in three parts: -

1. Consolidated Fund of India
2. Contingency Fund of India and
3. Public Account of India

CONSOLIDATED FUND OF INDIA (Art. 266)

All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under Article 266 (1) of the Constitution of India. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no

amount can be withdrawn from the Fund without authorization from the Parliament.

CONTINGENCY FUND OF INDIA (Art. 267)

Art 267(I) of the constitution provides that "Parliament may by law establish a Contingency Fund in the nature of an imprest to be entitled the Contingency Fund of India into which shall be paid from time to time such sums as may be determined by such law, and the said Fund shall be placed at the disposal of the President to enable advances to be made by him out of such Fund for the purposes of meeting unforeseen expenditure pending authorisation of such expenditure by Parliament by law under Article 115 or Article 116".

PUBLIC ACCOUNT (Art. 266)

In the Public Account constituted under Article 266 (2) of the Constitution, the transactions relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to `Remittance' and `Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.