

1. Distribution of the tax-revenue

2. Duties Levied by the Union but Collected and Appropriated by the States: Stamp duties on bills of Exchange, etc., and Excise duties on medical and toilet preparations containing alcohol. These taxes don't form the part of the Consolidated Fund of India, but are assigned to that state only.

3. Service Tax are Levied by the Centre but Collected and Appropriated by the Centre and the States.

4. Taxes Levied as Well as Collected by the Union, but Assigned to the States: These include taxes on the sale and purchase of goods in the course of inter-state trade or commerce or the taxes on the consignment of goods in the



commerce or the taxes on the consignment of goods in the course of inter-state trade or commerce.

5. Taxes Levied and Collected by the Union and Distributed between Union and the States: Certain taxes shall be levied as well as collected by the Union, but their proceeds shall be divided between the Union and the States in a certain proportion, in order to effect on equitable division of the financial resources. This category includes all taxes referred in Union List except the duties and taxes referred to in Article 268, 268-A and 269; surcharge on taxes and duties mentioned in Article 271 or any Cess levied for specific purposes.

6. Surcharge on certain duties and taxes for purposes of



6. Surcharge on certain duties and taxes for purposes of the Union: Parliament may at any time increase any of the duties or taxes referred in those articles by a surcharge for purposes of the Union and the whole proceeds of any such surcharge shall form part the Consolidated Fund of India.

2. Grants-in-Aid

The constitution provides grants in aids to the states from the Central resources.

There are two types of grants:-

1. Statutory Grants: These grants are

1. Statutory Grants: These grants are given by the Parliament out of the Consolidated Fund of India to such States which are in need of assistance. Different States may be granted different sums. Specific grants are also given to promote the welfare of scheduled tribes in a state or to raise the level of administration of the Scheduled areas therein (Art.275).

2. Discretionary Grants: Center provides certain grants to the states on the recommendations of the Planning Commission which are at the discretion of the Union Government. These are given to help the state financially to fulfill plan targets (Art.282).

3. Effects of Emergency on Center-State Financial Relations

4. During National Emergency: The President by order can direct that all provisions regarding division of taxes between Union and States and grants-in-aids remain suspended. However, such suspension shall not go beyond the expiration of the financial year in which the Proclamation ceases to operate.

5. During Financial Emergency:

Union can give directions to the States:-

1. To observe such canons of financial propriety as specified in the direction.
2. To reduce the salaries and allowances of all people serving in connection with the affairs



2. To reduce the salaries and allowances of all people serving in connection with the affairs of the State, including High Courts judges.

- To reserve for the consideration of the President all money and financial Bills, after they are passed by the Legislature of the State.

4. Finance Commission

5. Although the Constitution has made an effort to allocate every possible source of revenue either to the Union or the States, but this allocation is quite broad based.

6. For the purpose of allocation of certain sources of revenue, between the Union and the State Government, the Constitution provides for



the Union and the State Governments, the Constitution provides for the establishment of a Finance Commission under Article 280.

7. According to the Constitution, the President of India is authorized to set up a Finance Commission every five years to make recommendation regarding distribution of financial resources between the Union and the States.

5. Members

6. Finance Commission is to be constituted by the President every 5 years. The Chairman must be a person having 'experience in public affairs'. Other four members must be appointed from amongst the following:-



7. A High Court Judge or one qualified to be appointed as High Court Judge.
 8. A person having knowledge of the finances and accounts of the Government.
- A person having work experience in financial matters and administration.

1. A person having special knowledge of economics.

2. Functions

3. The Finance Commission recommends to the President as to:-

1. The distribution between the Union and the States of the net proceeds of taxes to be divided between them and the allocation between the States of respective shares of such proceeds



the allocation between the States of respective shares of such proceeds;

2. The principles which should govern the grants-in-aid of the revenue of the States out of the Consolidated Fund of India;

- The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State;

Any other matter referred to the Commission by the President in the interest of sound finance.