Revenue Deficit Grants

For Prelims: Revenue Deficit Grants, Grants-in-Aid, Finance Commission, Consolidated Fund of India, Article 269, Article 268, Article 275

For Mains: Centre-State Relations, Government Policies & Interventions

Why in News?

Recently, the Ministry of Finance released the monthly installment of revenue deficit grant of Rs.7,183 crore to 14 States.

What is the Post Devolution Revenue Deficit (PDRD)?

- **About:**
  - The Centre provides the **Post Devolution Revenue Deficit (PDRD) Grant** to the States under **Article 275 of the Indian Constitution.**
    - Article 275 provides for the payment of the sums as Parliament may by law provide as grants-in aid to the States 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.
- **Objective:**
  - These grants aim to enable the states to meet the cost of state level welfare schemes or to improve the level of administration of scheduled areas.
  - 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.
- **Recommendation for Grants:**
  - 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 **15^{th} Finance Commission (FC) has recommended post devolution revenue deficit grants** amounting to about Rs. 3 trillion over the five-year period ending FY26.
    - 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.
    - The States who have been recommended for PDRD Grant by the 15^{th} FC during 2022-23 are: Andhra Pradesh, Assam, Himachal Pradesh, Kerala, Manipur, Meghalaya, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, Tripura, Uttarakhand and West Bengal.

How are Center State Financial Relations governed by the Constitution?

- **Constitutional Provisions:**
    - The 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:**
    - **Article 268:**
        - It provides for the duties **levied by the union but collected and appropriated by the states.**
        - It includes stamp duties on bills of exchange, cheques, etc.
    - **Article 269:**
        - It includes taxes **Levied as well as Collected by the Union but Assigned to the States.**
        - 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.
    - **Article 269-A:**
        - It provides for **Levy and Collection of** Goods and Services Tax (GST) in the course of inter-state trade or commerce.
        - The GST on supplies during such trade is **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.
    - **Article 270:**
        - It includes **Taxes Levied and Collected by the Union but Distributed between the Union and the States.**
        - It 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 the states in need of assistance. Different States may be granted different sums.
    - **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