



S.R. No. 001
10/2015/CEFT

**Impact of Fourteenth Finance Commission's Recommendations
On the Union Budget 2015-16:
Preliminary Evidence**

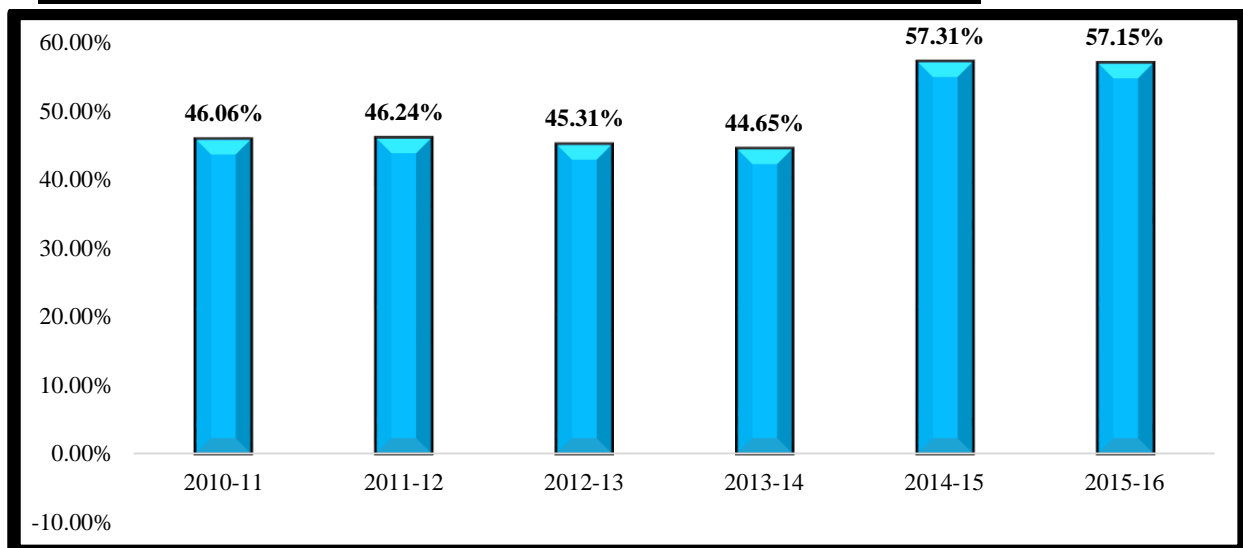
The main objective of the Fourteenth Finance Commission (FFC) is to transfer more resources through raising tax devolution that will facilitate the flow of unconditional transfers of resources to the States so as to create appropriate fiscal space for the States to prioritise their outlay.

Objective of this Study

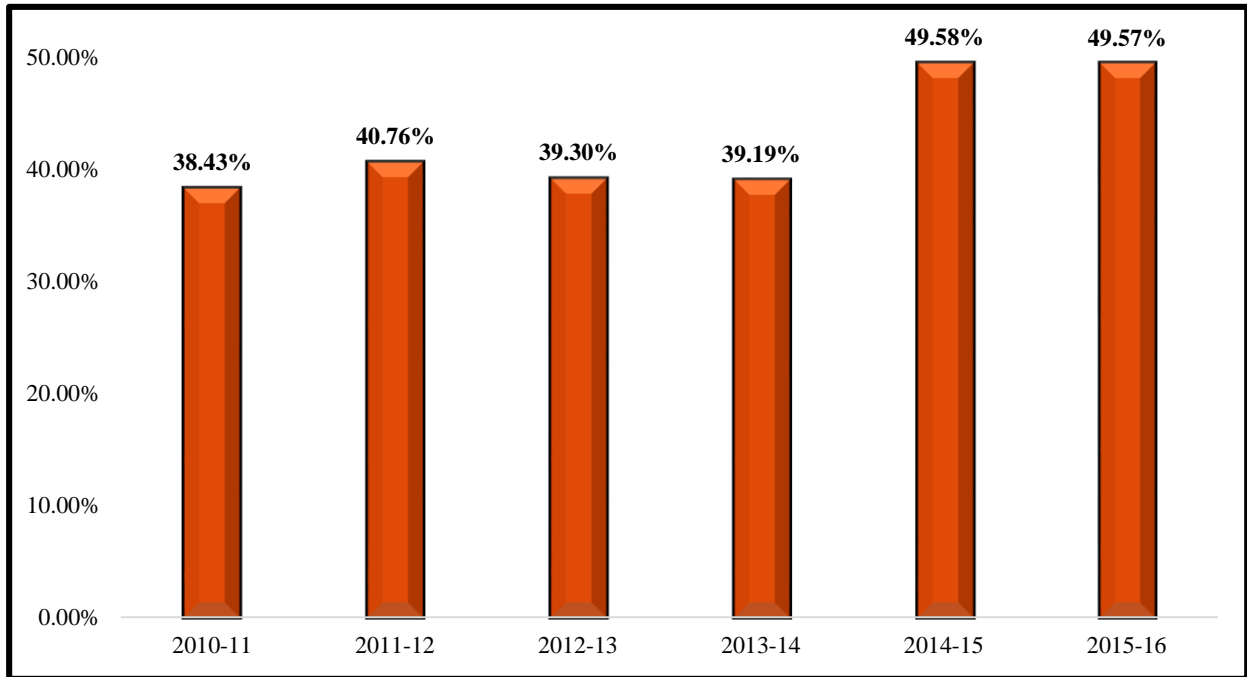
The main objective of this study is to examine the impact of FFC on Union Budget 2015-16. The hypothesis of increase in unconditional transfers to states is tested by capturing compositional shift in Union Budget from FY 2010-11(BE) to FY 2015-16(BE). The Budget Estimate (B.E) has been taken for last six years to make the analysis comparable and also, the B.E. reflects the intention of the Central Government at the beginning of the financial year through budgetary activities.

Findings

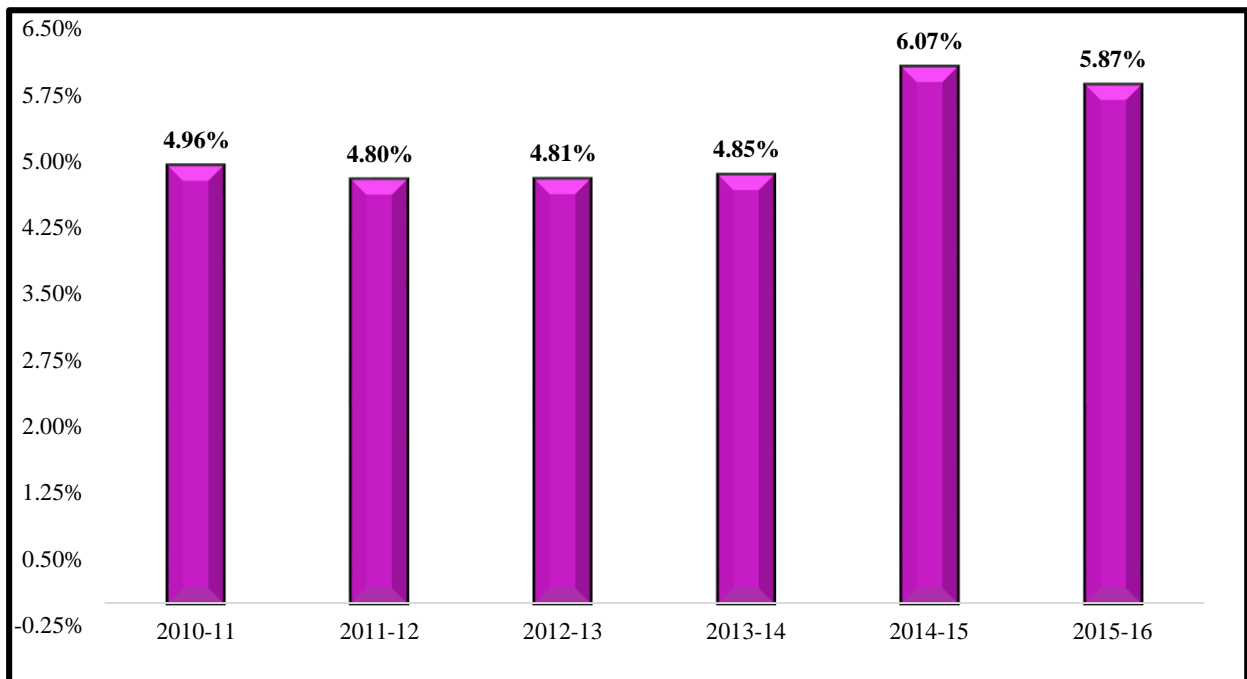
1. Share of total transfer to States as% of Gross Tax Revenue of Centre



2. Share of total transfer to States as % of Gross Revenue Receipt of Centre



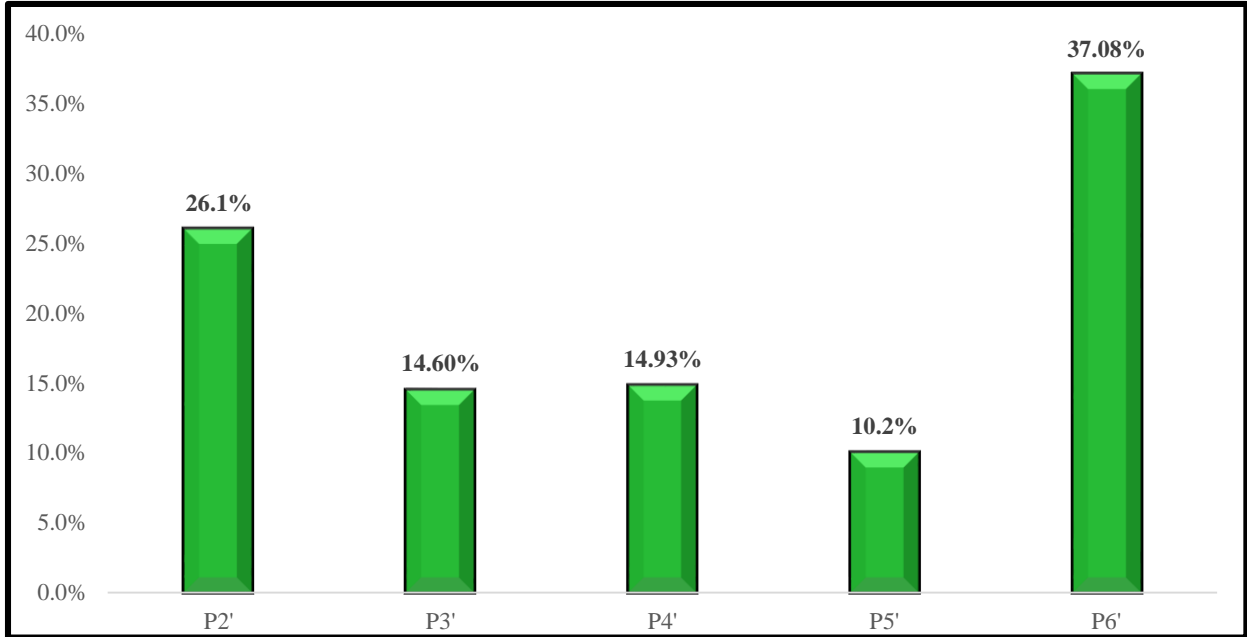
3. Share of total transfer to States as % of GDP



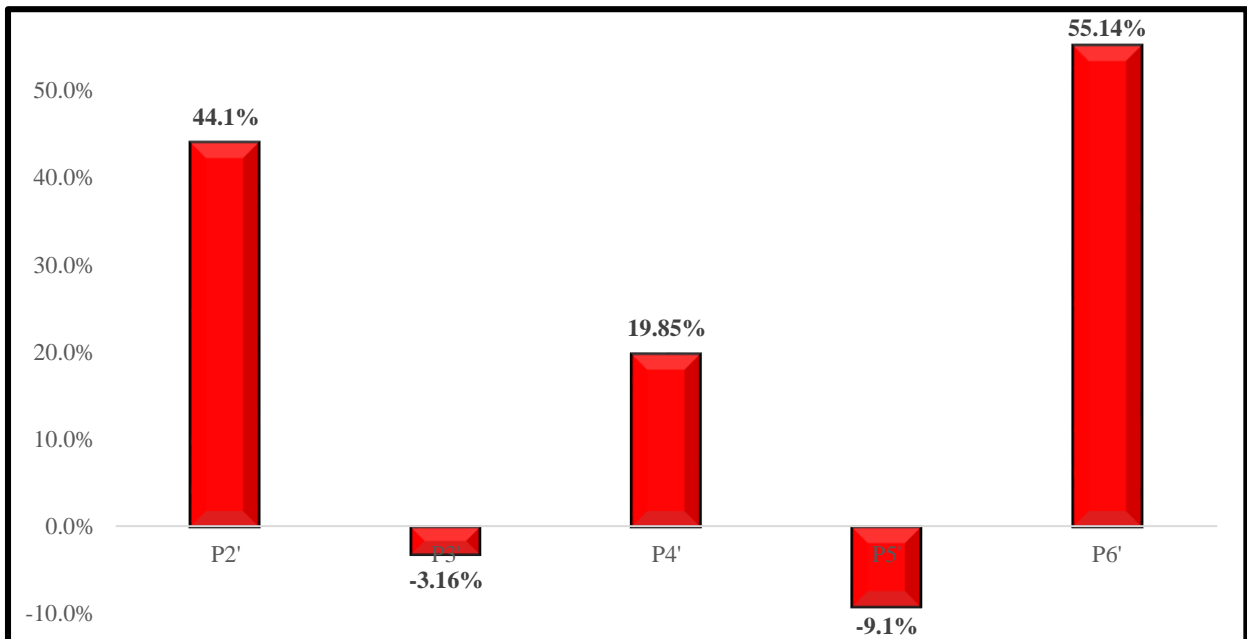
4. Percentage change (in Y-O-Y) in States' share of Taxes and Duties (Devolution)

**P1= FY2010-11;P2= FY2011-12;P3=FY2012-13;P4=FY2013-14;P5=FY2014-15;
P6= FY2015-16.**

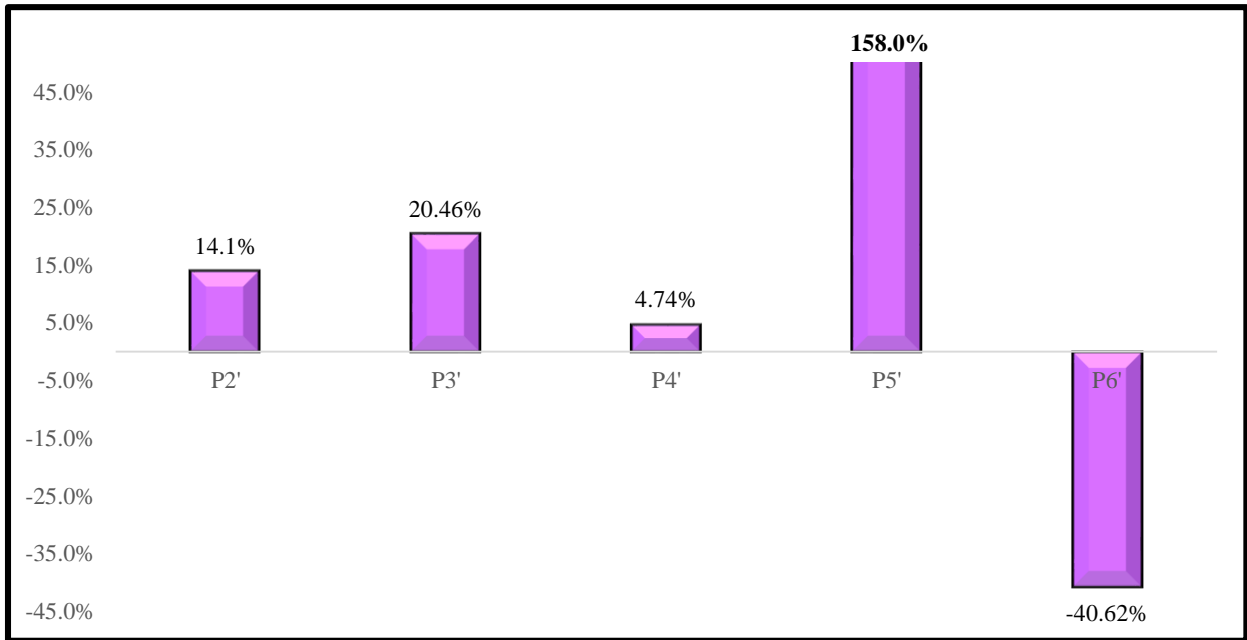
P2'= % change in P2 over P1;P3'= % change in P3 over P2; P4'= % change in P4 over P3; P5'= % change in P5 over P4; P6'= % change in P6 over P5.



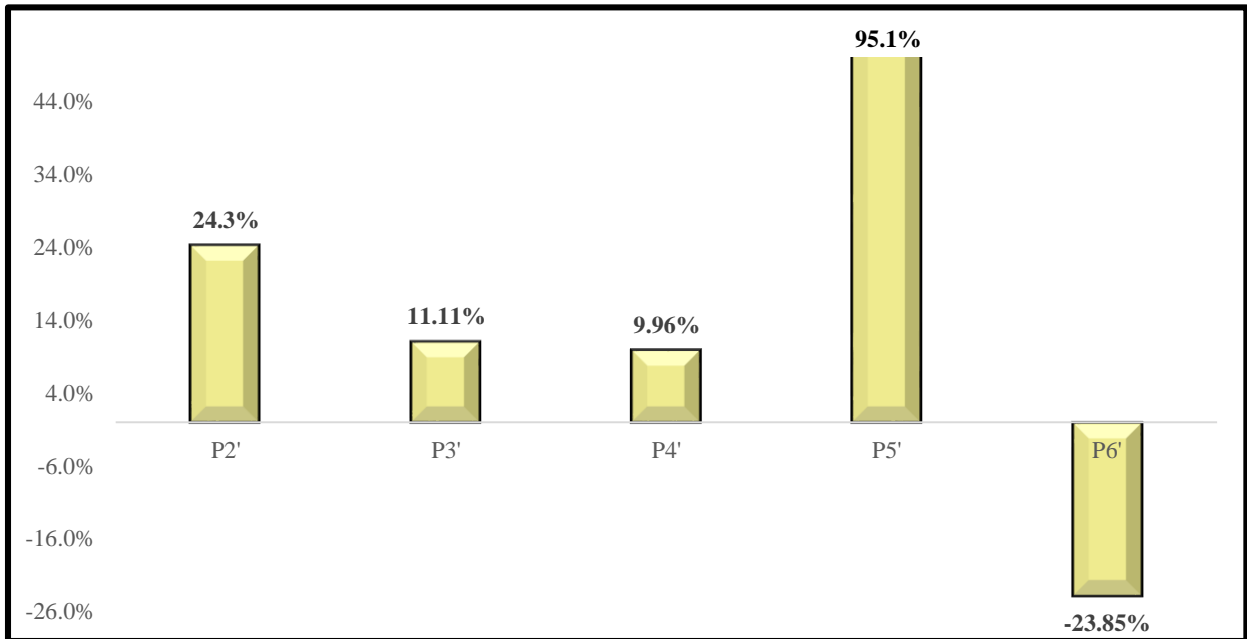
5. Percentage change (Y-O-Y) in Non-Plan Grants & Loans to States



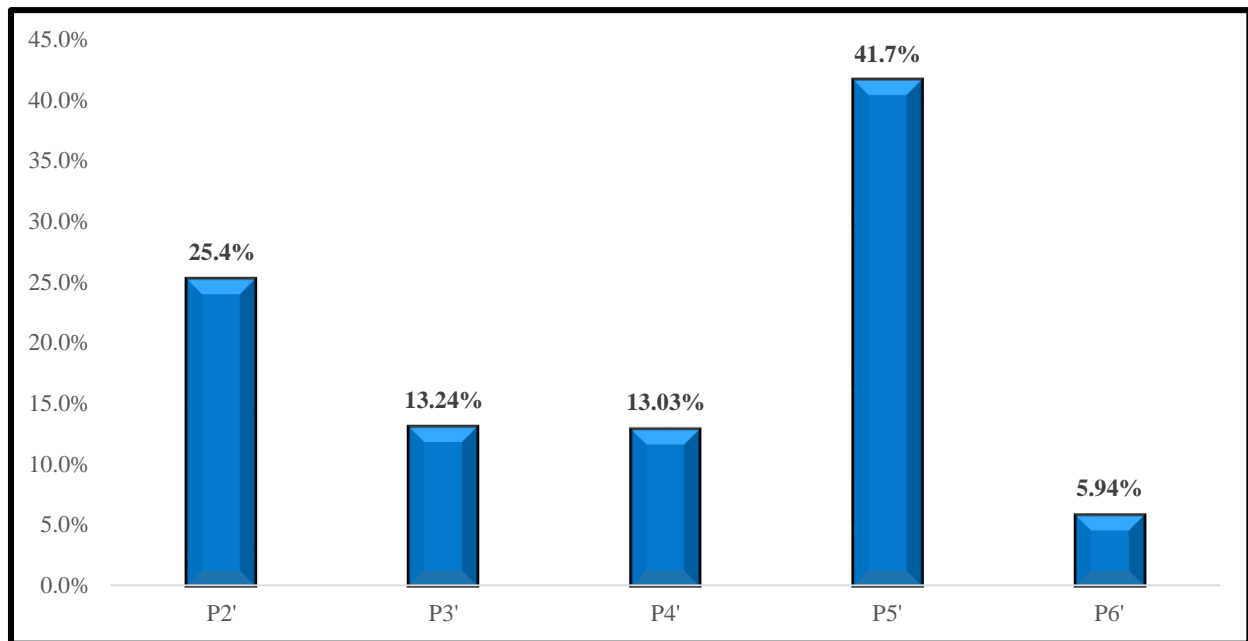
6. Percentage change (Y-O-Y) in Plan Grants & Loans to States



7. Percentage change (Y-O-Y) in Total Grants & Loans to States



8. Percentage change (Y-O-Y) in Total Transfer to States



(Tabular format of the findings is enclosed)

Observations

1. Percentage share of total transfer to states w.r.t. Gross Tax Revenue of Centre is pegged at 57.31% in FY 2014-15 as against 57.15% in FY 2015-16. There is slight decrease of 0.16%.

Therefore, the hypothesis of more transfer to States is rejected.

2. Percentage share of total transfer to states w.r.t. Gross Revenue Receipt of Centre is estimated at 49.58% in FY 2014-15 as compared to 49.57% in FY 2015-16. There is an evidence of very marginal decline of 0.01%.

Therefore, the hypothesis of more transfer to States is rejected.

3. Percentage share of total transfer to states w.r.t. Gross Domestic Product (GDP) is calculated at 6.07% and 5.87% respectively in FY 2014-15 and FY 2015-16. There is a discernible decline of 0.20%.

Therefore, the hypothesis of more transfer to States is rejected.

4. Percentage change in period P6' (% change in FY 2015-16 over FY 2014-15) in **States' share of taxes and duties** is 37.08% which is the highest as compared to previous years.
5. Percentage change in period P6' (% change in FY 2015-16 over FY 2014-15) in **Non-Plan Grants & Loans to States** is 55.14% which shows maximum increase as compared to previous years.
6. Percentage change in period P6' (i.e., % change in FY 2015-16 over FY 2014-15) in Plan Grants & Loans to States is down by 40.62%, which is the highest decline as compared to previous years.

In fact, this decline has happened for the first time as against rise in previous last six years.

7. As a result, total grants & loans to States has declined by 23.85% in period P5' (% change in FY 2015-16 over FY 2014-15) which is first ever decline in last previous six years.
8. As a consequence, total transfer to States is calculated at 5.94% rise which is the lowest ever rise in last six previous years.

Hence, the hypothesis of more devolution of funds to States through vertical transfers is not accepted. Plan component of grants and loans to States has been drastically reduced, which has effected a significant decline in overall grants and loan (both plan & non plan component) to states.

Table-1

Compositional Shift in Union Budget on account of FFC Recommendations (In crores of Rupees)												
	Sl. No.	2010-11 (BE)	2011-12 (BE)	Change(Y-O-Y)	2012-13 (BE)	Change(Y-O-Y)	2013-14 (BE)	Change(Y-O-Y)	2014-15 (BE)	Change(Y-O-Y)	2015-16 (BE)	Change(Y-O-Y)
		A	B	C=(B/A) -1	D	E=(D/B) -1	F	G=(F/D) -1	H	I=(H/F)- 1	J	K=(J/H)- 1
States' share of taxes and Duties	1	208997	263458	26.1%	301921	14.60%	346992	14.93%	382216	10.2%	523958	37.08%
Non-Plan Grants & Loans to States	2=(3+4)	46090	66396	44.1%	64296	-3.16%	77060	19.85%	70019	-9.1%	108630	55.14%
Grant (Revenue Component)	3	46001	66311	44.2%	64211	-3.17%	76980	19.89%	69936	-9.2%	108551	55.21%
Loan (Capital component)	4	89	85	-4.5%	85	0.00%	80	-5.88%	83	3.8%	79	-4.82%
Plan Grants & Loans to States	5=(6+7)	88808	101292	14.1%	122014	20.46%	127802	4.74%	329712	158.0%	195778	-40.62%
Grant (Revenue Component)	6	81645	92292	13.0%	111014	20.29%	116802	5.21%	317712	172.0%	183278	-42.31%
Loan (Capital component)	7	7163	9000	25.6%	11000	22.22%	11000	0.00%	12000	9.1%	12500	4.17%
Total Grants & Loans to States	8=(2+5)	134898	167688	24.3%	186310	11.11%	204862	9.96%	399731	95.1%	304408	-23.85%
Total Transfer to States	9=(1+8)	343895	431146	25.4%	488231	13.24%	551854	13.03%	781947	41.7%	828366	5.94%
Gross Tax Revenue of Centre	10	746651	932440	24.9%	1077612	15.57%	1235870	14.69%	1364524	10.4%	1449490	6.23%
Non Tax Revenue of Centre	11	148118	125435	-15.3%	164614	31.23%	172252	4.64%	212505	23.4%	221733	4.34%
Gross Revenue Receipts of Centre	12=(10+11)	894769	1057875	18.2%	1242226	17.43%	1408122	13.35%	1577029	12.0%	1671223	5.97%
GDP at Current Prices	13	6934700	8980860	0.30	10159884	0.13	11371886	0.12	12876653	0.13	14108945	0.10
				Change(Y-O-Y)		Change(Y-O-Y)		Change(Y-O-Y)		Change(Y-O-Y)		Change(Y-O-Y)
		L	M	N=M-L	O	P=O-M	Q	R=Q-O	S	T=S-Q	U	V=U-S
Total Transfer to Statesrelative to Gross Tax Revenue of Centre	14=(9/10)	46.06%	46.24%	0.18%	45.31%	-0.93%	44.65%	-0.65%	57.31%	12.65%	57.15%	-0.16%
Total Transfer to States relative to Gross Revenue Receipt of Centre	15=(9/12)	38.43%	40.76%	2.32%	39.30%	-1.45%	39.19%	-0.11%	49.58%	10.39%	49.57%	-0.02%
Total Transfer to Statesrelative to GDP	16=(9/13)	4.96%	4.80%	-0.16%	4.81%	0.00%	4.85%	0.05%	6.07%	1.22%	5.87%	-0.20%