

## Examrace

### 15<sup>th</sup> Finance Commission Economics YouTube Lecture Handouts

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#### Key Recommendations in the First Report (2020 - 21 Period)

- **Devolution of taxes to states:** The commission has reduced Vertical devolution by 1 % . i.e. , earlier 42 % to new 41 % .
- For Horizontal Devolution the criteria's are classified in 3 groups.
  - **Need-based criteria:** Population, area and forest & ecology are considered. It will address the fiscal gap owing due to less resources and higher liabilities.
  - **Performance-based criteria:** Demographic performance and tax effort are considered. It will incentives states.
  - **Equity-based criterion:** Income distance.

Criteria	14 <sup>th</sup> FC 2015 - 20	15 <sup>th</sup> FC 2020 - 21
<i>Income Distance</i>	50.0	45.0
<i>Population (1971)</i>	17.5	-
<i>Population (2011)</i>	10.0	15.0
<i>Area</i>	15.0	15.0
<i>Forest Cover</i>	7.5	-
<i>Forest and Ecology</i>	-	10.0
<i>Demographic Performance</i>	-	12.5
<i>Tax Effort</i>	-	2.5
<b>Total</b>	<b>100</b>	<b>100</b>
<i>Key Recommendations in the First Report (2020 - 21 Period)</i>		

- **Income distance:** It is the distance of the state's income from the state with the highest income. The income of a state has been computed as average per capita GSDP during the three-year period between 2015 - 16 and 2017 - 18. States with lower per capita income would be given a higher share to maintain equity among states.

- **Demographic performance:** The Commission used only 2011 population data for its recommendations. States with a lower fertility ratio will be scored higher on this criterion.
- **Forest and ecology:** This criterion has been determined by calculating the share of dense forest of each state in the aggregate dense forest of all the states in the country.
- **Tax effort:** This criterion will reward states with higher tax collection efficiency.

### Grants-In-Aid

- **Revenue deficit grants:** In 2020 - 21, 14 states are estimated to have an aggregate revenue deficit of ₹ 74,340 crore post-devolution. The Commission recommended revenue deficit grants for these states.
- **Grants to local bodies:** The total grants to local bodies for 2020 - 21 has been fixed at ₹ 90,000 crore, of which ₹ 60,750 crore is recommended for rural local bodies and ₹ 29,250 crore for urban local bodies.
- **Disaster risk management:** The Commission recommended setting up National and State Disaster Management Funds (NDMF and SDMF) for promoting local-level mitigation activities.
- Sector specific grants will also be provided for various sectors. This will ensure effective implementation of the policies and will help to achieve the objectives. E. g. Nutrition, Police training, Judiciary, Housing etc.

### Practice Question

Q 1 Who is the chairman of 15<sup>th</sup> Finance Commission.

- A) Y. V. Reddy
- B) N. K. Singh
- C) K. C. Neogy.
- D) Dr Vijay L. Kelkar

Answer: B

Q 2 Consider the following statements.

1. The 15<sup>th</sup> FC recommended setting up National and State Disaster Management Funds.
2. In the new formula states are to be rewarded on demographic performance and tax effort.

Which of the following are correct:

1. Only 1
2. Both 1 and 2

3. Neither 1 and 2

4. Only 2

Answer: 2

Chapters:

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6: 20 Grants-in-aid

8: 03 MCQ about 15<sup>th</sup> Finance Commission

#FinanceCommission #15thFinanceCommission

#KeyRecommendationsInTheFirstReport #Grantsinaid #MCQAboutFinanceCommission

#Devolutionoftaxestostates #Incomedistance #Demographicperformance

#Forestandecology #Taxeffort #testprep

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