Post Devolution Revenue Deficit

Why in News

The **Ministry of Finance** has released the **second monthly instalment of Post Devolution Revenue Deficit (PDRD) Grant** of Rs. 9,871 crore for the year 2021-22 **to 17 States.**

Key Points

- **About the Post Devolution Revenue Deficit (PDRD):**
  - The Centre provides the Post Devolution Revenue Deficit Grant to the States under **Article 275 of the Constitution.**
  - The grants are released as per the **recommendations of the Finance Commission** in **monthly installments to meet the gap in Revenue Accounts** of the States post-devolution (of the divisible tax pool of the Centre).
  - The **15th Finance Commission** has recommended **post devolution revenue deficit grants amounting to about Rs. 3 trillion over the five-year period ending FY26.**
    - The **number of states qualifying** for the revenue deficit grants **decreases from 17 in FY22,** the first year of the award period **to 6 in FY26,** the last year.
    - The eligibility of States to receive this grant and the quantum of grant was decided by the Commission **based on the gap between assessment of revenue and expenditure of the State.**
  - **States Recommended for PDRD Grants:**

    Over the five-year period, Andhra Pradesh, Assam, Haryana, Himachal Pradesh, Karnataka, Kerala, Manipur, Meghalaya, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttarakhand and West Bengal are recommended to be provided with the deficit grants. The Ministry of Finance has accepted the recommendation.

- **Article 275 of the Constitution:**
  - It **provides for the payment of such sums** as Parliament may by law provide as grants-in aid **to such States** as Parliament may determine to be in need of assistance.
  - The grants are **paid out of the Consolidated Fund of India** in each year, and **different sums may be fixed for different States.**
  - These grants are to be of the **nature of capital and recurring sums** as may be necessary.
  - These aim to enable that **State to meet the costs of such schemes of development** as may be undertaken by it with the approval of the Government of India for the purpose of **promoting the welfare of the Scheduled Tribes in that State** or **raising the level of administration of the Scheduled Areas** there in to that of the administration of the rest of the areas of that State.
  - Grants are primarily **intended to correct Inter-State disparities** in financial resources and to coordinate the maintenance and expansion of the welfare schemes of the State Governments on a uniform national level.

Revenue Account and Capital Account

- A **revenue account** includes all the revenue receipts also known as current receipts of the government. These receipts include tax revenues and other revenues of the government.
- A **capital account** is an account that includes the capital receipts and the payments. It basically includes assets as well as liabilities of the government. Capital receipts comprise the loans or capital that are raised by governments by different means.

Centre State Financial Relations

- **Constitutional Provisions:**
  - Indian Constitution has made elaborate provisions, relating to the **distribution of the taxes as well as non-tax revenues** and the **power of borrowing,** supplemented by **provisions for grants-in-aid** by the Union to the States.
  - **Article 268 to 293 in Part XII** deals with the provisions of financial relations between Centre and States.
- **Taxing Powers:** The Constitution divides the taxing powers between the Centre and the states as follows:
  - The Parliament has exclusive power to levy taxes on subjects enumerated in the Union List, the state legislature has exclusive power to levy taxes on subjects enumerated in the State List.
  - Both can levy taxes on the subjects enumerated in Concurrent List whereas residuary power of taxation lies with Parliament only.

- **Distribution of the Tax Revenue:**
  - **Duties Levied by the Union but Collected and Appropriated by the States (Article 268):**

    Includes stamp duties on bills of exchange, cheques, etc.
  - **Taxes Levied as well as Collected by the Union, but Assigned to the States (Article 269):**

    These include taxes on the sale and purchase of goods (other than newspapers) in the course of inter-state trade or commerce or the taxes on the consignment of goods in the course of inter-state trade or commerce.
  - **Levy and Collection of Goods and Services Tax in Course of Inter-State Trade or Commerce (Article 269-A):**
    - The Goods and Services Tax (GST) on supplies in the course of inter-state trade or commerce are levied and collected by the Centre.
    - But, this tax is divided between the Centre and the States in the manner provided by Parliament on the recommendations of the GST Council.
  - **Taxes Levied and Collected by the Union but Distributed between the Union and the States (Article 270):**

    This category includes all taxes and duties referred to in the Union List except the following:
      - Duties and taxes referred to in Articles 268, 269 and 269-A.
      - Surcharge on taxes and duties referred to in Article 271 (this goes to the Centre exclusively).
      - Any cess levied for specific purposes.
- **Grants-in-Aid:** Besides sharing of taxes between the Centre and the States, the Constitution provides for Grants-in-aid to the States from the Central resources. There are two types of grants:
  - **Statutory Grants (Article 275):** 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.
  - **Discretionary Grants (Article 282):** It empowers both the Centre and the states to make any grants for any public purpose, even if it is not within their respective legislative competence.
    - Under this provision, the Centre makes grants to the states. These grants are known as discretionary grants, the reason being that the Centre is under no obligation to give these grants and the matter lies within its discretion.
    - These grants have a two-fold purpose: to help the state financially to fulfil plan targets; and to give some leverage to the Centre to influence and coordinate state action to effectuate the national plan.

Source: TH