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Does the Union Budget 2016-17 reflect the True Spirit of Fiscal Federalism in India?

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***Abstract:** Decline unconditional statutory transfers; plan & non plan grants, less resource allocation through Centrally Sponsored Schemes with more revenue shares from the states as percentage of both Gross Tax Revenue and Gross Revenue Receipts proposed in Union Budget 2016-17 contradicts the objective of fiscal autonomy of the states envisaged in the Fourteenth Finance Commission recommendations. At the same time, the Centre's net revenue receipts in FY 2016-17 is budgeted to increase mainly on account of Cess and Surcharges which is not part of the divisible pool. The central allocation in core of the core scheme has been reduced in Union Budget 2016-17 as compared to CSSs fully sponsored by the Centre. The higher central allocation in core schemes with funding pattern of 60:40 will add additional financial pressure on the State. The union Budget 2016-17 has undermined the fiscal autonomy of the states.*

***Key Words:** Union Budget 2016-17 of Government of India, Cess and Surcharges, vertical imbalances, Centrally Sponsored Schemes, Fourteenth Finance Commission*

Introduction:

The Fourteenth Finance Commission like every Finance Commission tries to fulfill the objectives of fiscal federalism along with the intention to make a true cooperative and competitive federalism. However, it seems that the Union Budget 2016-17 disposes the proposal of the 14th Finance commission in terms of less central transfers to states and centralization of more resources. This study gives comments on the Union Budget 2016-17 from the perspective of central transfers to states in the context of cooperative federalism and analyses the serious repercussion of budgetary measures on existing vertical imbalances.

Share of States in Taxes

The substantial increase in tax devolution to states, from 32% to 40% of the divisible pool of union taxes, has been the reason for the intense discussion of the fiscal space of the two tiers of the government. Divisible pool comprises all the taxes net of cess, surcharge and cost of tax collections. As a percentage of Gross Tax Revenue and Gross Revenue Receipts of Central Government, Devolution of Shared Tax of States (Vertical Transfers) has declined in the Budget Estimate of FY 2016-17 as compared to the Budget Estimate of FY 2015-16 (see Table 1). At the same time, revenue collection by the Centre thorough Cess and Surcharges which is not part of the divisible pool, as percentage of Gross Tax Revenue and Gross Revenue Receipts has increased to 17% and 14% respectively in the Budget Estimate of FY 2016-17 as compared to 14% and 12% in the Budget Estimate of FY 2015-16. The estimated Cess and Surchages as percentage of Divisible Pool has increased to 20% in the Budget Estimate of FY 2016-17 as compared to 16% in the Budget Estimate of FY 2015-16. This implies that the Centre has denied Rs.114636 crore of Revenue to States in the Budget Estimate of FY 2016-17. In general, State's share in Revenue Receipts of the Centre has decreased in Union Budget FY 2016-17 at the cost of Shared Taxes of the states. This will add to the fiscal burden of the States.

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Table 1. States' share in Taxes (In crores of Rupees)			
Year	2015-16 (B.E)	2015-16 (R.E)	2016-17 (B.E)
States' share in Taxes	523958	506193	570337
Gross Tax Revenue (GTR)	1449490	1459611	1630888
Share Tax (% of GTR)	36.10%	34.70%	35.00%
Gross Revenue Receipts (GRR)	1671223	1718187	1953809
Share Tax (% of GRR)	31.35%	29.46%	29.19%
Cess & Surchages	201971	254390	272943
Cess & Surchages (% of GTR)	14%	17%	17%
Cess & Surchages (% of GRR)	12%	15%	14%
Cess & Surchages (% of Divisible Pool)	16%	21%	20%

Source: Budget Documents: 2015–16 & 2016-17

Transfers from Union to States

Central Transfer, Shared Tax (from divisible pool), State Plan Grant, State Non-plan Grant and Total grants as proportion to Gross Revenue Receipts have also declined in the current budget as compared to the previous budget (see Table 2), while there is a sharp rise in net revenue of the Centre in the Budget Estimate of FY 2016-17. The net revenue of the Union Government has been increased in the current budget. The Revised Estimate of 2015-16 reveals less transfer of resources to Stares as compared to Budget Estimate. However, the Centre's Net Revenue has gone up in the revised estimate.

Table 2. Components of Central Transfer (% Gross Revenue Receipts)			
Year	2015-16 (B.E)	2015-16 (R.E)	2016-17 (B.E)
Central Transfer to States	50.40%	47.80%	47.10%
Shared Tax from Divisible Pool	31.40%	29.50%	29.20%
Total Grants to States & UT	19.60%	18.90%	18.40%
Plan Grant to States & UT	13.10%	12.60%	12.40%
Non Plan Grant to States & UT	6.50%	6.30%	6.10%
Centre's Net Revenue	68.30%	70.20%	70.50%

Source: Budget Documents : 2015–16 & 2016-17

Further, we can observe from the Table 3 that the Central Assistance as percentage of gross revenue receipts to both States and UTs has declined from 13.1% in the Budget Estimate of FY 2015-16 to 12.6% in the revised estimate. It has further come down to 12.4% in the Budget Estimate of FY 2016-17. The resources to State Governments as percentage of GRR have been drastically declined from 49.92% in Union Budget 2015-16 to 47.23% in the revised estimate. In Union Budget 2016-17, it has been drastically reduced to 46.64%. The total grant to both the States and UTs has also declined from 19.64% in the Budget Estimate of FY 2015-16 to 18.44% Budget Estimate of FY 2016-17.

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Table 3. Components of Central Transfer		(% Gross Revenue Receipts)	
Year	2015-16 (B.E)	2015-16 (R.E)	2016-17 (B.E)
Gross Revenue Receipts (GRR)	1671223	1718187	1953809
Total Central Assistance for State and Union Territory Plans	219647	216108	241900
% of GRR	13.1%	12.6%	12.4%
Resource to State Governments	834260	811484	911330
% of GRR	49.92%	47.23%	46.64%
Resource to UT Governments	8703	10036	9871
% of GRR	0.52%	0.58%	0.51%
Total Grant	328277	324420	360337
% GRR	19.64%	18.88%	18.44%

Source: Budget Documents: 2015–16 & 2016-17

Assistance to Centrally Sponsored Schemes

The Sub-Group of Chief Ministers on the rationalisation of CSS has restructured CSS into Core of the Core, Core and Optional schemes. CSS for social protection and social inclusion are Core of the Core Scheme and, will have first charge on available funds for the National Development Agenda. The existing funding pattern of the core of the core scheme is retained in Union Budget 2016-17. This is mainly replaced by Schemes to be fully supported by Union Government in Union Budget 2015-16.

The funding pattern of ‘core’ schemes, which form part of the National Development agenda, will be shared 60:40 between the Centre and the States (90:10 for the 8 North Eastern and 3 Himalayan states). In case a scheme/sub-scheme in the above list has a Central Funding pattern less than 60:40, the existing funding pattern will continue. The other optional schemes will be optional for the State Governments and their fund sharing pattern will be 50:50 between the Centre and the States (80:20 for the 8 North Eastern States and 3 Himalayan States.

The earlier 66 CSSs are restructured into 31 schemes in the Union Budget 2016-17 one consolidated umbrella schemes with in every sector. Implementation of core Schemes is mandatory for the States. The States may choose the optional schemes that they wish to implement.

The budgeted share of CSS in total Central Assistance for State and Union Territory Plans (CASP) has increased from 90% in 2015-16 to 94% in 2016-17.

However, Cooperative Federalism was the guiding Principles for the Sub-Group of Chief Ministers on the rationalisation of CSS. It is also acknowledged that since many CSS interventions are in the social sectors, it is imperative that they are designed to be effective and outcome-oriented. Moreover, they should be adequately funded and their implementation should be sufficiently flexible to enable the States to efficiently implement them according to local requirements and conditions.[1]

In Union Budget 2016-17, the fund allocation in CSS schemes has come down to 11.61% of Gross Revenue Receipt as compared to 11.77% in 2015-16(BE). Interestingly, budgeted fund allocation in Core Schemes (& Optional schemes) has gone up to 8.73% in FY 2016-17(BE). With funding pattern of 60:40 for the core scheme (50:50 for

[1] REPORT OF THE SUB-GROUP OF CHIEF MINISTERS ON RATIONALISATION OF CENTRALLY SPONSORED SCHEMES, NITI AYOG, OCTOBER, 2015.

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Optional Scheme), the States have to allocate more funds in State Plan in their respective State Budgets. This will create a heavy fiscal burden on the states. The funding pattern of most of these core schemes were earlier 75:25. Besides, the decline of the Core of the Core Schemes as percentage of Gross Revenue Receipts indicates Central Share in these Schemes has come down in 2016-17(BE).

The Union Budget 2016-17 has, in fact, has put more pressure on the States by not passing on funds through CSS and belied NITI the objective of Cooperative Federalism and adequate funding of CSS and flexibility in their implementation according to local requirements and conditions of the States.

Implications

The most important debated issue after the presentation of the Union Budget for 2016-17 has been the implication of the FFC's recommendations for the fiscal space of the central and state governments also for their budgetary spending. The FFC paved the way towards "cooperative federalism" and there is renewed impetus for the states to have larger control over its desired fiscal direction, priorities and areas of improvement. However, in the Union Budget 2016-17, less transfer of resources in terms of both unconditional transfers and conditional grants with rise in center's net revenue receipts contradicts the objective of fiscal autonomy of the states envisaged in the Fourteenth Finance Commission recommendations. The budgetary measures in 2016-17 will not only create additional fiscal burden for the states but also adversely affect the expenditure priorities of the states. The Union Government has reduced its' fiscal burden by raising its resources through Cess and Surcharges which is not part of the divisible poo. The Union Budget 2016-17 will trigger higher fiscal deficit for the states.

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