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B.A. Economics
B.A. Part-2
Paper-4
Topic: 12th Finance Commission
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12th Finance Commission :

*The Twelfth Finance Commission of India was appointed on **1 November 2002** to make recommendations on the distribution of net proceeds of sharable taxes between union and states. The commission was headed by **C.Rangarajan**. The commission submitted its report on **30 November 2004** and covered the period from 2005-10.*

Members :

The members of the Commission were:

- Dr. C. Rangarajan, Chairman
- Shri T.R Prasad, IAS (retired)
- Prof. D.K Srivastava
- Shri Som Pal, Part time Member, resigned 14 May 2004
- Dr. Shankar N. Acharya, Part time Member,

Recommendations:

Recommendations of the Twelfth Finance Commission Restructuring Public Finances:

- (i) Centre and States to improve the combined tax-GDP ratio to **17.6** per cent by 2009-10.
- (ii) Combined debt-GDP ratio, with external debt measured at historical exchange rates, to be brought down to **75** per cent by 2009-10.
- (iii) Fiscal deficit to GDP targets for the Centre and States to be fixed at **3** per cent.
- (iv) Revenue deficit of the Centre and States to be brought down to **zero** by 2008-09.
- (v) Interest payments relative to revenue receipts to be brought down to **28** per cent and **15** per cent in the case of the Centre and States, respectively.
- (vi) States to follow a recruitment policy in a manner so that the total salary bill, relative to revenue expenditure, net of interest payments, does not exceed **35** per cent.

(vii) Each State to enact a fiscal responsibility legislation providing for elimination of revenue deficit by 2008-09, and reducing fiscal deficit to **3** per cent of State Domestic Product.

(viii) The system of on-lending to be brought to an end over time. The long-term goal should be to bring down debt-GDP ratio to **28** per cent, each for the Centre and the States.

References:

- "Members of the previous Finance Commissions"
- Sansar Singh Janjua (1999). Centre State Financial Relations in India and Finance Commission. New Delhi, India: Anmol Publications. ISBN 8126102233.
- "Finance Commission India". New Delhi, India: Fourteenth Finance Commission. Retrieved 22 July 2017.