

Finance Commission of India

The Union Government has constituted the 16th Finance Commission with Dr Arvind Panagariya, former Vice-Chairman of NITI Aayog and Professor at Columbia University, as its Chairperson. The terms of reference have been outlined which also includes reviewing disaster management financing arrangements under the Disaster Management Act, 2005. The 16th Finance Commission has been tasked with submitting its report by 31st October 2025.

Aspirants preparing for the [Civil Services exam](#) can go through other such bodies on the links provided below-

1. [Types of Constitutional Bodies](#)
2. [Constitutional, Statutory and Quasi-Judicial Bodies](#)

What is the Finance Commission of India?

The Finance Commission is a constitutional body for the purpose of allocation of certain revenue resources between the Union and the State Governments. It was established under Article 280 of the Indian Constitution by the Indian President. It was created to define the financial relations between the Centre and the states. It was formed in 1951.

Article 280 of the Indian Constitution

- President after two years of the commencement of the Indian Constitution and thereafter every 5 years, has to constitute a Finance Commission of India.
- It shall be the duty of the Commission to make recommendations to the President in relation to:
 - the distribution between the Union and the States of the net proceeds of taxes which are to be, or maybe, divided between them and the allocation between the States of the respective shares of such proceeds;
 - the principles which should govern the grants in aid of the revenues of the States out of the Consolidated Fund of India;
 - any other matter referred to the Commission by the President in the interests of sound finance
 - The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them

Note: The President can also constitute the Finance Commission before the expiry of five years if he considers it necessary.

Article 281 of the Indian Constitution

- It is related to the recommendations of the Finance Commission:
 - The President has to lay the recommendation made by the Finance Commission and its explanatory memorandum before each House of Parliament

To read more on [important articles of the Indian Constitution](#), you may check the linked article.

Who Constitutes Finance Commission of India?

The President of India constitutes the Finance Commission every five years or on time considered necessary by him.

What is the composition of Finance Commission of India?

Finance Commission Chairman and Members

- Chairman: Heads the Commission and presides over the activities. He should have had public affairs experience.
- Four Members.
- The Parliament determines legally the qualifications of the members of the Commission and their selection methods.

Qualifications of Finance Commission Chairman and Members

- The 4 members should be or have been qualified as High Court judges, or be knowledgeable in finance or experienced in financial matters and are in administration, or possess knowledge in economics.
- All the appointments are made by the President of the country.
- Grounds of disqualification of members:
 - found to be of unsound mind, involved in a vile act, if there is a conflict of interest
- The tenure of the office of the Member of the Finance Commission is specified by the President of India and in some cases, the members are also re-appointed.
- The members shall give part-time or service to the Commission as scheduled by the President.
- The salary of the members is as per the provisions laid down by the Constitution.

Finance Commission of India Functions

The Finance Commission makes recommendations to the president of India on the following issues:

- The net tax proceeds distribution to be divided between the Centre and the states, and the allocation of the same between states.
- The principles governing the grants-in-aid to the states by the Centre out of the consolidated fund of India.
- The steps required to extend the consolidated fund of a state to boost the resources of the panchayats and the municipalities of the state on the basis of the recommendations made by the state Finance Commission.
- Any other matter referred to it by the president in the interests of sound finance.
- The Commission decides the basis for sharing the divisible taxes by the centre and the states and the principles that govern the grants-in-aid to the states every five years.
- Any matter in the interest of sound finance may be referred to the Commission by the President.
- The Commission's recommendations along with an explanatory memorandum with regard to the actions done by the government on them are laid before the Houses of Parliament.
- The FC evaluates the rise in the Consolidated Fund of a state in order to affix the resources of the state Panchayats and Municipalities.
- The FC has sufficient powers to exercise its functions within its activity domain.
- As per the Code of Civil Procedure 1908, the FC has all the powers of a Civil Court. It can call witnesses, ask for the production of a public document or record from any office or court.

Advisory Role of Finance Commission

The recommendations made by the Finance Commission are of an advisory nature only and therefore, not binding upon the government. It is up to the Government to implement its recommendations on granting money to the states. To put it in other words, 'It is nowhere laid down in the Constitution that the recommendations of the commission shall be binding upon the Government of India or that it would amount to a legal right favouring the recipient states to receive the money recommended to be provided to them by the Commission.

Finance Commission List

Finance Commissions list year-wise are given in the table below:

Finance Commission	Chairman	Year of Appointment
First	K.C. Neogy	1951
Second	K. Santhanam	1956
Third	A.K. Chanda	1960
Fourth	Dr. P.V. Rajamannar	1964
Fifth	Mahavir Tyagi	1968
Sixth	Brahamananda Reddy	1972
Seventh	J.M. Shelat	1977
Eighth	Y.B. Chavan	1982
Ninth	N.K.P. Salve	1987
Tenth	K.C. Pant	1992
Eleventh	A.M. Khusro	1998
Twelfth	Dr. C. Rangarajan	2002
Thirteenth	Dr. Vijay Kelkar	2007
Fourteenth	Y.V. Reddy	2013
Fifteenth	N.K Singh	2017
Sixteenth	Arvind Panagariya	2024

Finance Commission of India Related Questions and Answers -

Q1. When was the first Commission Constituted and how many Commissions have been Constituted so far?

Ans. The First Finance Commission was constituted vide Presidential Order dated 22nd November 1951 under the chairmanship of Shri K.C. Neogy on 6th April 1952. Fifteen Finance Commissions have been constituted so far at intervals of every five years.

Q2. Who appoints the Finance Commission of India?

Ans. The Finance Commission is appointed by the President under Article 280 of the Constitution.

Q3. Why is there a need for a Finance Commission?

Ans. The Indian federal system allows for the division of power and responsibilities between the centre and states. Correspondingly, the taxation powers are also broadly divided between the centre and states. State legislatures may devolve some of their taxation powers to local bodies.

