

Polity Study Material: Financial reelation between Union and State

Financial Relations between the Union and the States

Ideally speaking, the best system of federal finance would be one which effected a clear-cut division of sources of the revenue between the Federal and the State Governments so as to make each of the parties financially independent of each other. Indian Constitution make elaborate provisions regarding the distribution of revenues between the Centre and the States. The financial relations between the Union and the States can be studied under the following heads:

1. Duties levied by the Union but Collected and Appropriated by the States: Stamp duties and duties of excise on the medical and toilet preparations are levied by the Government of India, but collected and appropriated by the States within which such duties are leviable except in the Union Territories where they are collected by the Union Government. Art. 268
2. Taxes Levied and Collected by the Union but Assigned to the States within which they are leviable:
 - i. Succession duty in respect of property other than agriculture land
 - ii. Estate duty in respect of property other than agricultural land
 - iii. Terminal taxes on goods or passengers carried by railways, sea or air
 - iv. Taxes on railway fares and freights
 - v. Taxes on transactions in stock exchanges
 - vi. Taxes on sale and purchase of newspapers, including advertisements published therein
 - vii. Taxes on the sale and purchase of goods other than newspapers, where such purchase takes place in the course of inter-state trade or commerce. Art. 269
3. Taxes Levied and collected by the Union and distributed between the Union and the States: Certain taxes are levied as well as collected by the Union, but their proceeds are divided between the Union and the States in a certain proportion in order to effect an equitable distribution of the financial resources. There are:
 - a. taxes on income other than agricultural income

- b. excise duties as are included in the Union List, excepting medicinal and toilet preparations.
4. Surcharge: The Parliament is, however, authorized to levy surcharge on the taxes mentioned at (2) above and on income-tax for the purpose of the Union.
5. Grants-in-Aid: Parliament may make grants-in-aid from the Consolidated Fund of India to such States as are in need of assistance, particularly for the promotion of welfare of tribal areas, including special grant to Assam.
6. Loans: The Union Government may make loan to any State or give guarantees with respect to loans raised by any States.
7. Previous Sanction of the President: No Bill or amendment can be introduced or moved in either House of Parliament without the previous sanction of the President, if:
 - a. it imposes or varies any tax in which the States are interested; or
 - b. it varies the meaning of the expression "Agricultural Income" as defined in the Indian Income-Tax Act; or
 - c. it affects the principles on which money are distributed to the States; or
 - d. it imposes a surcharge on the State taxes for the purpose of the Union.
8. According to Article 301, freedom of trade, commerce and intercourse throughout the territory of India is guaranteed, but the Parliament has the power to impose restrictions in public interest.
9. Although taxes on income, other than agricultural income, are levied by the Union, yet the State Legislatures can levy taxes on profession, trade, etc. provided that the total amount of such taxes payable in respect of anyone person should not exceed Rs. 2500 per month.
10. Provision has been made for the constitution of a Finance Commission to recommend to the President certain measures for the distribution of financial resources between the Union and the States.

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